Fly Leasing Ltd
Form 20-F
March 14, 2014

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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

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

For the fiscal year ended December 31, 2013

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)

Eugine Jung, 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

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.

41,306,338 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 o No x

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 o No x

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 x No o

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 x No o

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 o Accelerated filer x Non-accelerated filer o

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

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

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 o Item 18 o

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 o No x

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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; and (13) 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, 2013.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Fly Leasing Limited is a 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, 2013, we owned 113 aircraft.

On December 28, 2012, we sold our 15% interest in BBAM LP for $49.5 million to Onex Corporation and its affiliates (collectively, "Onex") and Summit Aviation Partners LLC ("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.

In July 2013, the Company sold 13,142,856 common shares in the form of ADSs at a price of $14.00 per ADS in an underwritten public offering generating net proceeds of approximately $172.6 million. As of December 31, 2013, there were 41,306,338 shares outstanding.

On December 11, 2013, we sold $300.0 million aggregate principal amount of 6.75% Senior Notes due 2020. The notes are unsecured obligations and will rank pari passu in right of payment with any existing and future senior indebtedness.

Our web address is: www.flyleasing.com.

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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, 2013, 2012, 2011, 2010 and 2009.

	(Dollars in thousands, except share data) **Fly Leasing Limited** **For the years ended December 31,**				
	2013	2012	2011	2010	2009
Statement of income data:					
Operating lease revenue	$359,409	$376,437	$230,716	$219,655	$213,964
Gain on sale of aircraft	6,277	8,360	9,137	13,449	—
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	369,487	432,696	248,789	253,665	307,535
Total expenses	311,352	381,165	243,451	190,791	194,075
Net income	52,476	47,669	1,096	52,667	89,093
Earnings per share:					
Basic	$1.51	$1.81	$0.03	$1.86	$2.89
Diluted	$1.50	$1.80	$0.03	$1.86	$2.89
Dividends declared and paid per share	$0.88	$0.84	$0.80	$0.80	$0.80

Basic and diluted earnings per share are calculated: (1) for 2013, 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, by dividing net income by the weighted average number of shares outstanding for the year. Prior to April 29, 2010, we did not have a share-based compensation program.

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	(Dollars in thousands, except share data) Fly Leasing Limited As of December 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Balance sheet data:					
Total assets	$3,672,359	$2,968,672	$3,198,498	$1,978,224	$2,024,132
Total liabilities	2,923,536	2,436,670	2,755,465	1,503,320	1,539,608
Total shareholders' equity	748,823	532,002	443,033	474,904	484,524
Number of shares	41,306,338	28,040,305	25,685,527	26,707,501	30,279,948

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 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.

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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;
- geopolitical and other events, including war, acts of terrorism, civil unrest, outbreaks of epidemic diseases and natural disasters;
- operating costs, availability of jet fuel and general economic conditions affecting our lessees' operations;
- governmental regulation, which includes new airworthiness directives, statutory limits on age of aircraft and restrictions in certain jurisdictions on the age of aircraft for import 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.

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

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 include significant restrictions on our ability to incur additional debt. 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.

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

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

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

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

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

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

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

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

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

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

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

We may occasionally enter into strategic ventures or investments with third parties. For example, we had a 15% investment in BBAM LP and still have a 57% investment in an entity that 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.

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

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

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

In May 2013, the Financial Accounting Standards Board (''FASB'') and the International Accounting Standards Board (''IASB'') jointly issued an Exposure Draft on Lease Accounting. The proposal requires that all leases be recorded on the statement of financial position of both the lessee and lessor.

Under the Exposure Draft, lessees will record their lease obligations on the balance sheet similar to debt. At lease inception a right to use asset will also be recorded that will be amortized on a straight line basis over the lease term. The impact will be to front load the income statement impacts similar to how capital leases are recorded today. Lessees would be able to continue to use operating lease accounting if the lease term is insignificant to the total economic life of the underlying asset or the present value of the lease payments is insignificant in relation to the value of the underlying asset.

For lessors, the proposed changes are even more substantial. Unless the lease term or lease payments are insignificant, upon entering into a lease, lessors will derecognize the leased asset and in turn record a lease receivable for its right to receive lease payments from the lessee and a residual asset for its right of return of the asset at the end of the lease term. A gain or loss could be recognized upon de-recognition of the portion of the leased asset that will be recovered

through the lease. The residual asset is measured as the present value of the estimated residual value at lease expiry.

The receivable asset will be treated like a loan with the interest portion of the lease payment being reflected in the income statement. The residual asset will accrete in value over the lease term generating additional income. The income generated, however, will be substantially less than operating lease revenues currently reflected in a lessor's income statement. In turn, the lessor will no longer reflect a depreciation charge in its results.

The Exposure Draft did not include a proposed effective date. The FASB and IASB collectively acknowledged the concerns of interested parties and that they are aware the proposed changes to accounting for leases are significant. The FASB and IASB will continue to deliberate on the proposed accounting throughout 2014. We are unable to predict the effect the proposed change in lease accounting will have on the airline industry's leasing arrangements or on our consolidated financial statements. Currently, there is no estimated date of issuance of the standard nor a proposed effective date.

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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.

We are 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 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.

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;

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- 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.

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, 777X and Airbus A350, certain aircraft in our existing aircraft 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. The Boeing 787 and 777X and the Airbus A350 are expected to provide improved fuel consumption and operating economics as compared to current-technology aircraft. The Boeing 787 is already in production while delivery of the Boeing 777X is expected in 2020-2021. The first variant of the Airbus A350 is expected to be delivered in 2014. Airbus and Boeing also plan to launch the A320 NEO and 737 MAX families of aircraft in 2016 and 2017, which are expected to improve fuel consumption, reduce noise emission and lower maintenance costs as compared to its current model. In addition, Embraer, Bombardier Inc., Commercial Aircraft Corporation of China Ltd and Sukhoi Company (JSC) in Russia are developing aircraft models that will compete with existing Airbus and Boeing aircraft. It’s 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, all of which could have an adverse effect on our financial results. 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.

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

As of December 31, 2013, the weighted average age of the aircraft in our portfolio was 8.6 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.

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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, 2013, our portfolio contains a mix of aircraft types including Airbus A319 aircraft, A320 aircraft, A330 aircraft, A340 aircraft, Boeing 737 aircraft, Boeing 747 aircraft, Boeing 757 aircraft, Boeing 767 aircraft, Boeing 777 aircraft and Boeing 787 aircraft. 83% of our aircraft are single-aisle, narrow-body aircraft, as measured by net book value. The Boeing 757 is no longer in production and Airbus has ceased 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., Aircastle Advisor LLC, Air Lease Corp., Aviation Capital Group, Avolon, AWAS, Boeing Capital Corporation, CIT Aerospace, Macquarie Bank Limited, SMBC Aviation Capital and Bank of China 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 $8.8 million in 2013 on an Airbus A319-100 aircraft which was manufactured in 2000. We recognized an impairment charge of $11.4 million in 2012. 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.

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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 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.

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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 2013, six leases were terminated prior to their expiration date and we 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.

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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 other 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;
- 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.

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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, 2013, three 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 33 lessees based in Europe accounted for 43% of our total revenues in 2013. Of the 33 lessees, 9 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 in some European countries. 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.

Asian and South Pacific concentration. Revenues from 18 lessees based in Asia (including India and Australia) accounted for 27% of our total revenues in 2013, and lease rental revenues from five lessees based in China accounted for 12% 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, and 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 six lessees based in North America accounted for 12% of our total revenues in 2013. 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 five lessees based in Mexico, South and Central America accounted for 13% of our total revenues in 2013. 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.

Middle East and Africa concentration. Revenues from five lessees based in the Middle East and Africa accounted for 5% of our total revenues in 2013. Continued and spreading civil unrest in the Middle East and Africa, as well as 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.

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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. 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 not be able to manage this risk by appropriately hedging their exposure to fuel price fluctuations. Although fuel prices have been relatively stable in recent years, 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 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.

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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 and incorporated aviation-related emissions into the European Union's Emissions Trading Scheme beginning in 2012. 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 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. Concerns over global warming also could result in more stringent limitations on the

operation of aircraft.

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 beginning in 2012, and that all emissions from flights within the European Union are subject to the Emissions Trading Scheme requirement, even those emissions that are emitted outside of the European Union. The European Union suspended the enforcement of the Emissions Trading Scheme requirements for international flights outside of the European Union due to a proposal issued by the ICAO in October 2013 to develop a global program to reduce international aviation emissions, which would be enforced by 2020. In response to this, the European Commission has proposed to amend the Emissions Trading Scheme so that only flights or portions thereof that take place in European regional airspace is subject to the Emissions Trading Scheme requirements.

Compliance with current or future regulations, taxes or duties imposed to deal with environmental concerns could cause the lessees to incur higher costs and lead to higher ticket prices, which could mean lower demand for travel, thereby generating lower net revenues and resulting in an adverse impact on the financial condition of our lessees. 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 or civil unrest, 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. 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.

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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;
- 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.

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.

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

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

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 certain of our servicing agreements without the prior written consent of third parties, including insurance policy provider or lenders.

Our management agreement with our Manager expires on December 28, 2022. At that time, the Management Agreement will automatically renew for five years, unless we make a payment to the Manager equal to $8 million, subject to potential future adjustment. We may terminate the management agreement sooner only 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;

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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;

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- 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; or

- 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.

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.

In addition, we are required to obtain written consent of certain of our lenders prior to terminating certain of our servicing agreements.

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 and certain of our lenders may have the right to terminate BBAM as the servicer for certain of our aircraft without our consent and may terminate the Servicer at a time which may be disadvantageous to us.

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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 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:

- most of 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 insurance 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, B&B Air Funding is required to apply all of its available cash flow, after payment of certain expenses (including interest), to repay the principal on the Notes, and the cash flow from the aircraft in the B&B Air Funding portfolio is not available to us.

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In connection with the acquisition of the GAAM Portfolio, we assumed a debt facility provided by Norddeutsche Landesbank Gironzentrale ("Nord LB Facility"). Substantially all cash flow associated with these aircraft, after payment of certain expenses is applied to payment of interest and principal and therefore is not available for distribution to us.

The restrictions described above, as well as restrictions in our other financing facilities, 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.

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the unsecured borrowing.

We and our subsidiaries have a significant amount of indebtedness. As of December 31, 2013, our total consolidated indebtedness, net of unamortized debt discounts, was $2.5 billion.

Subject to the limits contained in the agreements governing our existing and future indebtedness, we may be able to incur substantial additional debt from time to time to finance aircraft, working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could increase. Specifically, our high level of debt could have important consequences, including the following:

- making it more difficult for us to satisfy our debt obligations;
- limiting our ability to obtain additional financing to fund the acquisition of aircraft or for other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for aircraft acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
-

exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our various credit facilities, are at variable rates of interest;

- limiting our flexibility in planning for and reacting to changes in the aircraft industry;
- placing us at a disadvantage compared to other competitors; and
- increasing our cost of borrowing.

In addition, the agreements governing our existing indebtedness contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interest. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, may result in the acceleration of some or all our debt.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay aircraft purchases or to dispose of material assets or leases, or seek additional debt or equity capital or to restructure or refinance our indebtedness. We may not be able to effect any such alternative measures on commercially reasonable terms or at all and, even if successful, those alternative actions may not allow us to meet our scheduled debt service obligations. Certain agreements governing our existing indebtedness restrict our ability to dispose of assets and use the proceeds from those dispositions. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

We have a significant amount of non-recourse debt.

As of December 31, 2013, we had total debt, net of unamortized debt discounts, of $2.5 billion. Of this amount, $1.6 billion was non-recourse to Fly Leasing Limited, except for certain limited obligations which typically include reimbursement for certain expenses and costs incurred by the lenders. These non-recourse loans may be provided through loan facilities that are typically cross-collateralized and contain cross-default provisions against all of the loans advanced within each facility, as well as through individual loans against individual aircraft. We currently have the following non-recourse debt facilities that provide financing against multiple aircraft:

Facility[1]	**Amount Outstanding at December 31, 2013**[2]	**Number of Aircraft Financed**	**Maturity Dates**
Securitization Notes Payable	$ 592.9 million	35	November 2033
Nord LB Facility	$ 452.4 million	17	November 2018
Fly Acquisition II Facility	$ 126.8 million	4	July 2018

(1) Excludes $391.5 million outstanding under non-recourse financing facilities for single aircraft.
(2) Excludes unamortized debt discounts.

The maturity dates for these loans range from July 2018 to November 2033. In general, upon a default on a non-recourse loan, the lenders will have the ability to foreclose upon any or all available collateral (including aircraft, leases and shares of aircraft-owning and/or aircraft-leasing special purposes entities) to satisfy amounts due under the loan. However, the lenders cannot make a claim against Fly for payment of these outstanding obligations, except for the limited payment obligations described above. The non-recourse nature of these loans means that we may decide, for economic reasons, to default on non-recourse loans if and when we believe that the aircraft and other assets that secure a loan are worth less than the amounts outstanding under the loan. Although the direct financial impact to us

under such a default on a non-recourse loan is limited, these defaults may impact our reputation as a borrower and impair our ability to secure future borrowings, which could have a material adverse impact on our ability to grow our aircraft portfolio and earnings.

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We have secured, recourse financings on which we have guaranteed the payment of all debt service and other amounts due under these loans.

Fly has $1.0 billion of unsecured and aircraft-secured recourse debt outstanding as of December 31, 2013. We expect to incur additional recourse indebtedness in the future. Although these recourse loans may be secured by aircraft and their associated leases, Fly has guaranteed and will be responsible for timely payment of all debt service and other amounts due under these loans in the event that the underlying leases do not provide sufficient cash flow to meet required debt payments. In this case, Fly would be required to make payments from its unrestricted cash, which could have a materially adverse impact on Fly's ability to pay dividends or grow through future acquisitions of aircraft. In addition, the Term Loan, the new loans under the CBA Facility, our Unsecured Notes, and certain of our other recourse indebtedness contain cross default provisions to other recourse indebtedness which if triggered could significantly increase the amount of indebtedness which is payable by Fly at the time of the cross default.

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.

Certain of 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 counterparties.

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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 do), 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 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.

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Risks Related to the Ownership of Our Shares

We have anti-takeover provisions in our bye-laws 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 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 our enterprise value to our manager. Our management agreement does not automatically terminate upon a change of control.

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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.

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.

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 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.

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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 for $49.5 million to Onex. Summit sold 35% of its interest in BBAM LP to Onex. Concurrent with the transaction, Summit and Onex invested an aggregate 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 registered these shares with the Securities and Exchange Commission pursuant to a registration rights agreement.

Our Aircraft Portfolio

As of December 31, 2013, our aircraft portfolio consisted of 113 commercial jet aircraft. Our aircraft portfolio comprised of 105 narrow-body passenger aircraft (including two freighters) and eight wide-body passenger aircraft.

As of December 31, 2013, we had 63 Boeing aircraft and 50 Airbus aircraft in our fleet. The aircraft in our portfolio were manufactured between 1990 and 2013 and had a weighted average age of 8.6 years as of December 31, 2013. 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, 2013:

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
4. Aeromexico	B737-800	Narrowbody	2000
5. Air Berlin	A330-200	Widebody	2001

6.	Air China	B737-800	Narrowbody	2007
7.	Air China	B737-800	Narrowbody	2002

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Lessee Name		Aircraft Type	Airframe Type	Date of Manufacture
8.	Air France	A319-100	Narrowbody	2000
9.	Air France	A340-300	Widebody	1993
10.	Air Serbia	A319-100	Narrowbody	2005
11.	American Airlines	B737-800	Narrowbody	2013
12.	Bangkok Airways	A319-100	Narrowbody	2005
13.	British Airways	A320-200	Narrowbody	2002
14.	British Airways	A320-200	Narrowbody	2002
15.	British Airways	A320-200	Narrowbody	2002
16.	British Airways	A320-200	Narrowbody	2002
17.	Chang'An Airlines	B737-800	Narrowbody	2006
18.	China Eastern (1)	A319-100	Narrowbody	2000
19.	China Eastern (1)	A319-100	Narrowbody	2000
20.	China Eastern (1)	A319-100	Narrowbody	2000
21.	easyJet	A319-100	Narrowbody	2007
22.	Enter Air	B737-800	Narrowbody	1999
23.	Ethiopian Airlines	B757-200	Narrowbody	1998
24.	Ethiopian Airlines	B757-200	Narrowbody	1997
25.	Etihad Airways	A319-100	Narrowbody	2000
26.	Etihad Airways	A319-100	Narrowbody	1999
27.	Finnair	A320-200	Narrowbody	2003
28.	flydubai	B737-800	Narrowbody	2011
29.	flydubai	B737-800	Narrowbody	2010
30.	Frontier	A319-100	Narrowbody	2001
31.	GOL	B737-700	Narrowbody	2002
32.	GOL	B737-700	Narrowbody	1998
33.	GOL	B737-700	Narrowbody	1998
34.	Hainan Airlines	A319-100	Narrowbody	2006
35.	Hainan Airlines	B737-800	Narrowbody	2007
36.	Hainan Airlines	B737-800	Narrowbody	2007
37.	Hainan Airlines	B737-800	Narrowbody	2007
38.	Hamburg Airways	A320-200	Narrowbody	1998
39.	Iberia	A319-100	Narrowbody	2000
40.	Icelandair	B757-200	Narrowbody	2000
41.	Icelandair	B757-200	Narrowbody	2000
42.	Icelandair	B757-200SF (2)	Narrowbody	1990
43.	IZair	B737-800	Narrowbody	2006

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	Lessee Name	Aircraft Type	Airframe Type	Date of Manufacture
44.	Jeju Airlines	B737-800	Narrowbody	1999
45.	Jet Lite	B737-700	Narrowbody	2002
46.	Jet2.com	B737-800	Narrowbody	1999
47.	Jetstar Pacific Airlines	A320-200	Narrowbody	2006
48.	Kenya Airways	B737-800	Narrowbody	2006
49.	Korean Airlines	B737-800	Narrowbody	2000
50.	LATAM	B787-8	Widebody	2013
51	LATAM	B777-300ER	Widebody	2013
52.	Malaysian Air Services	B737-800	Narrowbody	2013
53.	Malaysian Air Services	B737-800	Narrowbody	2013
54.	New Livingston	A320-200	Narrowbody	2003
55.	Nok Airlines	B737-800	Narrowbody	2013
56.	Nok Airlines	B737-800	Narrowbody	2006
57.	Nok Airlines	B737-800	Narrowbody	2006
58.	Nordwind	B767-300ER	Widebody	1997
59.	Norwegian Air	B737-800	Narrowbody	2001
60.	Primera Air	B737-700	Narrowbody	2001
61.	Qantas	A320-200	Narrowbody	2005
62.	Qantas	A320-200	Narrowbody	2005
63.	Qantas	B737-800	Narrowbody	2005
64.	SIA Alpha Express	A320-200	Narrowbody	1997
65.	South African Airways	A319-100	Narrowbody	2004
66.	Shandong	B737-800	Narrowbody	2013
67.	Shandong	B737-800	Narrowbody	2013
68.	SmartLynx Airlines	A320-200	Narrowbody	1995
69.	SmartLynx Airlines	A320-200	Narrowbody	1995
70.	SpiceJet	B737-800	Narrowbody	2006
71.	SpiceJet	B737-900ER	Narrowbody	2008
72.	SpiceJet	B737-900ER	Narrowbody	2007
73.	SunExpress	B737-800	Narrowbody	2007
74.	SunExpress (Germany)	B737-800	Narrowbody	2002
75.	SunExpress (Germany)	B737-800	Narrowbody	1999
76.	SunExpress (Germany)	B737-800	Narrowbody	1998
77.	SunExpress	B737-800	Narrowbody	1998
78.	SunExpress	B737-800	Narrowbody	1998
79.	Sunwing Airlines	B737-800	Narrowbody	2006

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	Lessee Name	Aircraft Type	Airframe Type	Date of Manufacture
80.	TAM [(3)]	A320-200	Narrowbody	2006
81.	TAM [(3)]	A320-200	Narrowbody	2006
82.	TAM [(3)]	A320-200	Narrowbody	2000
83.	Thomas Cook	B757-200	Narrowbody	1999
84.	Thomas Cook	B757-200	Narrowbody	1999
85.	Thomson Airways	B757-200	Narrowbody	1999
86.	Thomson Airways	B757-200	Narrowbody	1999
87.	THY	A320-200	Narrowbody	2005
88.	THY	A320-200	Narrowbody	2005
89.	THY	A320-200	Narrowbody	2005
90.	Tiger Airways	A320-200	Narrowbody	2006
91.	Titan Airways	B737-300QC [(2)]	Narrowbody	1991
92.	Transaero Airlines	B737-800	Narrowbody	1998
93.	Transaero Airlines	B737-800	Narrowbody	1998
94.	Travel Service	B737-800	Narrowbody	1999
95.	TUI AG	B737-800	Narrowbody	2002
96.	United	B747-400	Widebody	1993
97.	US Airways	A319-100	Narrowbody	2000
98.	US Airways	A319-100	Narrowbody	2000
99.	US Airways	A319-100	Narrowbody	2000
100.	US Airways	A319-100	Narrowbody	2000
101.	Virgin America	A319-100	Narrowbody	2008
102.	Virgin America	A320-200	Narrowbody	2007
103.	Virgin America	A320-200	Narrowbody	2006
104.	Virgin America	A320-200	Narrowbody	2006
105.	Virgin Atlantic	A340-600	Widebody	2006
106.	Virgin Atlantic	A340-600	Widebody	2006
107.	Volaris Airlines	A319-100	Narrowbody	2007
108.	Vueling Airlines	A320-200	Narrowbody	2007
109.	Vueling Airlines	A320-200	Narrowbody	2007
110.	White Airways	A320-200	Narrowbody	1995
111.	Yakutia	B757-200	Narrowbody	1998
112.	Yakutia	B757-200	Narrowbody	1996
113.	Off-lease	A320-200	Narrowbody	1997

(1) Aircraft will be sold in 2014.
(2) Freighter.
(3) Subsidiary of LATAM.

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The following table summarizes the composition of our portfolio by manufacturer and aircraft type as of December 31, 2013:

Aircraft Manufacturer	Aircraft Type	**Number of Aircraft**
Airbus	A319-100	19
	A320-200	27
	A330-200	1
	A340-300	1
	A340-600	2
	Total	50
Boeing	B737-300QC	1
	B737-700	8
	B737-800	37
	B737-900ER	2
	B747-400	1
	B757-200	10
	B757-200SF	1
	B767-300ER	1
	B777-300ER	1
	B787-8	1
	Total	63
Total		113

Our portfolio is composed of 83% narrow-body aircraft based on net book values as of December 31, 2013 and includes the Airbus A319, Airbus A320 and next generation Boeing 737 and 757 aircraft families, which enjoy high worldwide demand due to their fuel-efficient design, relatively low maintenance costs, and an increase in customer demand for point-to-point destination service. These aircraft are based on more routes around the world than any other airframe and thus have the largest installed base. As a result, we believe they are easier and more cost-efficient to lease and market than wide-body jets or other specialized types of aircraft.

The following table presents the composition of our portfolio based on airframe type as of December 31, 2013:

Airframe Type	**Number of Aircraft**
Narrow-body[(1)]	105
Wide-body	8
Total	113

(1) Includes two freighters.

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Our Markets

Our aircraft are leased under multi-year contracts to a diverse group of airlines throughout the world. The following table presents the distribution of our operating lease revenue by geographic region:

	Year ended December 31, 2013		Year ended December 31, 2012		Year ended December 31, 2011	
	(Dollars in thousands)					
Europe:						
United Kingdom	$48,507	13 %	$45,916	12 %	$19,444	8 %
Turkey	14,703	4 %	12,319	3 %	5,874	3 %
Germany	19,882	6 %	28,746	8 %	15,560	7 %
Other	69,480	20 %	83,347	22 %	68,513	29 %
Europe — Total	152,572	43 %	170,328	45 %	109,391	47 %
Asia and South Pacific:						
China	41,332	12 %	36,918	10 %	13,620	6 %
India	21,894	6 %	39,312	10 %	22,341	10 %
Other	32,841	9 %	34,506	10 %	11,288	4 %
Asia and South Pacific — Total	96,067	27 %	110,736	30 %	47,249	20 %
North America:						
United States	40,482	11 %	41,311	11 %	39,088	17 %
Other	3,891	1 %	3,891	1 %	3,891	2 %
North America — Total	44,373	12 %	45,202	12 %	42,979	19 %
Mexico, South and Central America:						
Chile	10,055	3 %	—	—%	—	—%
Brazil	19,038	5 %	12,630	3 %	1,687	1 %
Mexico	18,996	5 %	18,843	5 %	16,276	7 %
Mexico, South and Central America — Total	48,089	13 %	31,473	8 %	17,963	8 %
Middle East and Africa — Total	18,308	5 %	18,698	5 %	13,134	6 %
Total Operating Lease Revenue	$359,409	100%	$376,437	100%	$230,716	100%

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Our Leases

Lease Terms

All of our aircraft are subject to leases under which the lessees are responsible for most operational and insurance costs, and 102 of the 112 leases in our portfolio are subject to fixed rental rates. Our portfolio is diversified across 62 different airlines in 34 countries, in both developed and emerging markets. Our leases are scheduled to expire between 2014 and 2025 and have a weighted average remaining lease term of 4.3 years as of December 31, 2013.

The following table presents the scheduled lease maturity of the aircraft in our portfolio as of December 31, 2013:

	Airframe Type		
Year of Scheduled Lease Expiration	**Narrow[(1)]**	**Wide**	**Total**
Off-lease	1	—	1
2014	14	—	14
2015	28	1	29
2016	15	1	16
2017	15	—	15
2018	8	4	12
2019	11	1	12
2020	3	—	3
2021	1	—	1
2022	2	—	2
2023	4	—	4
2024	—	—	—
2025	3	1	4
Total	105	8	113

(1) Includes one freighter each in 2014 and 2015.

At December 31, 2013, we had 14 leases scheduled to expire in 2014 and one aircraft off-lease. Subsequent to year end, we have entered into six leases and lease extensions including a lease for the aircraft that was off-lease, two sale agreements and two letters of intent, bringing the total number of aircraft currently requiring remarketing in 2014 to five. We may have additional remarketings in 2014 if any other leases are terminated prior to their scheduled expiry dates.

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Under our leases, the lessees agree to lease the aircraft for a fixed term, although in some cases the lessees have early termination or lease extension options.

We receive substantially all of our revenue and pay substantially all of our expenses in U.S. dollars. As of December 31, 2013, we have one lease to which we receive part of the lease payments in Australian dollars. We have entered into a foreign currency derivative related to this lease. Most lease rentals are payable monthly in advance, but some lease rentals are payable in arrears or quarterly. Of our leases, 102 have fixed rental rates and 10 have floating rental rates. In addition, because most of our debt bears floating rates of interest, we manage interest rate risk by entering into interest rate swaps pursuant to which we make fixed-rate interest payments on the swap and receive floating-rate payments. All leases are on a "net" basis with the lessee generally responsible for all operating expenses, which customarily include maintenance, fuel, crews, airport and navigation charges, taxes, licenses, aircraft registration and insurance.

Most of our leases provide that the lessee's payment obligations are absolute and unconditional under any and all circumstances. Lessees are generally required to make payment without deduction of any amounts that we may owe the lessee or any claims that the lessee may have against us. Most of our leases also require lessees to gross up lease payments where they are subject to withholdings and other taxes.

The cost of an aircraft typically is not fully recovered over the term of the initial lease. We therefore assume the risk that we will not be able to recover our investment in the aircraft upon expiration or early termination of the lease and of the ultimate residual value. Operating leases allow airlines greater fleet and financial flexibility than outright ownership because of the relatively shorter-term nature of operating leases, the relatively small initial capital outlay necessary to obtain use of the aircraft and the significant reduction in aircraft residual value risk.

Security Deposits and Letters of Credit. The majority of our leases provide for cash security deposits and/or letters of credit which may be drawn in the event that a lessee defaults under its respective lease. These security deposits and/or letters of credit may mitigate losses we may incur while attempting to re-lease the aircraft. Under certain circumstances, the lessee may be required to obtain guarantees or other financial support from an acceptable financial institution or other third parties.

Maintenance Obligations. Under our leases, the lessee is generally responsible for all normal unscheduled maintenance and repairs and compliance with return conditions of aircraft on lease. In connection with the lease of a used aircraft we sometimes agree to contribute specific additional amounts to the cost of certain major overhauls or modifications, which usually reflect the usage of the aircraft prior to the commencement of the lease. In many cases,

we also agree to share with our lessees the cost of compliance with airworthiness directives.

Our portfolio includes leases pursuant to which we collect maintenance reserve payments that are determined based on passage of time or usage of the aircraft measured by hours flown or cycles operated. These payments may be paid in cash or letters of credit which can be drawn if maintenance obligations are not otherwise paid. Under these leases, we are obligated to make reimbursements to the lessee for expenses incurred for certain major maintenance, up to a maximum amount that is typically determined based on maintenance reserves paid by the lessee. Certain leases also require us to make maintenance contributions for costs associated with certain major maintenance events in excess of any maintenance reserve payments. Major maintenance includes heavy airframe, off-wing engine, landing gear and auxiliary power unit overhauls and replacements of engine life limited parts. We are not obligated to make maintenance contributions under any lease at any time that a lessee default is continuing. We also have leases that provide for a lease-end adjustment payment based on the usage of the aircraft during the lease term and its condition upon redelivery. Typically, payments are made by the lessee to us, although in some cases, we have been required to make such payments to the lessee.

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Compliance with Laws. The lessee is responsible for compliance with all applicable laws and regulations with respect to the aircraft. We generally require our lessees to comply with the standards of either the U.S. Federal Aviation Administration or its non-U.S. equivalent. We often require a deposit as security for the lessee's performance of obligations under the lease and the condition of the aircraft upon return.

General. Each aircraft generally must remain in the possession of the applicable lessee and any sublessees of the aircraft generally must be approved by the lessor unless, in some leases, certain conditions are met. Under most of our leases, the lessees may enter into charter or "wet lease" arrangements in respect of the aircraft (i.e., a lease with crew and services provided by the lessor under the lease), provided the lessee does not part with operational control of the aircraft. Under some of our leases, the lessee is permitted to enter into subleases with specified operators or types of operators without the lessor's consent, provided certain conditions are met. As of December 31, 2013, our lessees have informed us of the following subleases:

Lessee	Sublessee
Hainan Airlines Co., Ltd.	Lucky Air Company Limited
Qantas Airways Limited	Jetstar Airways Pty Ltd.
Korean Air Lines Co., Ltd.	Jin Air Co. Ltd.
LATAM Airlines Group S.A.	TAM Linhas Aereas S.A.

Our leases also generally permit the lessees to subject the equipment or components to removal or replacement and, in certain cases, to pooling arrangements (temporary borrowing of equipment), without the lessor's consent but subject to conditions and criteria set forth in the applicable lease. Under our leases, the lessee may deliver possession of the aircraft, engines and other equipment or components to the relevant manufacturer for testing or similar purposes, or to a third party for service, maintenance, repair or other work required or permitted under the lease.

Some foreign countries have currency and exchange laws regulating the international transfer of currencies. When necessary, we will require as a condition to any foreign transaction, that the lessee or purchaser in a foreign country obtain the necessary approvals of the appropriate government agency, finance ministry or central bank for the remittance of all funds contractually owed in U.S. dollars. We attempt to minimize our currency and exchange risks by negotiating most of our aircraft leases and all of our sales transactions in U.S. dollars.

Lease Restructurings. During the term of a lease, a lessee's business circumstances may change to the point where it is economically sensible for us to consider restructuring the terms of the lease. Restructurings may involve the voluntary termination of leases prior to the scheduled lease expiration, the arrangement of subleases from the primary lessee to another airline, the rescheduling of lease payments, the forgiveness and/or reduction of lease obligations and

the extension of the lease terms.

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Aircraft Repossessions. On a lease default, we may seek to terminate the lease and gain possession of the aircraft for remarketing. Although the majority of repossessions are accomplished through negotiation, if we cannot obtain the lessee's cooperation we would have to take legal action in the appropriate jurisdiction. This legal process could delay the ultimate return of the aircraft. In addition, in connection with the repossession of an aircraft, we may be required to pay outstanding mechanics, airport, navigation and other liens on the repossessed aircraft. These charges could relate to other aircraft that we do not own but were operated by the defaulting lessee. In contested repossessions, we likely would incur substantial additional costs for maintenance, refurbishment and remarketing of the aircraft.

Lease Management and Remarketing

We outsource our lease management and aircraft remarketing activities to BBAM. Pursuant to our servicing agreements with BBAM, BBAM provides us with services related to leasing our fleet, including marketing aircraft for lease and re-lease or sale, collecting rents and other payments from the lessees of our aircraft, monitoring maintenance, insurance and other obligations under our leases and enforcing our rights against lessees.

At December 31, 2013, we had 14 leases scheduled to expire in 2014 and one aircraft off-lease. Subsequent to year end, we have entered into six leases and lease extensions including a lease for the aircraft that was off-lease, two sale agreements and two letters of intent, bringing the total number of aircraft currently requiring remarketing in 2014 to five. We may have additional remarketings in 2014 if any other leases are terminated prior to their scheduled expiry dates.

From time to time, we may decide to dispose of our aircraft at or before the expiration of their leases. In 2013, we sold ten aircraft to unrelated third parties.

Competition

The leasing and remarketing of commercial jet aircraft is highly competitive. We face competition from airlines, aircraft manufacturers, financial institutions, 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 firms and hedge funds. Competition for leasing transactions is based on a number of factors including delivery dates, lease rates, lease terms, aircraft condition and the availability in the marketplace of the types of aircraft to meet the needs of the customers. See the risk factor "*We operate in a highly competitive market for investment opportunities*

in aircraft and other aviation assets."

Insurance

We require our lessees to obtain those types of insurance and, as appropriate, reinsurance coverage which are customary in the air transportation industry. These include aircraft all-risk hull insurance covering the aircraft and its engines and spares and hull and spares war and allied perils insurance covering risks such as hijacking, terrorism, confiscation, expropriation, seizure and nationalization to the extent normally available in the international market. Coverage under aircraft hull insurance policies generally is subject to standard deductible levels in respect of partial damage to the aircraft, in some instances and under certain circumstances the lessee has the right to self-insure some or all of the risk. The lessee is required to pay all deductibles, and also would be responsible for payment of amounts self-insured.

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We also require our lessees to carry comprehensive aviation liability insurance, including war and allied perils coverage, provisions for bodily injury, property damage, passenger liability, cargo liability and such other provisions reasonably necessary in commercial passenger and cargo airline operations. Coverage under liability policies generally is not subject to deductibles except as to baggage and cargo that are standard in the airline insurance industry.

In general, we are named as an additional insured and loss payee on the hull all risks and hull and spares war policies for the sum of the stipulated loss value or agreed value of the aircraft and our own contingent coverage in place is at least equal to the appraised value of the aircraft. In cases where the Servicer believes that the agreed value stated in the lease is not sufficient, the Servicer will purchase additional coverage, either in the form of hull and hull war total loss only or hull and hull war excess hull insurance for the deficiency and as an additional insured on the liability policies carried by our lessees.

The Servicer will obtain certificates of insurance/reinsurance from the lessees' brokers to evidence the existence of such coverage. These certificates generally include, in addition to the information above, (i) a breach of warranty endorsement so that, subject to certain standard exceptions, our interests are not prejudiced by any act or omission of the lessee, (ii) confirmation that the liability coverage is primary and not contributory, (iii) agreement that insurers waive rights of subrogation against us and (iv) in respect to all policies, a 30-day notice of cancellation or material change; however, war and allied perils policies customarily provide seven days advance written notice for cancellation and may be subject to lesser notice under certain market conditions.

The insurance market imposes a sub limit on each operator's primary liability policy applicable to third-party war risk liability, this limit customarily does not exceed $150 million upon which additional excess third party war liability coverage is then obtained in the London and the International Markets. U.S., Canadian and certain other non-European Community-based airlines have government war-risk insurance programs available in which they currently participate.

Although we currently require each lessee to purchase third party war risk liability in amounts greater than such sublimits, or obtain an indemnity from their government, the market or applicable governments may discontinue to make such excess coverage available for premiums that are acceptable to carriers. As a result, it is possible that we may be required to permit lessees to operate with considerably less third-party war risk liability coverage than currently carried, which could have a material adverse effect on the financial condition of our lessees and on us in the event of an uncovered claim.

In addition to the coverage maintained by our lessees, we maintain both contingent hull, hull war and liability insurance and possession hull, hull war and liability insurance with respect to our aircraft. Such contingent insurance is intended to provide coverage in the event that the insurance maintained by any of our lessees should not be available for our benefit as required pursuant to the terms of the contract. Such possession insurance is intended to provide coverage for any periods in which an aircraft is not subject to a lease agreement with a lessee. Consistent with industry practice, our possession insurance policies are subject to commercially reasonable deductibles or self-retention amounts.

We have made every reasonable effort to insure against all customary risks, including that lessees will at all times comply with their obligations to maintain insurance, that any particular claim will be paid, and that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future.

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Government Regulation

The air transportation industry is highly regulated. Because we do not operate aircraft, we generally are not directly subject to most of these laws. However, our lessees are subject to extensive regulation under the laws of the jurisdiction in which they are registered or under which they operate. These laws govern, among other things, the registration, operation, maintenance and condition of our aircraft. See the risk factor, *"We cannot assure you that all lessees will comply with the registration requirements in the jurisdiction where they operate."*

Most of our aircraft are registered in the jurisdictions in which the lessees of our aircraft are certified as air operators. As a result, our aircraft are subject to the airworthiness and other standards imposed by these jurisdictions. See the risk factor, *"Government regulations could require substantial expenditures, reduce our profitability and limit our growth."*

Properties

We have no physical facilities. Our executive offices are located on our Manager's premises in Dublin, Ireland.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report. The consolidated financial statements have been prepared in accordance with U.S. GAAP and are presented in U.S. dollars. The discussion below contains forward-looking statements that are based upon our current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in global, regional or local political, economic, business, competitive, market, regulatory and other factors, many of which are beyond our control. See "Preliminary note" and Item 3 "Risk factors."

Overview

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.

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Although we are 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.

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 acquisition of the GAAM Portfolio was accounted for as a business combination. Identifiable assets acquired and liabilities assumed were recorded at their fair values as of the acquisition date. As of December 31, 2013, we owned a portfolio of 113 aircraft.

On December 28, 2012, we sold our 15% interest in BBAM LP for $49.5 million to 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.

In July 2013, we sold 13,142,856 common shares in the form of ADSs at a price of $14.00 per ADS in an underwritten public offering generating net proceeds of approximately $172.6 million.

For the year ended December 31, 2013, we had net income of $52.5 million, or diluted earnings per share of $1.50. Net cash flows provided by operating activities for the year ended December 31, 2013 totaled $181.5 million. Net cash flow used in investing activities was $608.6 million and net cash provided by financing activities was $668.5 million for the year ended December 31, 2013. We paid $31.5 million in dividends in 2013.

Impact of GAAM Portfolio Acquisition

On October 14, 2011, we completed the acquisition of the GAAM Portfolio and assumed approximately $1.2 billion of secured, non-recourse debt financing. Because the majority of GAAM’s debt was entered into during a period of favorable market conditions which provided for lower borrowing margins and higher loan-to-value ratios than are currently available, we recorded GAAM’s debt on our balance sheet at a fair value that is lower than its face value. This difference is being amortized into interest expense for the remaining terms of the debt facilities, resulting in higher interest expense than our cash interest payments.

We also evaluated whether the leases acquired with the aircraft in the GAAM Portfolio were at fair market value by comparing the contractual lease rates to the range of current lease rates of like aircraft. We recognized a lease premium when we determined that an acquired lease's terms were above market value and a lease discount when the acquired lease's terms were below fair market value. Lease discounts are capitalized into other liabilities and accreted as additional rental revenue on a straight-line basis over the lease term. Lease premiums are capitalized into other assets and amortized against rental revenue on a straight-line basis over the lease term. In the aggregate, lease premiums exceeded lease discounts, and the amortization of these lease premiums reduces our reported operating lease revenues for the remaining terms of such leases.

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The following table shows the impact of the amortization of debt discounts, lease premiums and certain other items for year ended December 31, 2014 and for the succeeding five years. This table reflects our current portfolio and debt facilities. The amortization amounts for each applicable period may change for a number of reasons, including, among other things, aircraft dispositions, debt repayments and refinancings.

	Year ended December 31,					
	2014	2015	2016	2017	2018	2019
	(in thousands)					
Amortization of GAAM purchase accounting adjustments:						
Amortization of fair value lease premiums and discounts, net	$1,148	$165	$—	$—	$—	$—
Amortization of fair value debt discounts	5,114	3,360	2,395	2,113	1,845	107
Total amortization of GAAM purchase accounting adjustments	$6,262	$3,525	$2,395	$2,113	$1,845	$107

Market Conditions

The airline industry was profitable in most parts of the world in 2012 and 2013. Although the airline industry is cyclical, we expect current trends to continue into 2014. However, macroeconomic and political trends may create unexpected volatility in the aircraft leasing market.

Despite continuing challenges, there continues to be an overall positive trend in world air traffic demand which we believe will drive growth in the aircraft leasing market in the long-term. Aircraft demand continues to increase each year, with aircraft manufacturers increasing their production rates to meet this demand. Currently, leased aircraft make up approximately 40% of the world wide commercial jet aircraft fleet that is in service and this percentage is expected to increase to 50% by 2020.

Although we expect airlines to be profitable in 2014, profits are not uniformly distributed among airlines and certain airlines, particularly smaller airlines and start-up carriers, continue to struggle financially. These lessees may be unable to make lease rental and other payments on a timely basis.

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Critical Accounting Policies and Estimates

Fly prepares its consolidated financial statements in accordance with U.S. GAAP, which requires the use of estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The use of estimates is or could be a significant factor affecting the reported carrying values of flight equipment, investments, deferred assets, accruals and reserves. We utilize third party appraisers and industry valuation professionals, where possible, to support estimates, particularly with respect to flight equipment. Despite our best efforts to accurately estimate such amounts, actual results could differ from those estimates. The following is a discussion of the accounting policies that involve a high degree of judgment and the methods of their application.

Rent Receivables

Rent receivables represent unpaid lessee obligations under existing lease contracts. Any allowance for doubtful accounts is established on a specific identification basis and is maintained at a level believed by management to be adequate to absorb probable losses inherent in rent receivables. The assessment of credit risk is primarily based on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of a debtor and the current economic and regulatory conditions of the debtor’s operating environment and geographical areas. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows and consideration of current factors and economic trends impacting the lessees and their credit worthiness, all of which may be susceptible to significant change. Uncollectible rent receivables are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is recorded based on management’s periodic evaluation of the factors previously mentioned, as well as other pertinent factors. As of December 31, 2013 and 2012, we had no allowance for doubtful accounts, although we had one lessee and two lessees on non-accrual status, respectively. We recognize revenue from these lessees when cash is received.

Flight Equipment Held for Operating Leases

Flight equipment held for operating leases are recorded at cost and depreciated to estimated residual values on a straight-line basis over their estimated remaining useful lives. Useful life is generally 25 years from the date of manufacture. Residual values are generally estimated to be 15% of original manufacturer’s estimated realized price for the flight equipment when new. Management may, at its discretion, make exceptions to this policy on a case by case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of residual values. Examples of such situations include, but are not limited to:

- Flight equipment where original manufacturer's prices are not relevant due to plane modifications and conversions.

- Flight equipment which is out of production and may have a shorter useful life or lower residual value due to obsolescence.

- The remaining useful life of a converted freighter 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.

Estimated residual values and useful lives of flight equipment are reviewed and adjusted, if appropriate, at each reporting period.

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Major improvements to be performed by us pursuant to the lease agreement are accounted for as lease incentives and are amortized against revenue over the term of the lease, assuming no lease renewals. Lessee specific modifications to the aircraft are capitalized and also amortized against revenue over the term of the lease. Generally, lessees are required to provide for repairs, scheduled maintenance and overhauls during the lease term and to be compliant with return conditions of flight equipment at lease termination.

Major improvements and modifications incurred for an aircraft that is off-lease are capitalized and depreciated over the remaining life of the flight equipment. In addition, costs paid by us for scheduled maintenance and overhauls are also capitalized and depreciated over a period to the next scheduled maintenance or overhaul event. Miscellaneous repairs are expensed when incurred.

At the time of an aircraft acquisition, we evaluate whether the lease acquired with the aircraft is at fair market value by comparing the contractual lease rates to the range of current lease rates of like aircraft. A lease premium is recognized when it is determined that the acquired lease's terms are above market value; lease discounts are recognized when it is determined that the acquired lease's terms are below fair market value. Lease discounts are capitalized into other liabilities and accreted as additional rental revenue on a straight-line basis over the lease term. Lease premiums are capitalized into other assets and amortized against rental revenue on a straight-line basis over the lease term.

Impairment of Flight Equipment

We evaluate flight equipment for impairment when circumstances indicate that the carrying amounts of such assets may not be recoverable. Our evaluation of impairment indicators include, but are not limited to, recent transactions for similar aircraft, adverse changes in market conditions for specific aircraft types, third party appraisals of specific aircraft, published values for similar aircraft, any occurrences of adverse changes in the aviation industry and the overall market conditions that could impact the fair value of our aircraft. The review for recoverability includes an assessment of the estimated future cash flows associated with the use of an asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, we will assess whether the carrying values of the flight equipment exceed the fair values and an impairment loss is required. The impairment loss is measured as the excess of the carrying amount of the impaired asset over its fair value.

Future cash flows are assumed to occur under current market conditions and assume adequate time for a sale between a willing and able buyer and a willing seller. Expected future lease rates are based on all relevant information available, including the existing lease, current contracted rates for similar aircraft, appraisal data and industry trends.

Residual value assumptions generally reflect an aircraft's salvage value, except where more recent industry information indicates a different value is appropriate.

The preparation of these impairment analyses requires the use of assumptions and estimates, including the level of future rents, the residual value of the flight equipment to be realized upon sale at some date in the future, estimated downtime between re-leasing events and the amount of re-leasing costs.

Investment in Unconsolidated Subsidiaries

We had a 15.0% interest in BBAM LP which we sold in December 2012. We also have a 57.4% interest in Fly-Z/C LP. We account for our interest in unconsolidated subsidiaries using the equity method as we do not control the entities. Under the equity method, we initially record our investment at cost and the carrying amount is affected by our share of the unconsolidated subsidiaries' undistributed earnings and losses, and distributions of dividends and capital.

We periodically review the carrying amount of our investment in the unconsolidated subsidiaries, or whenever events or changes in circumstances indicate that a decline in value may have occurred. If the investment were determined to be impaired on an other-than-temporary basis, we would record a loss equal to the difference between the fair value of the investment and its carrying value in the period of identification.

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Derivative Financial Instruments

We use derivative financial instruments to manage our exposure to interest rate and foreign currency risks. Derivatives are accounted for in accordance with applicable FASB guidelines. All derivatives are recognized on the balance sheet at their fair values. Pursuant to hedge accounting provisions, changes in the fair value of the item being hedged can be recognized into earnings in the same period and in the same income statement line as the change in the fair value of the derivative instrument. On the date that we enter into a derivative contract, we formally document all relationships between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either a freestanding asset or liability. Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income (loss), net of tax, until earnings are affected by the variability of cash flows of the hedged item. Any derivative gains and losses that are not effective in hedging the variability of expected cash flows of the hedged item or that do not qualify for hedge accounting treatment are recognized directly into income.

At the hedge’s inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in cash flows of the derivative instrument have been highly effective in offsetting changes in the cash flows of the hedged items and whether they are expected to be highly effective in the future. We discontinue hedge accounting prospectively when (i) we determine that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; or (iii) we determine that designating the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the derivative instrument is carried at its fair market value on the balance sheet with changes in fair value recognized into current-period earnings. The remaining balance in accumulated other comprehensive income associated with the derivative that has been discontinued is not recognized in the income statement unless it is probable that the forecasted transaction will not occur. Such amounts are recognized in earnings when earnings are affected by the hedged transaction.

Maintenance Payment Liability

Our flight equipment is typically subject to triple-net leases under which the lessee is responsible for maintenance, insurance and taxes. Fly's operating leases also obligate the lessees to comply with all governmental requirements applicable to the flight equipment, including without limitation, operational, maintenance, registration requirements and airworthiness directives.

Under the terms of the lease agreements, cash collected from lessees for future maintenance of the aircraft is recorded as maintenance payment liabilities. Maintenance payment liabilities are attributable to specific aircraft and are typically based on hours or cycles of utilization, depending upon the component. Upon occurrence of qualified maintenance events, the lessee submits a request for reimbursement and upon disbursement of the funds, the liability is relieved.

In some leases, the lessor may be obligated to contribute to maintenance related expenses on an aircraft during the term of the lease. In other instances, the lessee or lessor may be obligated to make a payment to the other party at the end of lease based on a computation stipulated in the lease agreement. The calculation is based on the utilization and condition of the airframe, engines and other major life-limited components as determined at lease termination.

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We may also incur maintenance expenses on off-lease aircraft. Scheduled major maintenance or overhaul activities and costs for certain high-value components that are paid by us are capitalized and depreciated over the period until the next overhaul is required. Amounts paid by us for minor maintenance, repairs and re-leasing of aircraft are expensed as incurred.

Maintenance payment liability balances at the end of a lease or any amount received as part of a redelivery adjustment are recorded as lease revenue at lease termination, including early termination upon a default. When flight equipment is sold, the maintenance payment liability amounts may be remitted to the buyer in accordance with the terms of the related agreements and are released from the balance sheet as part of the disposition gain or loss.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to Fly and the revenue can be reliably measured. Where revenue amounts do not meet these recognition criteria, they are deferred and recognized in the period in which the recognition criteria are met. Rental income from aircraft is recognized on a straight-line basis over the initial term of the respective lease. The operating lease agreements generally do not provide for purchase options, however, the leases may allow the lessee the option to extend the lease for an additional term. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when collection is not reasonably assured.

Share Based Compensation

We have a 2010 Omnibus Incentive Plan (“2010 Plan”) which permitted the issuance of up to 1,500,000 share grants in the form of (i) stock appreciation rights (“SARs”); (ii) restricted stock units (“RSUs”); (iii) nonqualified stock options; and (iv) other stock-based awards. In May 2012, we made an aggregate grant of 300,000 SARs and RSUs to certain employees of BBAM LP, who provide services to Fly pursuant to management and servicing agreements. As of December 31, 2013, we had made aggregate grants of 1,500,000 stock appreciation rights (“SARs”) and restricted stock units (“RSUs”) to certain employees of BBAM LP who provide services to us pursuant to certain management and servicing agreements. There are no shares remaining available for grants under the 2010 Plan. Compensation expense associated with grants to employees are valued at the grant date and amortized on a straight-line basis over the service period. Grants to non-employees are initially measured at grant date, and then re-measured at each interim reporting period until the awards are vested. Determining the appropriate fair value model and calculation of the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeitures and expected grant life.

Taxes

Fly provides for income taxes by tax jurisdiction. Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement amounts and tax basis of existing assets and liabilities at the enacted tax rates expected to apply when the assets are recovered or liabilities are settled. A valuation allowance is used to reduce deferred tax assets to the amount which management ultimately expects to be more-likely-than-not realized.

Fly applies a recognition threshold of more-likely-than-not to be sustained in the examination of tax uncertainty in income taxes. Measurement of the tax uncertainty occurs if the recognition threshold has been met. We have elected to classify any interest on unpaid income taxes and penalties as a component of the provision for income taxes. No interest on unpaid income taxes and penalties were incurred during the years ended December 31, 2013, 2012 and 2011.

New Accounting Pronouncements

In February 2013, the FASB issued guidance which requires companies to present, in one place, information about reclassifications out of accumulated other comprehensive income (“AOCI”). It also requires companies to present the reclassifications by component. For significant items reclassified out of AOCI to net income in their entirety, companies must disclose the line item on the statement of income that was affected. This can be done on the face of the statement in certain circumstances or in the notes. For significant items not reclassified to net income in their entirety during the reporting period, companies must cross-reference the note where additional details about the effects of the reclassification are disclosed. We adopted the guidance prospectively commencing in the 2013 fiscal year and interim periods within the year.

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Operating Results

Management's discussion and analysis of operating results presented below pertain to the consolidated statement of operations of Fly for the years ended December 31, 2013, 2012 and 2011.

Consolidated Statements of Income of Fly for the years ended December 31, 2013 and 2012

	Year ended December 31, 2013	2012	Increase/ Decrease
Revenues			
Operating lease revenue	$ 359,409	$ 376,437	$(17,028)
Equity earnings from unconsolidated subsidiaries	1,871	9,383	(7,512)
Gain on sale of aircraft	6,277	8,360	(2,083)
Gain on sale of investment in unconsolidated subsidiary	—	36,882	(36,882)
Interest and other income	1,930	1,634	296
Total revenues	369,487	432,696	(63,209)
Expenses			
Depreciation	146,400	136,633	9,767
Aircraft impairment	8,825	11,382	(2,557)
Interest expense	120,399	142,491	(22,092)
Net (gain) loss on extinguishment of debt	(15,881)	7,628	(23,509)
Selling, general and administrative	37,418	40,192	(2,774)
Ineffective, dedesignated and terminated derivatives	(1,263)	31,871	(33,134)
Maintenance and other costs	15,454	10,968	4,486
Total expenses	311,352	381,165	(69,813)
Net income before provision for income taxes	58,135	51,531	6,604
Provision for income taxes	5,659	3,862	1,797
Net income	$ 52,476	$ 47,669	$4,807

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As of December 31, 2013 and 2012, we had 113 aircraft and 109 aircraft in our portfolio, respectively. As of December 31, 2013, our aircraft were on lease to 62 lessees in 34 countries. In 2013, we purchased fourteen aircraft and sold ten aircraft.

	Year ended December 31,		Increase/ Decrease
	2013	2012	
Operating lease revenue:			
Basic rent	$324,916	$341,545	$(16,629)
End of lease revenue	47,569	49,817	(2,248)
Lease incentives	(9,019)	(6,989)	(2,030)
Lease premium/discount amortization and other	(4,057)	(7,936)	3,879
Total operating lease revenue	359,409	376,437	**(17,028)**

Rental revenues received from operating leases are recognized on a straight-line basis over the respective lease terms. For the year ended December 31, 2013, operating lease revenue totaled $359.4 million, a decrease of $17.0 million compared to the year ended December 31, 2012. The decrease was primarily due to (i) a decrease of $21.0 million in lease revenue from aircraft sold in 2013 and 2012, (ii) a decrease of $15.7 million due to lower lease rates on lease extensions and restructurings, (iii) a decrease of $9.4 million in revenue from aircraft that were off-lease for a portion of the year, (iv) a decrease of $2.2 million from end of lease revenue recognized and (v) an increase of $2.0 million in lease incentives. The decreases were partially offset by: (i) an increase of $29.2 million from aircraft purchased in 2012 and 2013 and (ii) an increase of $4.1 million in lease premiums, net of lease discount.

During the years ended December 31, 2013 and 2012, we recorded equity earnings from our investments in unconsolidated subsidiaries of $1.9 million and $9.4 million, respectively. Our equity earnings from BBAM LP were $7.8 million in 2012. We sold our equity interest in BBAM LP in December 2012.

During the year ended December 31, 2013, we sold ten aircraft and recognized a pre-tax gain on sale of $6.3 million. In the year ended December 31, 2012, we sold four aircraft and recognized a pre-tax gain on sale of $8.4 million.

On December 28, 2012, we sold our 15.0% interest in BBAM LP for $49.5 million and recognized a pre-tax gain on the sale of $36.9 million.

Depreciation expense during the year ended December 31, 2013 was $146.4 million, compared to $136.6 million for the year ended December 31, 2012, an increase of $9.8 million. The increase was primarily due to depreciation on aircraft acquisitions and improvements made, partially offset by depreciation on aircraft we sold.

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During the year ended December 31, 2013, we recognized an impairment charge of $8.8 million related to an Airbus A319-100 aircraft which was manufactured in 2000. During the year ended December 31, 2012, we recognized aircraft impairment of $11.4 million related to two Boeing 737-500 aircraft which were manufactured in 1992 and an Airbus A320-200 aircraft which was manufactured in 2002.

Interest expense totaled $120.4 million and $142.5 million for the years ended December 31, 2013 and 2012, respectively. The decrease of $22.1 million was primarily due to (i) debt repayments made in 2013 and 2012, (ii) lower interest rates from re-financings completed in 2013 and 2012 and (iii) re-pricing of the Term Loan. This decrease was partially offset by interest on new borrowings.

During the year ended December 31, 2013, we recognized a net gain on debt extinguishment of $15.9 million. In connection with the restructuring of the CBA Facility, we recognized a net gain of $22.2 million. The gain was partially offset by: (i) swap breakage costs and other expenses incurred totaling $3.0 million associated with debt repayments and refinancings, (ii) fees and expenses of $2.1 million incurred in connection with the repricing of the Term Loan in May 2013, and (iii) write-off of unamortized debt discounts and costs associated with the Term Loan upsizing in November 2013 totaling $1.2 million. During the year ended December 31, 2012, we recognized total debt extinguishment costs of $7.6 million of which: (i) $4.2 million related to the re-pricing of the Term Loan and (ii) $3.4 million related to the repayment of the B&B Air Acquisition Facility and debt associated with aircraft that were refinanced or sold in 2012.

Selling, general and administrative ("SG&A") expenses were $37.4 million and $40.2 million for the years ended December 31, 2013 and 2012, respectively. The decrease of $2.8 million is primarily due to legal and other professional fees of $1.9 million incurred in connection with the Term Loan and Nord LB Facility refinancing in 2012.

In 2013, we had unrealized gain of $1.3 million resulting from fair market value changes to our ineffective hedge and dedesignated derivative instruments. In 2012, in connection with the repayment of the B&B Air Acquisition Facility, we terminated eleven swaps and expensed swap breakage costs of $32.3 million. This expense was partially offset by unrealized gains on our dedesignated derivative instruments of $0.4 million.

Maintenance and other costs totaled $15.5 million and $11.0 million during the years ended December 31, 2013 and 2012, respectively. In 2013, we incurred higher than expected costs with respect to aircraft whose leases were terminated early due to the maintenance work required to get the aircraft in delivery condition as well as on-going technical costs associated with remarketing the aircraft to new lessees.   Costs incurred in 2012 relate to engine

overhauls and other technical services incurred in connection with the remarketing of aircraft.

Our provision for income taxes was $5.7 million and $3.9 million during the years ended December 31, 2013 and 2012, respectively. The resulting effective income tax rate for the years ended December 31, 2013 and 2012 was 9.7% and 7.5%, respectively. The effective rate for 2013 is less than the Irish trading rate of 12.5% as a result of (i) taxes associated with the sale of aircraft owned by our Australian subsidiary being offset with previously unrecognized deferred tax assets related to the GAAM acquisition, (ii) a portion of the net gain on extinguishment of debt not being subject to tax in Ireland, and (iii) a favorable true-up to our tax returns filed in connection with our investment in BBAM LP. These reductions in income tax were partially offset by the provision for valuation allowances against deferred tax assets in certain of our subsidiaries, and taxes provided in foreign jurisdictions at higher rates than the Irish trading rate. For 2012, a wholly-owned Irish subsidiary recorded a tax benefit for interest that had been accruing on an intercompany note for which no taxes had been provided. The interest was paid in 2013 and this deduction was utilized to offset Irish taxes on the gain from the sale of our 15% interest in BBAM LP.

Our consolidated net income was $52.5 million and $47.7 million for the years ended December 31, 2013 and 2012, respectively, an increase of $4.8 million.

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Consolidated Statements of Income of Fly for the years ended December 31, 2012 and 2011

	Year ended December 31, 2012	2011	Increase/ Decrease
Revenues			
Operating lease revenue	$ 376,437	$ 230,716	$145,721
Equity earnings from unconsolidated subsidiaries	9,383	5,647	3,736
Gain on sale of aircraft	8,360	9,137	(777)
Gain on sale of investment in unconsolidated subsidiary	36,882	—	36,882
Interest and other income	1,634	3,289	(1,655)
Total revenues	432,696	248,789	183,907
Expenses			
Depreciation	136,633	95,718	40,915
Aircraft impairment	11,382	7,500	3,882
Interest expense	142,491	90,547	51,944
Debt extinguishment costs	7,628	—	7,628
Selling, general and administrative	40,192	27,248	12,944
Ineffective, dedesignated and terminated derivatives	31,871	—	31,871
Acquisition costs	—	18,038	(18,038)
Maintenance and other costs	10,968	4,400	6,568
Total expenses	381,165	243,451	137,714
Net income before provision for income taxes	51,531	5,338	46,193
Provision for income taxes	3,862	4,242	(380)
Net income	$ 47,669	$ 1,096	$46,573

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As of December 31, 2012 and 2011, we had 109 aircraft in our portfolio. As of December 31, 2012, our aircraft were on lease to 55 lessees in 32 countries. In 2012, we purchased four aircraft and sold four aircraft.

	Year ended December 31,		Increase/ Decrease
	2012	2011	
Operating lease revenue:			
Basic rent	$341,545	$235,602	$105,943
End of lease revenue	49,817	2,892	46,925
Lease incentives	(6,989)	(6,855)	(134)
Lease premium/discount amortization and other	(7,936)	(923)	(7,013)
Total operating lease revenue	376,437	230,716	145,721

Rental revenues received from operating leases are recognized on a straight-line basis over the respective lease terms. For the year ended December 31, 2012, operating lease revenue totaled $376.4 million, an increase of $145.7 million compared to the year ended December 31, 2011. The increase was primarily due to (i) an increase of $117.4 million from the purchase of the GAAM Portfolio, (ii) an increase of $14.1 million from other aircraft purchased in 2011 and 2012, and (iii) an increase of $46.9 million from end of lease revenue recognized compared to the prior year. The increases were partially offset by: (i) a decrease of $19.5 million in revenues for aircraft sold in 2012 and 2011, (ii) a decrease of $3.3 million in rents collected from lessees who are on non-accrual status, and (iii) a decrease of $7.6 million in revenues from lease extensions, restructurings and remarketings.

Amortization of lease incentives recorded as a reduction of operating lease revenue totaled $7.0 million and $6.9 million for the years ended December 31, 2012 and 2011, respectively.

During the years ended December 31, 2012 and 2011, we recorded equity earnings from our investments in unconsolidated subsidiaries of $9.4 million and $5.6 million, respectively, or an increase of $3.8 million. Compared to 2011, equity earnings from BBAM LP and Fly-Z/C LP increased $2.4 million and $1.4 million, respectively, in 2012.

During the year ended December 31, 2012, we sold four aircraft and recognized a pre-tax gain on sale of $8.4 million. In the year ended December 31, 2011, we sold two aircraft for an aggregate gain on sale of $9.1 million.

On December 28, 2012, we sold our 15.0% interest in BBAM LP for $49.5 million and recognized a pre-tax gain on the sale of $36.9 million.

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Depreciation expense during the year ended December 31, 2012 was $136.6 million, compared to $95.7 million for the year ended December 31, 2011, an increase of $40.9 million. The increase was primarily due to the purchase of the GAAM Portfolio and other aircraft acquired during 2012 and 2011, partially offset by aircraft sold in 2012 and 2011.

During the year ended December 31, 2012, we recognized aircraft impairment of $11.4 million related to two Boeing 737-500 aircraft which were manufactured in 1992 and an Airbus A320-200 aircraft which was manufactured in 2002. These aircraft were sold in 2013. During the year ended December 31, 2011, we recognized an impairment charge of $7.5 million related to the same two Boeing aircraft.

Interest expense totaled $142.5 million and $90.5 million for the years ended December 31, 2012 and 2011, respectively. The increase of $52.0 million was primarily due to interest of $59.6 million associated with the debt we assumed with the purchase of the GAAM Portfolio, including $12.3 million of debt discount amortization. This increase was partially offset by decreases resulting from repayment of debt, a reduction in the notional amounts of the associated derivative instruments and lower interest rates from refinancings completed in 2012.

During the year ended December 31, 2012, we recognized total debt extinguishment costs of $7.6 million of which: (i) $4.2 million was related to our re-priced Term Loan and (ii) $3.4 million was related to the repayment of the B&B Air Acquisition Facility and debt associated with aircraft that were either refinanced or sold in 2012. Approximately $6.5 million of the total debt extinguishment costs were non-cash charges resulting from write-offs of unamortized loan fees and debt discounts.

Selling, general and administrative (“SG&A”) expenses were $40.2 million and $27.2 million for the years ended December 31, 2012 and 2011, respectively. The increase of $13.0 million is primarily due to: (i) $7.7 million increase in management and servicing fees paid to BBAM as a result of the acquisition of the GAAM Portfolio, and (ii) $6.0 million increase in professional fees primarily related to re-marketing of aircraft and debt refinancing. These increases were partially offset by a $1.1 million decrease in share based compensation.

In connection with the repayment of the B&B Air Acquisition Facility, we terminated eleven swaps associated with the facility and expensed swap breakage costs of $32.3 million during the year ended December 31, 2012. This expense was partially offset by unrealized gains on our derivatives of $0.3 million resulting from fair market value changes to our ineffective hedge and dedesignated derivative instruments.

In connection with the purchase of the GAAM Portfolio on October 14, 2011, we incurred approximately $18.0 million in closing costs during 2011. These expenses included a $12.5 million fee to BBAM LP for arranging the acquisition.

Maintenance and other costs totaled $11.0 million and $4.4 million during the years ended December 31, 2012 and 2011, respectively, an increase of $6.6 million. Costs incurred in 2012 included engine overhauls and technical services incurred in connection with the termination and re-marketing of aircraft. Costs incurred in 2011 included aircraft technical work in connection with the purchase of the GAAM Portfolio.

Our provision for income taxes was $3.9 million and $4.2 million during the years ended December 31, 2012 and 2011, respectively. The resulting effective tax rate for the years ended December 31, 2012 and 2011 was 7.5% and 79.5%, respectively. In 2012, a wholly-owned Irish subsidiary recorded a tax benefit for interest that had been accruing on an inter-company note and for which no taxes had been provided. The interest was paid in 2013 and this deduction was utilized to offset Irish taxes on the gain from the sale of our 15.0% interest in BBAM LP. In 2011, we (i) recorded Australian taxes on taxable income from our subsidiaries domiciled in Australia, (ii) did not recognize a deferred tax benefit for non-deductible expenses associated with the acquisition of the GAAM Portfolio, and (iii) recorded U.S. federal and state taxes on our share of U.S. sourced taxable income resulting from our investment in BBAM LP.

Our consolidated net income was $47.7 million and $1.1 million for the years ended December 31, 2012 and 2011, respectively, an increase of $46.6 million.

Liquidity and Capital Resources

Our sole source of operating cash flows is from distributions made to us by our subsidiaries. Distributions of cash to us by our subsidiaries are subject to compliance with applicable debt covenants. Substantially all revenue collected during each monthly period from aircraft financed by certain of our debt facilities are applied to service the outstanding debt, after the payment of certain expenses and other costs.

Cash Flows of Fly for the years ended December 31, 2013 and 2012

We generated cash from operations of $181.5 million and $180.4 million for the years ended December 31, 2013 and 2012, respectively, a decrease of $1.1 million.

Cash used in investing activities was $608.6 million compared to cash provided by investing activities which was $56.1 million for the years ended December 31, 2013 and 2012, respectively. In 2013, we used $632.9 million of cash to purchase fourteen aircraft and sold ten aircraft and received net cash proceeds of $48.5 million. In 2012, we used $50.8 million of cash to purchase four aircraft and sold four aircraft and received net cash proceeds of $67.7 million. Lessor maintenance contributions totaled $24.2 million and $16.6 million for the years ended December 31, 2013 and 2012, respectively. In 2012 we also received $49.5 million of cash proceeds from the sale of our 15.0% investment in BBAM LP.

Cash provided by financing activities for the year ended December 31, 2013 totaled $668.5 million and cash used in financing activities for the year ended December 31, 2012 totaled $155.4 million. In 2013, we received: (i) proceeds from secured borrowings of $587.1 million to partially finance aircraft acquisitions, (ii) net proceeds of $393.3 million from the issuance of unsecured notes and the upsizing of the Term Loan, (iii) net proceeds of $172.6 million from issuance of shares and (iv) net maintenance payment liability receipts of $40.4 million. These were partially offset by (i) net repayments of $444.6 million of other secured borrowings, (ii) additions to our restricted cash of $39.7 million and (iii) dividends and dividend equivalents payments of $31.5 million. In 2012, we made: (i) repayments on our secured borrowings totaling $847.6 million, (ii) a net payment of $35.1 million in connection with the termination of interest rate swaps associated with the repayment of the B&B Air Acquisition Facility and (iii) dividends and dividend equivalents payments of $22.5 million. These were partially offset by: (i) borrowings of $459.2 million to partially finance the repayment of the B&B Air Acquisition Facility and the acquisition of aircraft, (ii) $87.3 million net proceeds from the sale of Notes, (iii) use of our restricted cash accounts totaling $160.9 million to repay debt, (iv) net maintenance payment liability receipts of $29.7 million and (v) net proceeds from issuance of shares of $23.9 million.

Cash Flows of Fly for the years ended December 31, 2012 and 2011

We generated cash from operations of $180.4 million and $110.3 million for the years ended December 31, 2012 and 2011, respectively. The increase of $70.1 million is primarily attributable to the operating cash flows from the aircraft acquired in the GAAM Portfolio.

Cash provided by investing activities was $56.1 million compared to cash used in investing activities of $51.3 million for the years ended December 31, 2012 and 2011, respectively. In 2012, we sold four aircraft and received net cash proceeds of $67.7 million. We used $50.8 million of cash to purchase four aircraft. In 2011, we received, net cash proceeds of $126.9 million from the sale of two aircraft and used $165.8 million to purchase aircraft, including the acquisition of the GAAM Portfolio. Lessor maintenance contributions totaled $16.6 million and $11.3 million for the years ended December 31, 2012 and 2011, respectively. In 2012, we also received $49.5 million of cash proceeds from the sale of our 15.0% investment in BBAM LP. In 2011, we made a net investment of $28.1 million for a 57.4% limited partnership interest in Fly-Z/C LP. Distributions from unconsolidated subsidiaries totaled $6.3 million in 2012 and were $27.0 million in 2011.

Cash used in financing activities for the years ended December 31, 2012 and 2011 totaled $155.4 million and $141.1 million, respectively. In 2012, we made: (i) repayments on our secured borrowings totaling $847.6 million, (ii) a net payment of $35.1 million in connection with the termination of interest rate swaps associated with the repayment of the B&B Air Acquisition Facility and (iii) dividends and dividend equivalents payments of $22.5 million. These were partially offset by: (i) borrowings of $459.2 million to partially finance the repayment of the B&B Air Acquisition Facility and the acquisition of aircraft, (ii) $87.3 million net proceeds from the sale of Notes, (iii) use of our restricted cash accounts totaling $160.9 million to repay debt, (iv) net maintenance payment liability receipts of $29.7 million and (v) net proceeds from issuance of shares of $23.9 million. In 2011, we made: (i) net repayments of $204.9 million of other secured borrowings, (ii) additions to our restricted cash of $21.7 million (iii) dividends and dividend equivalents payments of $21.1 million and (iv) share repurchases for $13.1 million. These were partially offset by (i) borrowings of $46.6 million, (ii) net maintenance payment liability receipts of $39.0 million, (iii) proceeds of $33.8 million from the sale of Notes, and (iv) proceeds of $1.4 million from an interest rate swap we terminated.

Our Future Sources and Uses of Liquidity

Our primary sources of liquidity are cash on hand and cash generated by our aircraft leasing subsidiaries. We depend upon dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations, to pay dividends to our shareholders, and to grow our fleet. Our existing subsidiaries use funds generated from aircraft rents to pay their operating expenses and to meet their debt service requirements. They may be contractually restricted from making distributions to us pursuant to the terms of their debt agreements. Our business is very capital intensive, requiring significant investment in order to expand and maintain our fleet.

In 2013, we purchased a total of fourteen aircraft for $632.9 million which included: eleven Boeing 737-800 aircraft, one Boeing 777-300ER aircraft, one Boeing 787-8 aircraft and one Airbus A320-200 aircraft. We intend to finance future acquisitions with borrowings under the Fly Acquisition II Facility or other debt financing and our unrestricted cash.

At December 31, 2013, we had $404.5 million of unrestricted cash, with approximately $323.2 million available under the Fly Acquisition II Facility. Subsequent to December 31, 2013, we have purchased two aircraft which were financed with our Term Loan.

We will need access to additional capital if we are to grow beyond our current acquisition pipeline and to refinance our debt. Our ability to refinance amounts outstanding under our secured borrowings or to fund acquisitions will depend on a number of factors which includes our historical and expected performance, compliance with the terms of

our debt agreements, industry and market trends and the availability of capital.

In addition to investment in our fleet, our short-term liquidity needs include working capital for operations, debt service and cash to pay dividends to our shareholders. We expect that cash on hand and cash flow provided by operations will satisfy our liquidity needs through at least the next twelve months.

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Dividends and Share Repurchases

The table below shows our historical dividend payments.

	Total Cash Outlay	Dividend per Share
2013	$ 30.5 million	$0.88
2012	$ 21.6 million	$0.84
2011	$J0.7 million	$0.80
2010	$ 22.4 million	$0.80
2009	$ 24.7 million	$0.80

From February 2009 to May 2012, we paid quarterly dividends of $0.20 per share. Commencing August 2012 we paid quarterly dividends of $0.22 per share, representing a 10% increase in the quarterly dividend. We declared a dividend of $0.25 per share in respect of the fourth quarter of 2013, which was paid on February 20, 2014 to shareholders of record on January 31, 2014, representing an increase of 14% from the prior quarter. A quarterly dividend of $0.25 per share requires approximately $10.3 million each quarter. The declaration and payment of future dividends to holders of our common shares will be at the discretion of our board of directors and will depend on many factors, including our financial condition, cash flows, market conditions, legal requirements and other factors as our board of directors deems relevant.

Our board of directors approved certain share repurchase programs pursuant to which we may make share repurchases from time to time in the open market or in privately negotiated transactions. The timing of the repurchases under these programs, as set forth below, may depend on a variety of factors, including market conditions, and the program may be suspended or discontinued at any time prior to the expiration date.

Board Approval Date	Expiration Date	Maximum dollar value of shares that may be purchased under this program	**Calendar year shares were purchased**	**Total number of shares purchased**	**Average price paid per share**
May 3, 2010	May 2011	$30.0 million	2010	I,641,314 [1]	$10.70
			2011	23,135	$12.43
May 3, 2011	May 2012	$30.0 million	2011	43,533	$10.87
May 2, 2012	May 2013	$25.0 million	—	—	—
May 1, 2013	May 2014	$30.0 million	—	—	—

(1) Includes 1,411,264 shares that were repurchased from Babcock & Brown at $10.50 per share or $14.8 million.

We have also made share repurchases outside of these programs. On April 29, 2010, pursuant to a Securities Repurchase Agreement, we repurchased 2,011,265 shares from Babcock & Brown at a price of $8.78 per share or $17.7 million.

On March 8, 2011, we repurchased 1,035,438 shares from a third party at a price of $11.93 per share or $12.3 million pursuant to a Stock Purchase Agreement.

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Note Purchases and Sale. During the year ended December 31, 2011, we sold to third parties $40.8 million principal amount of Notes held by our subsidiary at an average price of 82.725% of the principal amount for total proceeds of $33.8 million. As of December 31, 2011 the outstanding balance of the Notes held by us through a wholly-owned subsidiary was $106.8 million. During the first quarter of 2012, the remaining Notes held by us were sold for an average price of 81.79% of the principal amount for total proceeds of $87.3 million.

Maintenance Cash Flows. Under our leases, the lessee is generally responsible for maintenance and repairs, airframe and engine overhauls, obtaining consents and approvals and compliance with return conditions of aircraft on lease. In connection with the lease of a used aircraft we may agree to contribute specific additional amounts to the cost of certain major overhauls or modifications, which usually reflect the usage of the aircraft prior to the commencement of the lease. In many cases, we also agree to share with our lessees the cost of compliance with airworthiness directives.

Maintenance reserve payments we collect from our lessees are based on passage of time or usage of the aircraft measured by hours flown or cycles operated. Under these leases, we are obligated to make reimbursements to the lessee for expenses incurred for certain planned major maintenance, up to a maximum amount that is typically determined based on maintenance reserves paid by the lessee.

Certain leases also require us to make maintenance contributions for costs associated with certain major overhauls or certain other modifications in excess of any maintenance payments received. Major maintenance includes heavy airframe, off-wing engine, landing gear and auxiliary power unit overhauls and replacements of engine life limited parts. Other leases provide for a lease-end adjustment payment based on the usage of the aircraft during the lease term and its condition upon redelivery, with such payments likely to be made by the lessee to us. In some instances, payments may be required to be made by us to the lessee. We are not obligated to make maintenance reimbursements or contributions under any lease at any time that a lessee default is continuing.

We expect that the aggregate maintenance reserve and lease-end adjustment payments we will receive from lessees will meet the aggregate maintenance contributions and lease-end adjustment payments that we will be required to make. In 2013, we received $57.0 million of maintenance payments from lessees, made maintenance payment disbursements of $16.6 million and also made maintenance contributions of $24.2 million.

Financing

We are subject to certain operating covenants under our loan agreements relating to the maintenance, registration and insurance of our aircraft. We may also be required to maintain certain lease concentration limits, and there may be limitations on the re-leasing of aircraft and the disposition of aircraft. In addition, pursuant to certain of our loan agreements, we may be subject to additional operating covenants relating to the operations of the borrower entity; restrictions on the acquisition or substitution of additional aircraft; restrictions on the modification of aircraft and capital expenditures; limits on the amount and type of guarantees that can be provided or assumed or other indebtedness that can be incurred; and restrictions on our ability to grant liens or other encumbrances on the aircraft. Our failure to comply with any one of these covenants may trigger an event of default under the relevant loan or facility agreement.

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Generally, an event of default under any of our loan or facility agreement may include, among other things:

- Interest or principal is not paid when due or within a prescribed period of time following its due date;
- Failure to make certain other payments and such payments are not made within a prescribed period of time following written notice;
- Failure to maintain required insurance levels;
- Failure to comply with certain other covenants and such noncompliance continues for a specified period of time following written notice; or
- Any of the aircraft owning or borrower entities become the subject of insolvency proceedings.

As of December 31, 2013, we were not in default under any of our loan or facility agreements.

Unsecured Borrowing

On December 11, 2013, we completed a public offering of $300.0 million aggregate principal amount of 6.75% Senior Notes due 2020 (the "Unsecured Notes"). In connection with the issuance, we paid an underwriting discount totaling $8.5 million. The Unsecured Notes are unsecured obligations of ours and rank *pari passu* in right of payment with any existing and future senior indebtedness of ours. We intend to use the net proceeds from the offering for general corporate purposes, including the acquisition of aircraft.

Interest Rate. The Unsecured Notes have a fixed annual interest rate of 6.750%, which will be paid every six months on June 15th and December 15th of each year, beginning on June 15, 2014. We will be required to pay additional interest in respect of the Unsecured Notes under specified circumstances.

Payment Terms.

The final maturity date of the Unsecured Notes is December 15, 2020.

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Redemption. At any time prior to December 15, 2016, we may redeem up to 35% of the original principal amount of the Unsecured Notes with the proceeds of certain equity offerings at a redemption price of 106.75% of the principal amount thereof, together with accrued and unpaid interest to, but not including, the date of redemption. On or after December 15, 2016, we may redeem the Unsecured Notes, in whole or in part, at the redemption prices listed below, plus accrued and unpaid interest to the redemption date.

Redeemed during the 12-month period commencing on December 15 of the years set forth below:	Redemption Price	
2016	105.063	%
2017	103.375	%
2018	101.688	%
2019 and thereafter	100.000	%

At any time prior to December 15, 2016, we may also redeem the Unsecured Notes, in whole or in part, at a price equal to the principal amount thereof, plus a ‘‘make-whole premium’’ as of, and accrued and unpaid interest to, but not including, the date of redemption.

In addition, if a change of control (as defined in the indenture governing the Unsecured Notes) occurs, holders of the Unsecured Notes will have the right to require us to repurchase all or any part of their Unsecured Notes for 101% of the aggregate principal amount of the Unsecured Notes repurchased plus accrued and unpaid interest, if any, on the Unsecured Notes repurchased to, but not including, the date of purchase.

Collateral. The Notes are unsecured.

Default and Remedies. A default in any of the aircraft owning entities in respect of obligations in excess of $50,000,000 and holders of such obligation accelerate or demand repayment of amounts due thereunder, would constitute an event of default.

Certain Covenants. Pursuant to the indenture, we are subject to financial and operating covenants which relate to our operations, dividend payments, redemption of common shares, disposition of aircraft, and capital expenditures. If the Unsecured Notes obtain a certain investment grade rating, certain covenants as specified in the indenture will be suspended.

Securitization

In October 2007, our subsidiary, B&B Air Funding issued $853.0 million of aircraft lease-backed Class G-1 notes (the "Notes"). The Notes are direct obligations of B&B Air Funding and are not obligations of, or guaranteed by Fly. In 2009, we repurchased through a wholly-owned subsidiary $169.4 million principal amount of the Notes for $83.0 million. In 2011, we sold $40.8 million principal amount of these repurchased Notes for $33.8 million. In the first quarter of 2012, we sold the remaining $106.7 million principal amount of Notes for $87.3 million. The resulting discount of $26.4 million is being amortized over the remaining term of the Notes. As a result of this re-issuance, we no longer hold any Notes and the outstanding principal amount of Notes was $592.9 million as of December 31, 2013.

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Interest Rate. The Notes bear interest at an adjustable interest rate equal to the then-current one-month LIBOR plus 0.77%. Interest expense also includes amounts payable to the policy provider and the liquidity facility provider thereunder, as well as accretion on the Notes re-issued at a discount. Interest and any principal payments due are payable monthly. We have entered into interest rate swap agreements to mitigate the interest rate fluctuation risk associated with a portion of the Notes.

Payment Terms. All cash generated from aircraft financed by B&B Air Funding during each monthly period are being applied to service the outstanding balance of the Notes, after the payment of certain expenses and other costs, including the fees to the Policy Provider, interest and interest rate swap payments in accordance with those agreements.

In 2013, two aircraft that secured the Notes were sold. In 2012, three aircraft were sold. The final maturity date of the Notes is November 14, 2033.

Redemption. We may, on any payment date, redeem the Notes by giving the required notices and depositing the necessary funds with the trustee. Redemption prior to acceleration of the Notes may be of the whole or any part of the Notes. Redemption after acceleration of the Notes upon default may only be for the whole of the Notes.

We may, on any future payment date, redeem the Notes in whole or from time to time in part for an amount equal to 100% of the outstanding principal amount, together with accrued and unpaid interest to, but excluding, the date fixed for redemption.

Collateral. The Notes are secured by first priority, perfected security interests in and pledges or assignments of equity ownership and beneficial interests in the subsidiaries of B&B Air Funding, their interests in the leases of the 35 aircraft they own, cash held by or for them and by their rights under agreements with BBAM, the initial liquidity facility provider, hedge counterparties and the policy provider. Rentals paid under leases are placed in the collections account and paid out according to a priority of payments set forth in the indenture. The Notes are also secured by a lien or similar interest in any of the aircraft in the Initial Portfolio that are registered in the United States or Ireland. B&B Air Funding may not encumber the aircraft in our Initial Portfolio with any other liens except the leases and liens created or permitted thereunder, under the indenture or under the security trust agreement. B&B Air Funding may not incur any indebtedness, except as permitted under the indenture, other than the Notes, any permitted credit and liquidity enhancement facilities and the obligations related to the policy.

Default and Remedies. Following any event of default and any acceleration of the Notes by the controlling party (initially, the policy provider), the security trustee may, at the direction of the controlling party, exercise such remedies in relation to the collateral as may be available to it under applicable law, including the sale of any of the aircraft at public or private sale. After the occurrence of certain bankruptcy and insolvency related events of default, or any acceleration of the Notes after the occurrence of any event of default, all cash generated by B&B Air Funding will be used to prepay the Notes and will not be available to us to make distributions to our shareholders or for any other of our liquidity needs.

Certain Covenants. B&B Air Funding is subject to certain operating covenants relating to servicer termination events. BBAM may be terminated as the servicer of the Securitization in certain circumstances including: the 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.

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In conjunction with the completion of the Securitization, B&B Air Funding, the cash manager and BNP Paribas, entered into the Note Liquidity Facility for the benefit of the holders of the Notes. The aggregate amounts available under the Note Liquidity Facility will be at any date of determination, the lesser of (a) $60.0 million and (b) the greater of (i) the then outstanding aggregate principal amount of Notes and (ii) $35.0 million. Advances may be drawn to cover certain expenses of B&B Air Funding, including maintenance expenses, interest rate swap payments and interest on the notes issued under the indenture. Prior to any drawing on the Note Liquidity Facility, the cash reserve will be drawn in full.

Our obligations under the Note Liquidity Facility are secured under the security trust agreement on the same basis as other indebtedness of B&B Air Funding.

Nord LB Facility

We assumed a debt facility (the "Nord LB Facility") provided by Norddeutsche Landesbank Gironzentrale ("Nord LB") that financed 19 of the aircraft in the GAAM Portfolio. On February 6, 2012, we completed an extension of the Nord LB Facility from November 2012 to November 2018. On February 14, 2012, we paid $25.0 million to Nord LB which was applied towards repayment of outstanding principal amounts. On November 14, 2012, we made an additional principal payment of $15.0 million to Nord LB. From February 6, 2012 until November 14, 2012, we paid Nord LB a fee equal to 0.45% per annum, or $1.9 million.

Prior to November 14, 2012, the Nord LB Facility was structured as a single loan facility pursuant to which one of our subsidiaries was the borrower. The Nord LB Facility is now structured as individual loans with each aircraft owning subsidiary acting as the borrower of its respective loan.

As of December 31, 2013, the outstanding balance under the Nord LB Facility was $452.4 million.

Interest Rate. Commencing November 14, 2012, the loans under the Nord LB Facility bear interest at one month LIBOR plus 3.30% until the final maturity date of November 14, 2018. To mitigate our exposure to interest rate fluctuations, we have entered into interest rate swap arrangements. The blended weighted average interest rate for the Nord LB Facility was 4.15% as of December 31, 2013, excluding the debt discount amortization.

Payment Terms. We apply 95% of lease rentals collected towards interest and principal. If no lease rental payments are received in the applicable period for any financed aircraft, prior to the termination of such lease, no payment is due under the loan related to that aircraft on the corresponding repayment date. Any unpaid interest increases the outstanding borrowing.

Upon the termination or expiration of a lease, no payments are due under the Nord LB Facility with respect to the outstanding loan amount for that aircraft until the earlier of six months from the termination or expiration or the date the aircraft is re-leased. Interest during this period increases the outstanding borrowing. If an aircraft remains off-lease after six months from the termination or expiration, interest must be paid on each payment date. If an aircraft remains off-lease after twelve months, we must pay debt service equal to 85% of the lease rate paid under the prior lease agreement. The lenders may foreclose on an aircraft that remains off-lease after 24 months, but the lenders may not foreclose on any other aircraft.

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In the event that we sell any of the financed aircraft, substantially all sales proceeds (after payment of certain expenses) must be used to repay first the debt associated with the sold aircraft and then the outstanding amounts which finance the other aircraft unless certain conditions are met. In addition, any maintenance reserve amounts which are retained and are not expected to be required for future maintenance will be used to prepay the Nord LB Facility. If after full repayment of the facility, we have earned a 10% return on our equity investment, we will pay Nord LB a fee equal to 10% (capped at $5 million) of our returns in excess of 10%. In 2013, we sold one Boeing 737-700 aircraft from the Nord LB Facility and repaid $13.7 million of debt associated with this aircraft. In 2012, we sold an Airbus A319-100 aircraft financed under the Nord LB Facility and paid off the associated debt of $20.6 million and wrote off $0.8 million of unamortized discount associated with the debt.

Collateral. Borrowings are secured by our equity interest in the subsidiaries which own the 17 financed aircraft, the aircraft and the leases, maintenance reserves and other deposits. The loans are cross-collateralized and the lenders may foreclose on any aircraft upon an event of default on any loan.

Default and Remedies. An event of default with respect to the loan on any aircraft will trigger an event of default on the loans with respect to every other financed aircraft. A default by any of the aircraft owning entities in respect of obligations in excess of $10,000,000 coupled with holders of such obligation accelerating or demanding repayment of amounts due, would qualify as an event of default under the Nord LB Facility.

Certain Covenants. The Nord LB Facility does not contain any financial covenants. However, the borrowers in the Nord LB Facility are subject to certain servicer termination events. BBAM may be terminated as the servicer upon the occurrence of certain events of default under the loan agreement.

CBA Facility

Our subsidiaries assumed a debt facility provided by Bank of Scotland plc (“BOS”), Commonwealth Bank of Australia and CommBank Europe Limited (together, “CBA”) (the “CBA Facility” which we formerly referred to as the “BOS Facility”) that financed 21 of the aircraft in the GAAM Portfolio. The CBA Facility originally consisted of individual loans for each aircraft with maturity dates matching the scheduled lease expiry dates. The loan maturity dates ranged from 2013 to 2017 and could consist of a senior and junior tranche.

Subsequent to the acquisition of the GAAM Portfolio, twelve aircraft have been refinanced. One aircraft was refinanced in 2011 and nine aircraft were refinanced in 2012, resulting in repayments of $20.0 million and $194.9 million under this facility, respectively. In May 2013, two additional aircraft were refinanced, resulting in repayments of $54.5 million under this facility.

On November 15, 2013, we, through our subsidiaries, amended and extended the CBA Facility, which was then secured by nine aircraft. Pursuant to the amendment agreement, we made a one-time principal payment of $18.9 million and BOS forgave 11.25% or $9.9 million of its portion of the senior tranche borrowings and 100% or $19.2 million of the junior tranche borrowings. CBA has provided for seven new loans on seven of the nine aircraft.

Subsequent to December 31, 2013, we have entered into sale agreements for two Airbus A319-100 aircraft manufactured in 2000. The proceeds from the sale will be paid to the lenders as full and final discharge of the loans secured by these aircraft. The loans have a total outstanding principal balance of $36.4 million as of December 31, 2013 and will mature in late 2014.

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The loans provided pursuant to the CBA Facility are cross-collateralized and cross-defaulted. All payments under the CBA Facility are fully guaranteed by and recourse to us.

As of December 31, 2013, the outstanding principal balance under the CBA Facility was $161.8 million.

Interest Rate. Borrowings under the CBA Facility accrue interest at either a fixed or variable interest rate. Variable borrowings bear interest based on one-month LIBOR plus an applicable composite margin of 2.50%. Fixed interest rates range between 3.67% and 7.99%. The weighted average interest rate on all outstanding amounts was 4.91% as of December 31, 2013, excluding the debt discount amortization and debt issuance costs. As of December 31, 2013, interest accrued on the facility totaled $0.2 million.

Payment Terms. We make scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule. We are required to pledge the free cash flow from the financed aircraft as additional collateral for the lenders. We are also required to prepay the loan on an aircraft upon the termination of the lease on the aircraft or on the sale of an aircraft. Upon a lease termination or expiration, we may elect to extend the loan maturity date for up to nine months, during which interest (but no principal) is payable. If we re-lease the aircraft during this nine month period with the consent of the facility agent, the loan will be extended. If we are unable to re-lease the aircraft on terms acceptable to the lenders or sell the aircraft, the loan becomes due and payable at the end of this nine month period.

If any lessee fails to make a payment of rent on a financed aircraft, we may pay the interest and principal due under the respective loan from our own funds provided that we have not made such payments on six successive occasions or on any nine occasions. If a lease event of default continues and we are no longer permitted to make such payments, the lenders may instruct us to terminate the relevant lease agreement and we would be required to re-pay the loan subject to the nine month remarketing period described above.

If, upon the repayment of any loan, the ratio of the remaining principal amount outstanding under the CBA Facility to the aggregate appraised value of the associated aircraft is equal to or greater than 80%, we will be required to pay into a collateral account an amount as is necessary to reduce this ratio to less than 80%.

Collateral. Borrowings are secured by our equity interest in the subsidiaries which own the financed aircraft, the aircraft and the leases, maintenance reserves and other deposits.

Certain Covenants. There are no financial covenants in the CBA Facility.

Term Loan

On August 9, 2012, we, through a wholly-owned subsidiary, entered into a $395.0 million senior secured term loan that was scheduled to mature in 2018 (the "Term Loan") with a consortium of lenders. The Term Loan was originally issued at an offering price of 96% of par value, or a discount of $15.8 million, bearing interest at LIBOR plus a margin of 5.50%, with a LIBOR floor of 1.25%.

Debt proceeds of $266.7 million, along with approximately $122.5 million of the Company's cash, were applied towards full repayment of the B&B Air Acquisition Facility which financed 16 aircraft. We received the remaining proceeds of $112.5 million as seven additional aircraft, which were previously financed in the CBA Facility, were delivered into the Term Loan. These proceeds were applied towards full repayment of debt outstanding in the CBA Facility in respect of these seven aircraft, as well as associated break costs.

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On December 18, 2012, we re-priced the Term Loan reducing the interest rate margin from 5.50% to 4.50%. In conjunction with the re-pricing, we paid the lenders a one-time prepayment penalty of 1.00% of the outstanding principal amount which totaled $3.9 million.

On May 21, 2013, we completed a second re-pricing of the Term Loan, further reducing the interest rate margin to 3.50% and the LIBOR floor by 0.25% to 1.00%. In conjunction with this re-pricing, we paid the lenders a prepayment penalty of 1.00% of the outstanding principal amount which totaled $3.8 million.

During the first quarter of 2013, we sold one aircraft financed through the Term Loan. During the third quarter of 2013, we purchased one Boeing 737-800 aircraft using a combination of unrestricted cash and proceeds from the sale of the aircraft previously financed under this facility. The acquired aircraft replaced the aircraft that was sold as collateral under this facility.

On November 21, 2013, we amended and upsized the Term Loan by $105.0 million. The incremental borrowing was priced at 99.75% of the principal amount. In addition, the maturity of the Term Loan was extended by one year from August 2018 to August 2019. We received net proceeds of approximately $102.0 million, which were used to finance the acquisition of aircraft. At December 31, 2013, $33.6 million was held in an escrow account to finance the acquisition of two additional aircraft, which were acquired during the first quarter of 2014.

As of December 31, 2013, the outstanding balance under the Term Loan was $475.3 million.

Interest Rate. The Term Loan bears interest at an adjustable interest rate equal to one month LIBOR plus a margin of 3.50%, with a LIBOR floor of 1.00%.

Payment Terms. The Term Loan requires quarterly principal payments of $5.9 million. In addition, the aggregate principal amount outstanding as measured on a quarterly basis must not exceed 70.0% of the lower of the mean or median of half-life adjusted base value of the financed aircraft as determined by three independent appraisers ("LTV Maintenance Test"). As of December 31, 2013, there was no breach of the LTV Maintenance Test. We are required to seek new appraisals semi-annually.

Until November 2014, the Term Loan can be prepaid in part or in whole for an amount equal to 101% of the outstanding principal amount being repaid. Thereafter, the Term Loan can be prepaid in part or in whole for an amount equal to the outstanding principal amount being repaid.

Collateral. Borrowings are secured by our equity interests in the aircraft owning and/or leasing subsidiaries, the aircraft and related leases and other deposits. The loan is fully guaranteed by us on a recourse basis.

The Term Loan contains certain concentration limits with respect to types of aircraft which can be financed in the Term Loan, as well as geographic and single lessee concentration limits. These concentration limits apply upon the sale, removal or substitution of an aircraft.

Default and Remedies. An event of default under the Term Loan includes any of the aircraft owning entities defaulting in respect of obligations in excess of $50,000,000 and holders of such obligation accelerate or demand repayment of amounts due thereunder.

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Certain Covenants. There are no financial covenants in the Term Loan. Upon the sale of an aircraft, we may substitute an aircraft with an appraised value equal to or greater than the aircraft sold provided certain other conditions, including the LTV Maintenance Test and concentration criteria, are met under the Term Loan.

Fly Acquisition II Facility

On November 7, 2012, our subsidiary, Fly Acquisition II Limited, entered into a revolving credit facility with a consortium of lenders ("Fly Acquisition II Facility") providing loans in an aggregate amount of up to $250.0 million for an availability period of two years followed by a three year term. Borrowings under the Fly Acquisition II Facility are used to finance the acquisition of additional aircraft which may not be more than eight years of age at the time of such funding. All borrowings under the Fly Acquisition II Facility are subject to the satisfaction of certain conditions and the administrative agent's consent, including the absence of a continuing default and the accuracy of representations and warranties.

On July 3, 2013, we increased total commitments under the Fly Acquisition II Facility to $450.0 million. As of December 31, 2013, the outstanding principal balance under the Fly Acquisition II Facility was $126.8 million.

Availability. The Fly Acquisition II Facility had an initial availability period through November 7, 2014. In connection with the increase in total commitments under the Fly Acquisition II Facility, the availability period was extended to July 3, 2015. The availability period will be followed by a three-year term period, with a final maturity date of July 3, 2018.

The outstanding aggregate amount of loans cannot exceed 72.5% of the sum of (x) the aggregate borrowing base of all aircraft and (y) 50% of maintenance reserves paid with respect to the aircraft. The borrowing base for each aircraft in the portfolio is equal to 72.5% of the lower of the (x) purchase price depreciated on a straight line basis assuming a 25-year useful life and (y) the lower of the current market value or base value appraisal.

During the availability period, Fly Acquisition II may re-borrow any amounts repaid to the lenders.

Commitment Fees. Fly Acquisition II pays a commitment fee of 0.75% per annum on a monthly basis to each lender on the undrawn amount of their commitment which accrues during the availability period. The applicable margin is 3.25% during the availability period, stepping up to 3.75%, 4.25% and 4.75% in each subsequent year during the term period.

Principal Payments. During the availability period, Fly Acquisition II is required to make monthly principal payments equal to the aggregate outstanding principal amount of the loans less 72.5% of the aggregate purchase price of the aircraft depreciated on a straight line basis assuming a 25-year useful life of the aircraft.

Fly Acquisition II may make voluntary prepayments under the Fly Acquisition II Facility. In addition, Fly Acquisition II is required to make partial prepayments with any proceeds for the sale of aircraft and all insurance and other proceeds received with respect to any event of total loss of an aircraft under the Fly Acquisition II Facility.

Interest. Borrowings under the Fly Acquisition II Facility bears interest at a rate based on the one-month LIBOR plus an applicable margin. The applicable margin for the first two years will be 3.75% and increased to 4.25%, 4.75% and 5.25%, respectively, for each consecutive year during the term.

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Collateral. Borrowings are secured by the beneficial interests in Fly Acquisition II and each of its subsidiaries, the aircraft and related leases, certain cash collateral and other deposits. In addition, Fly Acquisition II is required to maintain cash collateral equal to 2% of the aggregate outstanding principal balance of the loans. If there is an event of default in respect of the borrowing base or if certain concentration criteria are not met at the end of the availability period, all of the maintenance reserves in respect of the financed aircraft will be pledged to the lenders. Upon the occurrence of an event of default in respect of the borrowing base, Fly Acquisition II will be required to pledge to the lenders all maintenance reserves deemed to have been received in respect of the financed aircraft prior to such event of default.

Certain Covenants. Fly Acquisition II is subject to an interest coverage ratio. Upon drawing down in the aggregate of at least $100 million under the facility, Fly Acquisition II is required to maintain a monthly interest coverage ratio of the aggregate amount of rent collected plus security deposits to the aggregate amount of interest accrued less any amounts received or paid by Fly Acquisition II under any applicable derivative agreements during each applicable measurement period. Fly Acquisition II is also required to maintain a rolling three-month interest coverage ratio of at least 1.25 to 1.

Default and Remedies. Events of default under the Fly Acquisition II Facility include, among other things:

- a final judgment for a payment obligation is rendered against Fly Acquisition II or any of its subsidiaries in an amount in excess of $2,500,000 which remains undischarged for 45 days; or

- certain early termination events related to Fly Acquisition II’s swap agreements.

Other Secured Aircraft Borrowings

In addition to the debt financings described above, we have entered into and may periodically enter into additional borrowings to finance the acquisition of aircraft. These borrowings are usually structured as individual loans that are secured by pledges of our rights, title and interest in the financed aircraft and related leases. To the extent that multiple aircraft are financed within a single facility, the loans in that facility are cross-collateralized and the lenders may require payment in full or foreclose on any aircraft upon an event of default on any loan.

In 2013, we purchased four aircraft with unrestricted cash and secured debt financing in an aggregate amount of $237.5 million. At December 31, 2013, $134.9 million was recourse to us. Also in 2013, we refinanced four aircraft out of the Fly Acquisition II Facility with four aircraft notes payable totaling $112.0 million.

Although these recourse loans are secured by aircraft and their associated leases, we have guaranteed and will be responsible for timely payment of all debt service and other amounts due under these loans in the event that the underlying leases do not provide sufficient cash flow to meet required debt payments. In addition, certain of our secured, recourse indebtedness contain cross default provisions to other recourse indebtedness which if triggered could significantly increase the amount of indebtedness which is payable by us at the time of the cross default.

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As of December 31, 2013, other aircraft secured debt borrowings include: (i) two loans financing three aircraft that were assumed with the acquisition of the GAAM Portfolio, (ii) three loans that were arranged in connection with the re-lease of aircraft, (iii) eight loans that were arranged in connection with the purchase of additional aircraft and (iv) four loans re-financing aircraft already owned by us. These loans mature on the scheduled lease termination dates for the financed aircraft, with maturity dates ranging from August 2014 to September 2025.

We make scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule. These loans all contain customary covenants relating to the maintenance, registration and insurance of the financed aircraft, as well as restrictions on our activities, including investments and other activities of the borrowers and restrictions on the granting of liens or other security interests in the aircraft. None of these loans include any financial covenants. These loans also contain certain conditions and restrictions which relate to the servicing and management of the financed aircraft, including covenants relating to the disposition of aircraft and re-leasing of the aircraft. As of December 31, 2013, the total principal outstanding under these loans was $490.1 million, with interest rates ranging from 1.64% to 6.55%.

In connection with the sale of six aircraft during the first quarter of 2013, the buyer assumed the underlying debt which had an outstanding principal balance of $41.4 million and derivative contracts associated with the aircraft.

Capital Expenditures

During the year ended December 31, 2013, we acquired fourteen aircraft for $632.9 million, including eleven Boeing 737-800 aircraft, one Boeing 777-300ER aircraft, one Boeing 787-8 aircraft and one Airbus A320-200 aircraft. During the year ended December 31, 2012, we acquired four aircraft for $50.8 million, comprising of two Boeing 737-700 and two Boeing 737-800 aircraft. During the year ended December 31, 2011, we acquired the GAAM Portfolio of 49 aircraft and three Boeing 737-800 aircraft. On February 9, 2011, we invested in a newly formed aircraft leasing joint venture that was formed for the purpose of acquiring, financing, leasing and eventually selling four commercial jet aircraft. We hold a 57.4% interest in the joint venture.

In addition to acquisitions of aircraft and other aviation assets, we expect to make capital expenditures from time to time in connection with improvements to our aircraft. These expenditures include the cost of major overhauls and modifications. As of December 31, 2013, the weighted average age of the aircraft in our portfolio was 8.6 years. In general, the costs of operating an aircraft, including capital expenditures, increase with the age of the aircraft.

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Inflation

The effects of inflation on our operating expenses have been minimal. We do not consider inflation to be a significant risk to direct expenses in the current economic environment.

Foreign Currency Exchange Risk

We receive a substantial portion of our revenue in U.S. Dollars, and we pay substantially all of our expenses in U.S. Dollars. However, we incur some of our expenses in other currencies, primarily the Euro, and we have entered into a lease under which we receive the lease payment in Australian dollars. To mitigate the exposure to foreign currency fluctuations associated with this lease, we entered into a foreign currency derivative. Depreciation in the value of the U.S. Dollar relative to other currencies increases the U.S. Dollar cost to us of paying such expenses. The portion of our business conducted in other currencies could increase in the future, which could expand our exposure to losses arising from currency fluctuations. Because we currently receive substantially all of our revenue in U.S. Dollars and pay substantially all of our expenses in U.S. Dollars, a change in foreign exchange rates would not have a material impact on our results of operations.

Research and Development, Patents and Licenses, etc.

Not applicable.

Off-Balance Sheet Arrangements

Not applicable.

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Contractual Obligations

Our long-term contractual obligations as of December 31, 2013 consisted of the following (in thousands):

	2014	2015	2016	2017	2018	**Thereafter**	**Total**
Principal payment under the Unsecured Notes[1]	$—	$—	$—	$—	$—	$300,000	$300,000
Interest payments under the Unsecured Notes[2]	20,250	20,250	20,250	20,250	20,250	39,656	140,906
Principal payments under the Notes[3]	67,612	66,447	64,511	53,896	42,442	297,995	592,903
Interest payments under the Notes[4]	31,998	28,213	24,581	21,172	18,348	50,866	175,178
Principal payments under the Nord LB Facility[5]	42,049	43,552	45,073	46,719	274,978	—	452,371
Interest payments under the Nord LB Facility[6]	15,234	13,731	12,210	10,564	8,227	—	59,966
Principal payments under the CBA Facility[7]	47,010	10,966	11,280	11,859	19,175	61,533	161,823
Interest payments under the CBA Facility[8]	7,279	5,048	4,776	4,189	3,087	4,063	28,442
Principal payments under the Term Loan Facility[9]	23,766	23,766	23,766	23,766	23,766	356,483	475,313
Interest payments under the Term Loan Facility[10]	19,805	19,918	18,953	17,828	16,755	11,962	105,221
Principal payments under the Acquisition II Facility[11]	5,177	5,177	5,177	5,177	106,058	—	126,766
Interest payments under the Acquisition II Facility[12]	4,303	4,124	3,955	3,765	2,105	—	18,252
Principal payments under Other Aircraft Secured Borrowings[13]	50,037	98,758	46,483	41,308	23,623	229,897	490,106
Interest payments under Other Aircraft Secured Borrowings[13]	19,307	16,816	12,656	10,930	8,984	33,586	102,279
Payments to BBAM and its affiliates under our management agreement[14]	10,633	10,633	10,633	10,633	10,633	50,531	103,696
Payments to BBAM and its affiliates under our	14,800	12,589	9,928	8,921	6,920	28,390	81,548

administrative services and servicing agreements[15]							
Total	$379,260	$379,988	$314,232	$290,977	$585,351	$1,464,962	$3,414,770

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(1) The final maturity date of the Unsecured Notes is December 15, 2020.

(2) The Unsecured Notes have a fixed annual interest rate of 6.750%, which will be paid every six months on June 15th and December 15th of each year, beginning on June 15, 2014.

(3) Principal payments under the Notes are determined monthly based on revenues collected and costs and other liabilities incurred prior to the relevant payment date. Future principal payment amounts are estimated based upon existing leases and current re-leasing assumptions. The final maturity of the Notes is November 14, 2033.

(4) Interest payments assume LIBOR remains at the current rate in effect at year end through the term of the Notes and reflect amounts we expect to pay after giving effect to interest swaps and amounts payable to our policy provider.

(5) Amounts reflect estimated principal payments through November 2018.

(6) Interest payments calculated on the current one-month LIBOR plus 3.30% until the final maturity date on November 14, 2018. Interest payments assume LIBOR remains at the current rate in effect at year end through the term of the facility.

(7) We make scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule.

(8) Variable rate borrowings under the CBA Facility bear interest equal to LIBOR plus 2.5%. Interest payments assume LIBOR remains at the current rate in effect at year end through the term of the facility.

(9) We make quarterly fixed principal payments of $5.9 million, subject to satisfying certain debt service coverage ratios and other covenants.

(10) Term Loan interest is calculated at LIBOR plus a margin of 3.50%, with a LIBOR floor of 1.00%. Interest payments assume LIBOR remains at the rate in effect at year end through the term of the facility.

(11) During the availability period, we are required to make monthly principal payments equal to the aggregate outstanding principal amount of the loans less 72.5% of the aggregate purchase price of the aircraft depreciated on a straight line basis assuming a 25-year useful life.

(12) Interest rate is based on the one-month LIBOR plus an applicable margin. The applicable margin during the availability period, which expires on July 3, 2013, is 3.25% and increases to 3.75%, 4.25% and 4.75%, respectively, for each consecutive year during the term.

(13) We have entered into 17 secured loan agreements, two of which are recourse to us, to finance the acquisition of 18 of the aircraft in our portfolio. We make scheduled monthly payments of principal and interest on each loan in accordance with fixed amortization schedules.

(14) Our management agreement provides that we pay to our Manager base and rent fees and a management expense amount of $10.0 million annually, adjusted for increases in the consumer price index ("CPI"). On December 28, 2012, the Management Agreement was amended to extend the term to December 28, 2022, with an automatic five year renewal period unless we make a payment to the Manager of $8.0 million, subject to potential future adjustment. The table assumes termination of the agreement on December 28, 2022 and payment of the applicable termination fee. See "Management Agreement."

(15) Our servicing agreement between BBAM and B&B Air Funding provides that we will pay BBAM a base fee of $150,000 per month, adjusted for CPI increases and a servicing fee equal to 1.0% of the aggregate amount of basic rent collected for all or any part of a month for any of our aircraft plus 1.0% of the aggregate amount of basic rent due for all or any part of a month for any of our aircraft. In addition, B&B Air Funding pays our Manager a $750,000 administrative fee pursuant to an administrative services agreement.

Each of the Term Loan and Fly Acquisition II Facility servicing agreements provide that we will pay BBAM an administrative fee of: (i) $10,000 per month plus (ii) $1,000 per month per aircraft. We will also pay BBAM a

servicing fee equal to 3.5% of the aggregate amount of basic rent actually collected for all or any part of a month.

Our servicing agreements for all other aircraft provide that we pay BBAM an administrative fee of $1,000 per month per aircraft and a servicing fee equal to 3.5% of the aggregate amount of basic rent actually collected for all or any part of a month.

Amounts in the table reflect the servicing fees for our aircraft as of December 31, 2013.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The following table presents information about our directors and executive officers. The business address of each of our directors and executive officers listed below is West Pier, Dun Laoghaire, County Dublin, Ireland. Our telephone number at that address is +353 1 231-1900.

Name	**Age**	**Position**
Colm Barrington	68	Chief Executive Officer and Director
Gary Dales	58	Chief Financial Officer
Joseph M. Donovan	59	Director and Chairman
Erik G. Braathen	58	Director
Pat O’Brien	59	Director
Robert S. Tomczak	52	Director
Susan M. Walton	53	Director
Steven Zissis	54	Director

Colm Barrington has been our chief executive officer and a member of our board of directors since May 2007. Mr. Barrington has over 40 years of experience in the global aviation industry, having started his aviation career in 1967 at Ireland’s national airline, Aer Lingus. In 1979, he joined GPA Group plc where he held various senior positions, including chief operating officer. In 1993, Mr. Barrington oversaw the successful integration of GPA Group plc and GE Capital Aviation Services (GECAS). In 1994, he joined Babcock & Brown Limited working in aircraft and lease management and arranging cross border lease financings of commercial aircraft. Mr. Barrington is the Non-Executive Chairman of the Board of Directors of Aer Lingus plc and a director of IFG Group plc. Mr. Barrington received a BA and an MA in Economics from University College Dublin and a public administration degree from the Institute of Public Administration, also in Dublin.

Gary Dales has been our chief financial officer since March 2008. Mr. Dales joined Babcock & Brown in August 2007 and BBAM in April 2010. Mr. Dales has seven years of aircraft leasing experience. Mr. Dales’ prior position was director of corporate development at PG&E Corporation, an energy based holding company. Prior to assuming that position, Mr. Dales served in various other financial roles at PG&E since 1994, including director of corporate accounting and SEC reporting. Prior to joining PG&E, Mr. Dales was a staff accountant, and later a manager, in the accounting and audit division at Arthur Andersen & Co. for more than 10 years. Mr. Dales graduated from the University of California, Santa Barbara with a BA in Business Economics. Mr. Dales is a member of the American Institute of Certified Public Accountants.

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Joseph M. Donovan was appointed Chairman in April 2010 and has been a member of our board of directors since June 2007. Prior to his retirement in January 2007, Mr. Donovan was chairman of Credit Suisse's Asset-Backed Securities and Debt Financing Group, which he led for nearly seven years. Prior thereto, Mr. Donovan was a managing director and head of Asset Finance at Prudential Securities (1998-2000) and Smith Barney (1995-1997). Mr. Donovan began his banking career at The First Boston Corporation in 1983, ultimately becoming a managing director at CS First Boston, where he served as Chief Operating Officer of the Investment Banking Department from 1992 to 1995. Mr. Donovan is a director of Institutional Financial Markets Inc. (formerly known as Cohen & Company) and Homeownership Preservation Foundation. Mr. Donovan received his MBA from The Wharton School and has a degree in Accountancy from the University of Notre Dame.

Erik G. Braathen has been a member of our board of directors since June 2007. Mr. Braathen has been the chief executive of Ojada AS, a privately owned investment company, since 1999. Prior to joining Ojada AS, Mr. Braathen was the chief executive officer of Braathens ASA where he gained extensive experience in the airline industry from 1986 to 1999. Mr. Braathen is a member of the boards of directors of Protector Insurance ASA, Peergynt Tours AS, Opra AS, Northsea PSV AS and Cenzia AS. Mr. Braathen is Chairman of the Board of Directors of Holmen Fondsforvaltning, Sayonara AS, Ojada AS, Okana AS and Onida AS. Mr. Braathen has a Master of International Management from AGSIM, Phoenix Arizona, and a Bachelor of Arts & Economics from the University of Washington.

Pat O'Brien has been a member of our board of directors since August 2013. Prior to his retirement in April 2011, Mr. O'Brien was a Partner at KPMG Dublin for 24 years, which he joined in March 1979. During his tenure with KPMG, Mr. O'Brien specialized in the aircraft leasing and financing sector and served as the tax adviser to a number of aircraft lessors and financiers in this sector. Mr. O'Brien has also worked with the Irish Department of Finance on legislative amendments affecting the aircraft leasing sector and has been published by the Irish Taxation Institute. Mr. O'Brien is a director of Airspeed Limited, Eirtech Aviation Limited, Amentum Capital Limited, VGS Holdings Limited and Apollo Aviation Management Limited. Mr. O'Brien also serves as a director on the boards of Rabobank Ireland plc and ACC Bank plc. Mr. O'Brien is a Commerce graduate of the University College Dublin.

Robert S. Tomczak has been a member of our board of directors since April 2010. Mr. Tomczak is a Senior Vice President and the Chief Financial Officer of BBAM LP and leads BBAM's accounting, finance and contract management teams and has over 20 years of experience in the aircraft leasing industry. From 1987 to 2010, Mr. Tomczak was a Finance Director at Babcock & Brown. Prior to joining Babcock & Brown in 1987, Mr. Tomczak worked for Arthur Andersen & Co. He graduated from California State University East Bay with a degree in Finance and Accounting.

Susan M. Walton has been a member of our board of directors since June 2007. Ms. Walton is currently the Chief Executive Officer of the Pestalozzi International Village Trust, a charity registered in England and Chief Executive Officer of Pestalozzi Enterprises Limited. Until September 2010, Ms. Walton was a sub-regional director of the environmental charity Groundwork London. Prior thereto, Ms. Walton was the chief executive of Hampshire & Isle of Wight Wildlife Trust ("HWT"), a leading wildlife conservation charity in England, where she was responsible for biodiversity projects in two counties and developing partnerships with key stakeholder groups. Prior to joining HWT in 2006, she served as General Manager — Structured Finance and Export Credit, for Rolls-Royce Capital Limited for nine years. Ms. Walton was also a Principal at Babcock & Brown from 1989 to 1997 where she was responsible for producing and implementing Babcock & Brown's annual European Aerospace marketing plan. Ms. Walton is a trustee for the Sussex Wildlife Trust, a trustee for the Sussex East Area Meeting of Quakers, a member of the Corporation of Sussex Coast College Hastings and a member of the High Weald AONB Sustainable Development Fund Panel. Ms. Walton holds a degree in Environmental Conservation from Birkbeck College, University of London.

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Steven Zissis was previously our chairman and has been a member of our board of directors since June 2007. Mr. Zissis is the President and Chief Executive Officer of BBAM LP. Mr. Zissis was the Head of Aircraft Operating Leasing at Babcock & Brown and has over 20 years of experience in the aviation industry. Prior to joining Babcock & Brown in 1990, Mr. Zissis was a vice president of Citibank, where he was also a founder and manager of the Portfolio Acquisition and Divestiture team. Mr. Zissis graduated from Rhodes College with a degree in Finance and International Studies.

Compensation of Directors

During 2013, each independent member of our board of directors received an annual cash retainer of $100,000 payable in equal quarterly installments. Our chairman received an additional $60,000 per year. Each independent director who is a chairman of a committee of the board of directors received an additional $15,000 per year. Our Manager appointed directors received no additional compensation beyond their participation in the 2010 Plan.

Effective January 1, 2014, each independent member of our board of directors will receive an annual cash retainer of $125,000 payable in equal quarterly installments. Our chairman will receive an additional $55,000 per year. Each independent director who is a chairman of a committee of the board of directors will receive an additional $10,000 per year. Our Manager appointed directors will receive no additional compensation beyond their participation in the 2010 Plan.

We paid to our directors aggregate cash compensation of $0.6 million for services rendered in 2013. We do not have a retirement plan for our directors.

Executive Compensation

We do not have any employees. Pursuant to the management agreement we have with our Manager, we have the dedicated services of our Manager’s chief executive officer and chief financial officer, who serve as our chief executive officer and chief financial officer, respectively, by appointment of our board of directors but who also remain employees of BBAM LP. The services performed by our chief executive officer and chief financial officer are provided at the cost of our Manager or an affiliate of our Manager. Our Manager or an affiliate of our Manager, in consultation with the compensation committee of our board of directors, determines and pays the compensation of our chief executive officer and chief financial officer. We do not provide retirement benefits to any officer or employee.

On April 29, 2010, the Company adopted the 2010 Omnibus Incentive Plan (“2010 Plan”) and reserved 1,500,000 shares for issuance under the 2010 Plan. The 2010 Plan permitted the grant of (i) stock appreciation rights (“SARs”); (ii) restricted stock units (“RSUs”); (iii) nonqualified stock options; and (iv) other stock-based awards. As of December 31, 2012, we had made all permitted grants under the 2010 Plan.

SARs entitle the holder to receive any increase in value between the grant date price of Fly’s ADSs and their value on the exercise date. RSUs entitle the holder to receive a number of Fly’s ADSs equal to the number of RSUs awarded upon vesting. The SARs and RSUs granted in 2010 vest in three equal installments on the last day of the sixth, 18th and 30th month following the date of grant, and expire on the tenth anniversary of the grant date. The SARs and RSUs granted in 2011 and 2012 vest in three equal installments on the first, second and third anniversary of the grant date. The Company settles SARs and RSUs with newly issued ADSs.

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The holder of a SAR or RSU grant is also entitled to dividend equivalent rights on each SAR and RSU that has been granted. For each dividend equivalent right, the holder shall have the right to receive a cash amount equal to the per share dividend paid by the Company during the period between the grant date and the earlier of the (i) award exercise date, (ii) termination date or the (iii) expiration date. Dividend equivalent rights expire at the same time and in the same proportion that the SARs and RSUs are either exercised, canceled, forfeited or expired. Dividend equivalent rights are payable to the holder only when the SAR or RSU on which the dividend equivalent right applies has vested.

Board of Directors

Our board of directors currently consists of seven members. Our bye-laws provide that the board of directors is to consist of a minimum of two and a maximum of 15 directors as the board of directors may from time to time determine. Pursuant to our management agreement and our bye-laws, so long as the Manager holds any of our manager shares, our Manager has the right to appoint the whole number of directors on our board of directors that is nearest to but not more than 3/7ths of the number of directors on our board of directors at the time. These directors are not required to stand for election by shareholders other than our Manager.

A majority of our directors are “independent” as defined under the applicable rules of the New York Stock Exchange. In accordance with our bye-laws, the independent directors are elected at each annual general meeting of shareholders and shall hold office until the next annual general meeting following his or her election or until his or her successor is elected or appointed or their office is otherwise vacated.

Committees of the Board

The standing committees of our board of directors consist of an audit committee, a compensation committee and a nominating and corporate governance committee. These committees are described below. Our board of directors may also establish various other committees to assist it in its responsibilities.

Audit Committee

Our Audit Committee is concerned primarily with the accuracy and effectiveness of the audits of our financial statements by our independent auditors. Its duties include:

- selecting independent auditors for approval by our shareholders;
- reviewing the scope of the audit to be conducted by our independent auditors, as well as the results of their audit;
- approving audit and non-audit services provided to us by the independent auditors;
- reviewing the organization and scope of our internal system of audit, financial and disclosure controls;

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- overseeing internal controls and risk management;
- overseeing our financial reporting activities, including our annual report, and the accounting standards and principles followed;
- reviewing and approving related-party transactions and preparing reports for the board of directors on such related-party transactions;
- conducting other reviews relating to compliance by our employees with our policies and applicable laws; and
- overseeing our internal audit function.

Each of the members of the Audit Committee is an “independent” director as defined under the applicable rules of the New York Stock Exchange. Mr. Donovan, and Mr. Braathen have served on the Audit Committee since June 2007. Since August 2013, Mr. O’Brien has served on the Audit Committee. Mr. Donovan serves as chairperson.

Compensation Committee

Our Compensation Committee will be consulted by our Manager regarding the remuneration of our chief executive and chief financial officers and will be responsible for determining the compensation of our independent directors. Each of the members of the Compensation Committee is an ‘‘independent’’ director as defined under the applicable rules of the New York Stock Exchange. Mr. Braathen, and Ms. Walton have served on the Compensation Committee since June 2007. Since August 2013, Mr. O’Brien has served on the Compensation Committee. Mr. Braathen serves as chairperson.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee’s responsibilities include the selection of potential candidates for our board of directors and the development and annual review of our governance principles. This committee also makes recommendations to our board of directors concerning the structure and membership of the other board committees. Each of the members of the Nominating and Corporate Governance Committee is an ‘‘independent’’ director

as defined under the applicable rules of the New York Stock Exchange. Ms. Walton and Mr. Braathen have served on the Nominating and Corporate Governance Committee since June 2007. Since August 2013, Mr. O'Brien has served on the Nominating and Corporate Governance Committee. Ms. Walton serves as chairperson.

Our Management

Pursuant to a management agreement, we have appointed Fly Leasing Management Co. Limited, a wholly owned subsidiary of BBAM LP, as our Manager to provide management services to us. In discharging its duties under the management agreement, our Manager uses the resources provided to it by BBAM LP and its affiliates. These resources include the dedicated services of Messrs. Colm Barrington and Gary Dales, who serve as our chief executive officer and chief financial officer, respectively, but who also remain employees of BBAM LP, the dedicated services of other members of our Manager's core management team, and the non-exclusive services of other personnel employed by BBAM LP.

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Our chief executive officer and chief financial officer manage our day-to-day operations and affairs on a permanent and wholly dedicated basis. Our board of directors, chief executive officer and chief financial officer have responsibility for overall corporate strategy, acquisitions, financing and investor relations.

Share Ownership

None of our directors or executive officers individually own more than 1% of our outstanding common shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

The table below sets forth certain information regarding the beneficial ownership of our ADSs by each person known by us to be a beneficial owner of more than 5% of our ADSs as of March 14, 2014:

	Shares Beneficially Owned		
Name	Number	Percent	
Neuberger Berman Group LLC[1]	2,722,340	6.6	%
Thornburg Investment Management Inc.[2]	2,662,111	6.4	%

(1) The information above and in this footnote is based on information taken from the Schedule 13G filed by Neuberger Berman Group LLC and Neuberger Berman LLC with the SEC on February 12, 2014. Neuberger Berman Group LLC and Neuberger Berman LLC have shared voting power over 2,698,965 ADSs and shared dispositive power over 2,722,340 ADSs.

(2) The information above and in this footnote is based on information taken from the Schedule 13G filed with the SEC on January 21, 2014 by Thornburg Investment Management Inc., which has sole voting power and sole dispositive power over 2,662,111 ADSs.

All ADS holders have the same voting rights.

As of February 28, 2014, 1,438,812 of our ADSs were held by 5 holders of record in the United States, not including ADSs held of record by Depository Trust Company, or DTC. As of February 28, 2014, DTC was the holder of record of 38,108,107 ADSs. To the best of our knowledge, 38,546,919 ADSs were beneficially owned by holders with U.S. addresses.

We are not aware of any arrangements, the operation of which may at a subsequent date result in a change of control.

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Manager Shares

Our Manager owns 100 manager shares that are entitled to director appointment rights and the right to vote on amendments to the provision of our bye-laws relating to termination of our management agreement with them. Manager shares will not convert into common shares. Upon a termination of our management agreement, the manager shares will cease to have any appointment and voting rights and, to the extent permitted under Section 42 of Companies Act 1981 (Bermuda), will be automatically redeemed for their par value. Manager shares are not entitled to receive any dividends and, other than with respect to director appointment rights, holder of manager shares have no voting rights.

Related Party Transactions

We have entered into agreements with BBAM LP and its affiliates that effect the transactions relating to our ongoing operations and business. Although the pricing and other terms of these agreements were reviewed by our management and the independent directors of our board of directors, they were determined by entities affiliated with BBAM LP. As a result, provisions of these agreements may be less favorable to us than they might have been had they been the result of transactions among unaffiliated third parties. *See "Management Agreement."*

On February 9, 2011, we invested in a newly formed aircraft leasing joint venture that was formed for the purpose of acquiring, financing, leasing and eventually selling four commercial jet aircraft. The joint venture currently owns four Boeing 767-300 aircraft. We hold a 57.4% interest in the joint venture. Summit owns 10.2% of the joint venture and the remaining 32.4% is owned by independent third parties.

On October 14, 2011, in connection with the purchase of the GAAM Portfolio, we entered into new servicing agreements with respect to the aircraft in the GAAM Portfolio. *See "Management Agreement - Servicing Agreements."*

On August 9, 2012, through a wholly-owned subsidiary, we entered into the Term Loan. In connection with the Term Loan, we entered into a servicing agreement with BBAM, pursuant to which we pay $10,000 per month in administrative fees and 3.5% of rents collected plus $1,000 per month per aircraft in servicing fees.

On November 7, 2012, our subsidiary, Fly Acquisition II Limited, entered into a secured revolving credit facility to finance the acquisition of additional aircraft. In connection with this financing, we entered into a servicing agreement with BBAM pursuant to which we pay $10,000 per month in administrative fees and 3.5% of rents collected plus $1,000 per month per aircraft in servicing fees.

On December 28, 2012, in connection with the sale of our 15% investment in BBAM LP, we amended the Management Agreement with our Manager. *See "Management Agreement."* In addition, Summit and Onex invested $25.0 million in 2,191,060 newly issued shares of Fly at a per share price of $11.41. We paid BBAM $1.7 million in one-time fees for services rendered in connection with these transactions.

In connection with Fly's underwritten public offering in July 2013, we sold 142,857 common shares in the form of ADSs to certain officers and directors of Fly and BBAM LP at the public offering price of $14.00 per ADS, generating proceeds of $2.0 million.

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MANAGEMENT AGREEMENT

General

We have a management agreement with our Manager which was recently amended on December 28, 2012 in conjunction with the sale of our 15% interest in BBAM LP. In discharging its duties under the management agreement, our Manager uses the resources provided to it by BBAM LP and its affiliates. These resources include the dedicated services of Messrs. Colm Barrington and Gary Dales, who serve as our chief executive officer and chief financial officer, respectively, but also remain employees of BBAM LP, the dedicated services of other members of our Manager's core management team and the non-exclusive services of other personnel employed by BBAM LP.

Our Manager's core management team consists of the Manager's chief executive officer, chief financial officer and that level of dedicated or shared support personnel, such as corporate counsel, company secretary, financial controller and other accounting staff and risk and compliance personnel, as our Manager reasonably determines is necessary to provide the management and administrative services described below.

Services

Our Manager's duties and responsibilities under the management agreement include the provision of the services described below. The management agreement requires our Manager to manage our business and affairs in conformity with the policies and investment guidelines that are approved and monitored by our board of directors. Our Manager may delegate the provision of all or any part of the services to any person affiliated or associated with BBAM.

Management and Administrative Services. Our Manager provides us with the following management and administrative services:

- managing our portfolio of aircraft and other aviation assets and the administration of our cash balances;

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if requested by our board, making available a member of the core management team of our Manager as our nominee on the board of directors of any of our subsidiaries (provided that each such member must be agreed between us and our Manager);

- assisting with the implementation of our board's decisions;

- providing us suitably qualified and experienced persons to perform the management and administrative services for us and our subsidiaries, including persons to be appointed by our board to serve as our dedicated chief executive and chief financial officers (who shall remain employees of, and be remunerated by, our Manager or an affiliate of our Manager while serving in such capacities);

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- performing or procuring the performance of all reasonable accounting, tax, corporate secretarial, information technology, reporting and compliance services for us and our subsidiaries, including the preparation and maintenance of our accounts and such financial statements and other reports and filings as we are required to make with any governmental agency (including the SEC) or stock exchange;

- supervising financial audits of us by an external auditor as required;

- managing our relations with our investors and the public, including:

- preparing our annual reports and any notices of meeting, papers, reports and agendas relating to meetings of our shareholders; and

- assisting in the resolution of any complaints by or disputes with our investors and any litigation involving us (other than litigation in which our interests are adverse to those of our Manager or BBAM); and

- using commercially reasonable efforts to cause us to comply with all applicable laws.

Origination and Disposition Services. Our Manager also provides us with the following origination and disposition services:

- sourcing opportunities relating to aircraft and other aviation assets, including using its commercially reasonable efforts to notify us of potential aviation asset investment opportunities that come to the attention of our Manager and which our Manager acting reasonably believes may be of interest to us as investments;

- in relation to identified potential opportunities to purchase or sell aircraft and other aviation assets, investigating, researching, evaluating, advising and making recommendations on or facilitating such opportunities;

- with respect to prospective purchases and sales of aircraft and other aviation assets, conducting negotiations with sellers and purchasers and their agents, representatives and financial advisors; and

- otherwise providing advice and assistance to us in relation to the evaluation or pursuit of aviation asset investment or disposition opportunities as we may reasonably request from time to time.

We are under no obligation to invest in or to otherwise pursue any aviation asset investment or disposal opportunity identified to us by our Manager pursuant to the management agreement. Neither BBAM nor any of its affiliates or associates are restricted from pursuing, or offering to a third party, including any party managed by, or otherwise affiliated or associated with BBAM, or are required to establish any aviation asset investment protocol in relation to prioritization of, any aviation asset investment or disposal opportunity identified to us by our Manager pursuant to the management agreement.

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Ancillary Management and Administrative Services. Our Manager also provides us with ancillary management and administrative services upon such terms as may be agreed from time to time between us and our Manager, which may require, among other things if requested by our board of directors:

- the expansion of our Manager's core management team with additional personnel as may be required by developments or changes in the commercial aircraft leasing industry (whether regulatory, economic or otherwise) or the compliance or reporting environment for publicly listed companies in the United States (whether as a result of changes to securities laws or regulations, listing requirements or accounting principles or otherwise); and

- making available individuals (other than members of our Manager's core management team) as our nominees on the boards of directors of any of our subsidiaries.

Servicing

For so long as our Manager's appointment is not terminated, we agree to engage BBAM as the exclusive Servicer for any additional aircraft or other aviation assets that we acquire in the future on terms substantially similar to those set forth in the servicing agreement for our Initial Portfolio or the servicing agreement between B&B Air Acquisition and BBAM or on such other terms as we and BBAM may agree.

Competitors. In the management agreement, we agreed not to sell B&B Air Funding or any of its subsidiaries, or any of our other subsidiaries, receiving services from BBAM pursuant to a servicing agreement to a competitor of BBAM, or to any party that does not agree in a manner reasonably acceptable to BBAM to be bound by the provisions of the applicable servicing agreement, and we agreed not to permit competitively sensitive information obtained from BBAM to be provided to any such competitor even if such competitor is a shareholder or has the right to elect a member of our board of directors. We may also be required to screen certain of our directors and employees from competitively sensitive information provided by BBAM.

Compliance With Our Strategy, Policy and Directions

In performing the services, our Manager is required to comply with our written policies and directions provided to our Manager from time to time by our board of directors unless doing so would contravene any law or the express terms of the management agreement.

Notwithstanding the above, we may not make any decision, take any action or omit to take any action in relation to the acquisition, disposition or management of any aircraft or other aviation assets, unless:

- that matter has been the subject of a recommendation by our Manager; or
- the failure to make that decision, take that action or omit to take that action would breach the fiduciary duties of our directors or any law.

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In addition, we may not direct our Manager (unless the direction is otherwise permitted under the management agreement) to make any decision, take any action or omit to take any action in relation to the acquisition, disposition or management of any aircraft or other aviation asset, and our Manager is not obliged to comply with any such direction if given by us, unless:

- that matter has been the subject of a recommendation by our Manager; or
- the failure to make that decision, take that action or omit to take that action would breach the fiduciary duties of our directors or any law.

Notwithstanding the foregoing, we may direct our Manager to review a proposed decision, action or omission to take an action in relation to the acquisition, disposition or management of any aircraft or other aviation asset and require that within a reasonable period of time our Manager either make or decline to make a recommendation with respect thereto.

The Manager shall also ensure that the members of the Compensation Committee of the Board of Directors of Fly are aware of the proposed salaries, bonuses, equity grants and other compensation arrangements for the chief executive officer, chief financial officer and, at the reasonable request of the Compensation Committee, other senior BBAM employees who devote substantial time to the Company ("Senior Executives"), and allow the Compensation Committee to participate in the discussion of such proposed arrangements for each Senior Executive, before such proposed arrangements are finalized by the Manager or its affiliates.

Appointment of Our Chief Executive Officer and Chief Financial Officer

Although our chief executive officer and chief financial officer are employees of our Manager (or an affiliate of our Manager), they serve us in such corporate capacities by appointment by our board of directors. The management agreement acknowledges that our board may terminate our chief executive officer or chief financial officer without our Manager's consent. The management agreement provides that if there is a vacancy in such position for any reason, then our Manager will recommend a candidate to serve as replacement chief executive officer or chief financial officer. If our board of directors does not appoint the initial candidate proposed by our Manager to fill such vacancy, then our Manager will be required to recommend one or more further candidates until our board appoints a candidate recommended by our Manager for such vacancy.

Restrictions and Duties

Our Manager has agreed that it will use reasonable care and diligence and act honestly and in good faith at all times in the performance of the services under the management agreement. We refer to the foregoing standard as the "standard of care" required under the management agreement.

Under the management agreement, our Manager may not, without our board's prior consent:

(1) carry out any transaction with an affiliate of our Manager on our behalf, it being understood that BBAM has been appointed as the exclusive Servicer for our portfolio of aircraft, and that our Manager may delegate the provision of all or any part of the services under the management agreement to any person affiliated or associated with BBAM;

(2) carry out any aviation asset investment or disposition transaction, or sequence of related aviation asset investment or disposition transactions with the same person or group of persons under common control, for us if the aggregate purchase price to be paid or the gross proceeds to be received by us in connection therewith would exceed $200 million;

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(3) carry out any aviation asset investment or disposition transaction if the sum of all the purchase prices to be paid or of all the gross proceeds to be received by us in connection with all such transactions during any quarter would exceed $500 million;

(4) appoint or retain any third-party service provider to assist our Manager in providing management and administrative services if:

- the amount to be paid by our Manager and reimbursed by us or paid by us to the third party with respect to any particular matter, or series of related matters, is reasonably likely to exceed $1 million; or

- as a result of the appointment or retention, the amount to be paid by our Manager and reimbursed by us or paid by us to all such third-party service providers appointed or retained in any rolling 12-month period is reasonably likely to exceed $5 million;

(5) appoint or retain any third-party service provider to assist our Manager in providing ancillary management and administrative or the origination and disposition services if:

- the amount to be paid by our Manager and reimbursed by us or paid by us to the third party with respect to any particular matter, or series of related matters, is reasonably likely to exceed $1 million; or

- as a result of the appointment or retention, the amount to be paid by our Manager and reimbursed by us or paid by us to all such third-party service providers appointed or retained in any rolling 12-month period is reasonably likely to exceed $7.5 million; or

(6) hold any cash or other assets of ours, provided that our Manager may cause our cash and other assets to be held in our name or any custodian for us nominated or approved by us.

The thresholds discussed in clauses (4) and (5) above are reviewed regularly by us and our Manager and may be increased by our board of directors (but shall not be decreased) having regard to changes in the value of money, changes in our market capitalization and any other principles agreed between us and our Manager. The thresholds discussed in clauses (2) and (3) may be increased or decreased by our board of directors in its sole discretion at any time by notice to our Manager. Amounts relating to transactions and third-party service providers entered into, appointed or retained by BBAM on our behalf pursuant to our servicing agreements or administrative agency agreements are not included in determining whether the thresholds discussed under this heading have been met or exceeded. Acquisitions of series of aircraft from non-affiliated persons are deemed not to be related matters for purposes of this provision.

Relationship of Management Agreement and Servicing Agreements

To the extent that BBAM is entitled to exercise any authority, enter into any transaction or take any action on our behalf pursuant to any of our servicing agreements or administrative agency agreements, such servicing agreement or administrative agency agreement shall govern such exercise of authority, transaction or authority in the event of a conflict between the management agreement and such servicing agreement or administrative agency agreement.

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Board Appointees

Pursuant to the management agreement and our bye-laws, for so long as Fly Leasing Management Co. Limited holds any of our manager shares, our Manager has the right to appoint the whole number of directors on our board of directors that is nearest to but not more than 3/7ths of the number of directors on our board of directors at the time. Our Manager's appointees on our board of directors are not required to stand for election by our shareholders other than by our Manager.

Our Manager's board appointees do not receive any cash compensation from us (other than out-of-pocket expenses) and do not have any special voting rights. The appointees of our Manager shall not participate in discussions regarding, or vote on, any related-party transaction in which any affiliate of our Manager has an interest. Our independent directors are responsible for approving any such related-party transactions.

Fees and Expenses

Pursuant to the management agreement, we pay our Manager the fees and pay or reimburse our Manager for the expenses described below.

Management and Administrative Services

Base and Rent Fees. In respect of the aircraft in our Initial Portfolio and any other aircraft we may acquire that will be held by B&B Air Funding or any of its subsidiaries or any other subsidiary we establish for the purpose of entering into an aircraft securitization financing, we pay our Manager:

- a base fee of $150,000 per month per subsidiary we establish for the purpose of entering into an aircraft securitization financing, which will increase by 0.01% of the maintenance-adjusted base value (at the time of acquisition) of each additional aircraft acquired beyond the Initial Portfolio, in the case of B&B Air Funding, or beyond the initial portfolio of aircraft financed with the proceeds of the applicable aircraft securitization financing (the amount of the base fee will be subject to adjustment as set forth below under "— Fees and Expenses — Adjusting the Base Fees and Administrative Agency Fees"); and

- a rent fee equal to 1.0% of the aggregate amount of basic rent due for all or any part of a month for any of such aircraft plus 1.0% of the aggregate amount of basic rent actually paid for all or any part of a month for any of such aircraft.

In 2013, 2012 and 2011, the base and rent fees we incurred and payable to the Manager were approximately $3.7 million, $3.8 million and $4.2 million, respectively. However, this entire amount was offset by servicing fees paid to BBAM pursuant to our servicing agreements. See "— Fees and Expenses — Credit for Servicing Fees Paid."

Until August 9, 2012, we paid our Manager a fee equal to 3.5% of the aggregate amount of basic rent actually collected for all or any part of a month for all aircraft held by B&B Air Acquisition. In 2012 and 2011, the rent fees we incurred and that were payable to the Manager were approximately $1.5 million and $2.8 million, respectively.

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Origination and Disposition Fees and Change of Control Fees. We generally pay our Manager a fee for each acquisition or sale of aircraft or other aviation assets equal to 1.5% of the gross acquisition cost in respect of acquisitions or the aggregate gross proceeds in respect of dispositions. However, with respect to the GAAM Portfolio, we agreed to pay our Manager a one-time acquisition fee of $12.5 million (approximately 0.9% of the $1.4 billion value of the GAAM Portfolio). In addition, we paid the Manager a disposition fee equal to 2% of the gross proceeds in respect of the disposition of any of the aircraft in the GAAM Portfolio on or prior to October 14, 2013 where the gross proceeds on such disposition exceeded the net book value of such aircraft. The disposition fee payable on any aircraft in the GAAM Portfolio after October 14, 2013 is 1.5% of aggregate gross proceeds on such disposition. We also pay our Manager a fee of 1.5% of the aggregate gross consideration received in respect of any change of control of our company, which includes the acquisition of more than 50% of our common shares or the acquisition of all or substantially all of our assets.

In 2013, we paid our Manager origination fees of $9.5 million in connection with the purchase of fourteen aircraft. In 2012, we paid our Manager origination fees of $0.9 million in connection with the acquisition of four aircraft. In 2011, we paid our Manager origination fees of $1.5 million in connection with the acquisition of three aircraft.

In 2013, we paid our Manager disposition fees of $2.0 million in connection with the sale of ten aircraft. In 2012, we paid our Manager disposition fees of $1.2 million for the sale of four aircraft. In 2011, we paid our Manager disposition fees of $2.1 million in connection with the sale of two aircraft.

Administrative Agency Fees. We pay to our Manager an administrative agency fee equal to $750,000 per annum for each aircraft securitization financing (the amount of the administrative agency fee for each aircraft securitization financing we establish will be subject to adjustment as set forth below under "— Fees and Expenses — Adjusting the Base Fees and Administrative Agency Fees"). In 2013, 2012 and 2011, we paid the Manager administrative agency fees totaling $0.8 million in respect of each year, but this amount was credited toward servicing fees paid pursuant to the Servicing Agreement between B&B Air Funding and BBAM.

Until August 9, 2012, our Manager was entitled to an administrative fee from B&B Air Acquisition of $240,000 per annum. In 2012 and 2011, we paid the Manager administrative agency fees totaling $0.2 million in respect of each year, but this amount was credited toward servicing fees paid pursuant to the Servicing Agreement between B&B Air Acquisition and BBAM.

Adjusting the Base Fees and Administrative Agency Fees. The amount of the base fee payable and the amount of the administrative agency fee payable for each aircraft securitization financing we establish will be increased (but not

decreased) annually by the percentage movement (if any) in the CPI index applicable for the previous calendar year.

Ancillary Management and Administrative Services.

We pay to our Manager such additional fees for any ancillary management and administrative services provided by our Manager to us from time to time as we and our Manager agree to before the ancillary management and administrative services are provided. We did not pay any ancillary management and administrative services fee to our Manager in 2013, 2012 or 2011.

Credit for Servicing Fees Paid

Base fees and rent fees paid to BBAM under our servicing agreements and administrative services fees paid to our Manager under the administrative services agreements are credited toward (and thereby reduce) the base and rent fees payable to our Manager as described above under "— Fees and Expenses — Management and Administrative Services — Base and Fees" and "— Fees and Expenses — Administrative Agency Fees." Similarly, sales fees paid to BBAM under our servicing agreements in respect of aircraft dispositions are credited toward (and thereby reduce) the fee payable to our Manager in connection with dispositions as described above under "— Fees and Expenses — Origination and Disposition Services." See "Servicing Agreements — Servicing Fees."

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Break Fees

Our Manager is entitled to one-third of the value of any break, termination or other similar fees received by us (with such value to be reduced by any third-party costs incurred by or on behalf of us or by our Manager on behalf of us in the transaction to which the fee relates) in connection with any investment or proposed investment to be made by us in any aircraft or other aviation assets. We did not pay any break fees to our Manager in 2013, 2012 and 2011.

Expenses of the Manager

We pay or reimburse our Manager:

- quarterly payments of $2.5 million, subject to an annual adjustment indexed to the consumer price index applicable to the previous year, to our Manager to defray expenses.

We refer to this foregoing amount as the “management expense amount.” The management expense amount is subject to adjustment by notice from our Manager and the approval of the independent directors on our board of directors.

- for all our costs paid for us by our Manager (other than remuneration and certain expenses in relation to our Manager’s core management team and our Manager’s corporate overhead), including the following items which are not covered by the management expense amount:

  - directors’ fees for the directors on our board of directors and our subsidiaries,

  - directors’ and officers’ insurance for our and our subsidiaries’ directors and officers,

- travel expenses of the directors (including flights, accommodation, taxis, entertainment and meals while traveling) to attend any meeting of the board of our company,

-

registration and listing fees in connection with the listing of our shares on the NYSE and registering the shares under the Securities Act

- fees and expenses relating to any equity or debt financings we enter into in the future,
- fees and expenses of the depositary for our ADSs,
- costs and expenses related to insuring our aircraft and other aviation assets, including all fees and expenses of insurance advisors and brokers,

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- costs incurred in connection with organizing and hosting our annual meetings or other general meetings of our company,
- costs of production and distribution of any of our security holder communications, including notices of meetings, annual and other reports, press releases, and any prospectus, disclosure statement, offering memorandum or other form of offering document,
- website development and maintenance,
- travel expenses of the core management team and other personnel of BBAM and its affiliates (including flights, accommodation, taxis, entertainment and meals while traveling) related to sourcing, negotiating and conducting transactions on our behalf and attending any meeting of the board or our company,
- external legal counsel,
- fees of third party consultants, accounting firms and other professionals,
- external auditor's fees, and
- internal auditor's fees.
- for all taxes, costs, charges and expenses properly incurred by our Manager in connection with
- the provision of ancillary management and administrative services,
- the engagement of professional advisors, attorneys, appraisers, specialist consultants and other experts as requested by us from time to time; or which our Manager considers reasonably necessary in providing the services and discharging its duties and other functions under the management agreement, including, without limitation, the fees and expenses of professional advisors relating to the purchase and sale of aircraft and other aviation assets.

Term and Termination

On December 28, 2012, in connection with the sale of our 15% interest in BBAM LP, the Management Agreement was amended to extend the term to December 28, 2022, with an automatic five year renewal period unless Fly makes a payment to the Manager equal to $8.0 million, subject to potential future adjustment.

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We may terminate our Manager's appointment immediately upon written notice if but only if:

- BBAM LP ceases to hold (directly or indirectly) more than 50% of the voting equity of, and economic interest in our 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;
- 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 our 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 our Manager from performing the services and the situation is not remedied within 90 days;
- our Manager voluntarily commences or files any petition seeking bankruptcy, insolvency or receivership relief; consents to the institution of, or fails to contest the filing of any bankruptcy or insolvency filing; files an answer admitting the material allegations filed against it in any such proceeding; 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; or
- 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.

Our Manager may terminate the management agreement immediately upon written notice if;

- we fail to make any payment due under the management agreement to our Manager within 15 days after the same becomes due;

- we otherwise materially breach the management agreement and fail to remedy the breach within 90 days of receiving written notice from our Manager requiring us to do so; or

- if the directors in office on December 28, 2012 and any successor to any such director who was nominated or selected by a majority of the current directors and our Manager appointed directors, cease to constitute at least a majority of the board (excluding directors appointed by our Manager). (See "Board Appointees".)

If our Manager terminates the management agreement upon the occurrence of any of the above, we will pay our Manager a fee as follows: (i) during the first five year term, an amount equal to three times the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date; (ii) during the second five year term, an amount an amount equal to two times the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date; (iii) during the third five year term, an amount an amount equal to the aggregate management expense amount in respect of the last complete fiscal year prior to the termination date.

Upon the termination of the management agreement, we will redeem all of the manager shares for their nominal value.

Conflicts of Interest

Nothing in the management agreement restricts BBAM or any of its affiliate or associates from:

- dealing or conducting business with us, our Manager, any affiliate or associate of BBAM or any shareholder of ours;
- being interested in any contract or transaction with us, our Manager, any affiliate or associate of BBAM or any shareholder of ours;
- acting in the same or similar capacity in relation to any other corporation or enterprise;
- holding or dealing in any of our shares or other securities or interests therein; or
- co-investing with us.

Acting in Interests of Shareholders

Without limiting the clause set out above, in performing the services under the management agreement, our Manager shall act in the best interests of our shareholders. If there is a conflict between our shareholders' interests and our Manager's interests, our Manager shall give priority to our shareholders' interests.

Indemnification and Limitation of Liability

We assume liability for, and have agreed to indemnify our Manager and any person to whom our Manager delegates its obligations in compliance with the management agreement, and their respective members, shareholders, managers, directors, officers, employees and agents, on an after-tax basis against, any losses and liabilities (collectively, "Losses") that arise out of or in connection with the doing or failing to do anything in connection with the management agreement or on account of any bona fide investment decision made by the indemnified person, except insofar as any such loss is finally adjudicated to have been caused directly by the indemnified person from gross negligence, fraud or dishonesty, or willful misconduct in respect of the obligation to apply the standard of care under the management agreement. Our Manager and each other indemnified person is not liable to us for any Losses suffered or incurred by us arising out of or in connection with the indemnified person doing or failing to do anything in connection with the management agreement or on account of any bona fide investment decision made by the indemnified person, except insofar as any such Loss is finally adjudicated to have been caused directly by the gross negligence, fraud or dishonesty of, or willful misconduct in respect of the obligation to apply the standard of care under the management agreement by the indemnified person.

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Independent Advice

For the avoidance of doubt, nothing in the management agreement limits the right of the members of our board of directors to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at our expense on any matter connected with the discharge of their responsibilities, in accordance with the procedures and subject to the conditions set out in our corporate governance principles from time to time.

SERVICING AGREEMENTS

Our subsidiaries have entered into servicing agreements with BBAM relating to the aircraft owned by them. The principal services provided by BBAM pursuant to these servicing agreements relate to:

- lease marketing and remarketing, including lease negotiation;
- collecting rental payments and other amounts due under leases, collecting maintenance payments where applicable, lease compliance and enforcement and delivery and accepting redelivery of aircraft under lease;
- implementing aircraft dispositions;
- monitoring the performance of maintenance obligations of lessees under the leases;
- procuring legal and other professional services with respect to the lease, sale or financing of the aircraft, any amendment or modification of any lease, the enforcement of our rights under any lease, disputes that arise as to any aircraft or for any other purpose that BBAM reasonably determines is necessary in connection with the performance of its services;
- periodic reporting of operational information relating to the aircraft, including providing certain reports to lenders and other third parties; and
- certain aviation insurance related services.

B&B Air Funding – Servicing Agreement

The servicing agreement between B&B Air Funding and BBAM provides that we pay to BBAM:

- a base fee of $150,000 per month, which will increase by 0.01% of the maintenance-adjusted base value (at the time of acquisition) of each additional aircraft acquired into B&B Air Funding that is not an aircraft in our Initial Portfolio; and

- a rent fee equal to 1.0% of the aggregate amount of basic rent due for all or any part of a month for any aircraft belonging to our Initial Portfolio, plus 1.0% of the aggregate amount of basic rent actually paid for all or any part of a month for any such aircraft.

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In 2013, 2012 and 2011, we paid BBAM servicing fees totaling $3.5 million, $3.8 million and $4.1 million, respectively.

BBAM is also entitled to a disposition fee for each sale of an aircraft equal to 1.5% of the aggregate gross proceeds. In 2013, we paid disposition fees to BBAM of approximately $20,000 in connection with the sale of two aircraft. In 2012, we paid disposition fees to BBAM of $0.7 million in connection with the sale of three aircraft. In 2011, we paid disposition fees to BBAM totaling $0.6 million in connection with the sale of one aircraft.

The agreement may be terminated in the case of certain events, including BBAM LP ceasing to own at least 50% of the voting or economic interest in our Servicer or if we cease to own at least 5% of BBAM LP. If either of the above servicer termination events occurs, B&B Air Funding, with the prior consent of the policy provider under the Securitization (or the policy provider alone, if an event of default under the Securitization indenture has occurred and is continuing) may substitute BBAM with a replacement servicer upon receipt of a rating agency confirmation from each rating agency. A servicer termination event under the Servicing Agreement does not give rise to an event of default under the Securitization indenture.

In addition to the servicing agreement described above, B&B Air Funding has entered into an administrative services agreement with our Manager to act as its administrative agent and to perform various administrative services, including maintaining its books and records, procuring and supervising legal counsel, accounting, tax and other advisers. In consideration for such services, B&B Air Funding pays the administrative agent an annual fee of $750,000, subject to increases tied to a cost of living index, and will reimburse it for its expenses. For each of 2013, 2012 and 2011, we incurred administrative services fees totaling $0.8 million.

B&B Air Acquisition – Servicing Agreement

Until August 9, 2012, B&B Air Acquisition paid BBAM a servicing fee of $20,000 per month plus 3.5% of the monthly rents actually collected. In addition, BBAM received a sales fee equal to 1.5% of the cash proceeds collected with respect to the sale of any aircraft. In connection with the repayment of the B&B Air Acquisition Facility, the servicing agreement with BBAM was terminated on August 9, 2012. Fees paid to BBAM pursuant to this servicing agreement in 2012 and 2011 amounted to $1.7 million and $3.0 million, respectively.

Term Loan and Fly Acquisition II Facility – Servicing Agreements

Under the Term Loan and Fly Acquisition II Facility, each of our servicing agreements with BBAM provide that we pay BBAM:

- A servicing fee equal to 3.5% of the monthly rents actually collected;
- An administrative fee of $1,000 per month per aircraft;
- An administrative fee of $10,000 per month; and
- A disposition fee equal to 1.5% of the gross consideration collected with respect to any sale of the subject aircraft.

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All Other Aircraft Acquired – Servicing Agreement

We have entered into servicing agreements with affiliates of BBAM with respect to the acquisition of other aircraft including the GAAM Portfolio. Under the terms of these servicing agreements, we will pay the servicers:

- A servicing fee equal to 3.5% of the monthly rents actually collected;
- An administrative fee of $1,000 per month per aircraft; and
- A disposition fee equal to 1.5% of the gross consideration collected with respect to any sale of the subject aircraft.

These servicing agreements can generally be terminated by us in the case of a material breach by the servicer that is not cured within 30 days of written notice, the bankruptcy or insolvency of the servicer or if the servicer ceases to be actively involved in the aircraft leasing business. Some servicing agreements require the consent of the lender providing financing for the acquisition of the relevant aircraft prior to termination. It is our intention to enter into substantially similar servicing agreements with respect to all future aircraft we acquire.

Servicing and administrative fees paid to BBAM pursuant to the servicing agreements under the Term Loan, Fly Acquisition II Facility and for all other aircraft acquired in 2013, 2012 and 2011 amounted to $9.6 million, $8.0 million and $1.7 million, respectively.

In 2013, a disposition fee of $2.0 million was paid to BBAM in connection with the sale of eight aircraft. In 2012, a disposition fee of $0.4 million was paid to BBAM in connection with the sale of an aircraft.

ITEM 8. FINANCIAL INFORMATION

Consolidated statements and other financial information.

See Item 18 below for information regarding our consolidated financial statements and additional information required to be disclosed under this Item. No significant changes have occurred since the date of the annual financial statements included in this Annual Report.

Legal Proceedings

We have not been involved in any legal proceedings that may have, or have had, a significant effect on our business, financial position, results of operations or liquidity. We are not aware of any proceedings that are pending or threatened that may have a material effect on our business, financial position, results of operations or liquidity. From time to time, we may be subject to legal proceedings and claims in the ordinary course of business, principally claims relating to incidents involving aircraft and claims involving the existence or breach of a lease, sale or purchase contract. We expect the claims related to incidents involving our aircraft would be covered by insurance, subject to customary deductions. However, these claims could result in the expenditure of significant financial and managerial resources, even if they lack merit and if determined adversely to us and not covered by insurance could result in significant uninsured losses.

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Dividend

The table below shows the quarterly dividends we have paid and the total cash requirement for each dividend payment.

Dividend payment date	Dividends paid **per share**	Total cash outlay
2013:		
November 19, 2013	$ 0.22	$ 9.1 million
August 20, 2013	$ 0.22	$ 9.1 million
May 20, 2013	$ 0.22	$ 6.2 million
February 20, 2013	$ 0.22	$ 6.2 million
2012:		
November 20, 2012	$ 0.22	$ 5.7 million
August 20, 2012	$ 0.22	$ 5.7 million
May 21, 2012	$ 0.20	$ 5.1 million
February 17, 2012	$ 0.20	$ 5.1 million
2011:		
November 21, 2011	$ 0.20	$ 5.1 million
August 19, 2011	$ 0.20	$ 5.1 million
May 20, 2011	$ 0.20	$ 5.1 million
February 18, 2011	$ 0.20	$ 5.3 million

On January 9, 2014, we declared a dividend of $0.25 per share or approximately $10.3 million payable on February 20, 2014 to shareholders of record at January 31, 2014.

We may not be able to pay future dividends at the current level or at all, if, among other things, we do not have sufficient cash to pay the intended dividends or if our financial performance does not achieve expected results. To the extent that we do not have sufficient cash to pay dividends, we do not intend to borrow funds to pay dividends.

The declaration and payment of future dividends to holders of our common shares will be at the discretion of our board of directors and will depend on many factors, including our financial condition, cash flows, legal requirements and other factors as our board of directors deems relevant.

As a Bermuda company, our ability to pay dividends is subject to certain restrictions imposed by Bermuda law.

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ITEM 9. THE OFFER AND LISTING

Our ADSs, each representing one common share, are traded on the New York Stock Exchange under the symbol "FLY."

The following table sets forth the annual high and low market prices for our ADSs on the New York Stock Exchange:

	High	Low
2009	10.29	2.50
2010	13.99	8.76
2011	14.58	10.00
2012	14.17	11.06
2013	17.37	12.51

The following table sets forth the quarterly high and low market prices for our ADSs on the New York Stock Exchange for the two most recent financial years:

	High	Low
2012:		
Quarter ending March 31, 2012	14.17	12.01
Quarter ending June 30, 2012	13.76	11.40
Quarter ending September 30, 2012	13.63	12.25
Quarter ending December 31, 2012	13.95	11.06
2013:		
Quarter ending March 31, 2013	16.50	12.51
Quarter ending June 30, 2013	17.37	14.63
Quarter ending September 30, 2013	17.30	12.63
Quarter ending December 31, 2013	16.34	13.31

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The following table sets forth the monthly high and low market prices for our ADSs on the New York Stock Exchange for the most recent six months:

	High	Low
2013:		
September 2013	$14.38	$12.70
October 2013	14.94	13.31
November 2013	15.44	14.22
December 2013	16.34	14.98
2014:		
January 2014	16.59	14.93
February 2014	15.54	14.36

ITEM 10. ADDITIONAL INFORMATION

Share Capital

Not applicable.

Memorandum and Articles of Association

Pursuant to the instructions to Form 20-F, the information called for by this section of Item 10 is contained in our Registration Statement on Form F-1, as filed with the SEC on September 12, 2007, as subsequently amended, under the heading "Description of Share Capital," and is hereby incorporated by reference.

Material Contracts

The following is a list of material contracts, other than contracts entered into in the ordinary course of business, to which we or any of our subsidiaries is a party, preceding the date of this Annual Report:

1) Servicing Agreement, dated as of October 2, 2007, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation. See Item 7 “Related Party Transactions — Servicing Agreement.”

2) Administrative Services Agreement, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, AMBAC Assurance Corporation, Babcock & Brown Air Management Co. Limited and Babcock & Brown Air Funding I Limited. See Item 7 “Related Party Transactions — Administrative Services Agreements.”

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3) Trust Indenture, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, BNP Paribas, AMBAC Assurance Corporation and Babcock & Brown Air Funding I Limited. See Item 5 “Liquidity and Capital Resources — Financing — Securitization.”

4) Security Trust Agreement, dated as of October 2, 2007, between Deutsche Bank Trust Company Americas, and Babcock & Brown Air Funding I Limited. See Item 5 “Liquidity and Capital Resources — Financing — Securitization.”

5) Amendment No. 1 to Servicing Agreement among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation dated April 29, 2010. See Item 7 “Related Party Transactions — Servicing Agreement.”

6) Purchase Agreement dated as of July 29, 2011, among Fly Leasing Limited, the Sellers identified therein, Global Aviation Asset Management Pty. Ltd. as trustee of The Global Aviation Asset Management Unit Trust and Kafig Pty. Ltd. See Item 5 “Overview.”

7) Loan Agreement dated as of November 14, 2007, among Global Aviation Holdings Fund Limited, GAHF (Ireland) Limited, Caledonian Aviation Holdings Limited and Norddeutsche Landesbank Girozentrale. See Item 5 “Liquidity and Capital Resources—Financing—Nord LB Facility.”

8) Form of Loan Agreement among Hobart Aviation Holdings Limited, Norddeutsche Landesbank Girozentrale and each borrower thereof. See Item 5 “Liquidity and Capital Resources—Financing—Nord LB Facility.”

9) Form of Servicing Agreement among BBAM LLC, BBAM Aviation Services Limited and each company thereof. See Item 7 “Related Party Transactions—Servicing Agreement.”

10) Aircraft Mortgage and Security Agreement dated as of August 9, 2012, among Fly Funding II S.A.R.L., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, The Initial Intermediate Lessees, The Initial Lessor Subsidiaries, The Additional Grantors Referred to Therein and Wells Fargo Bank Northwest, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Term Loan.”

11) Securities Purchase Agreement dated November 30, 2012 by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein.

12) Purchase Agreement dated November 30, 2012 by and among BBAM Limited Partnership, Summit Aviation Partners LLC, Fly- BBAM Holdings, Ltd., Summit Aviation Management Co., Ltd. and persons identified

therein.*

13) First Amendment to Purchase Agreement dated December 28, 2012, by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein.

14) Amended and Restated Fly Leasing Limited Management Agreement between Fly Leasing Limited and Fly Leasing Management Co. Limited dated December 28, 2012. See Item 7 “Related Party Transactions — Management Agreement.”

15) Registration Rights Agreement dated as of December 28, 2012, by and among Fly Leasing Limited and each shareholder identified therein.

16) Amended and Restated Servicing Agreement dated as of January 24, 2013, by and among BBAM US LP, BBAM Aviation Services Limited and Fly Leasing Limited. See Item 7 “Related Party Transactions — Servicing Agreement.”

17) Amended and Restated Senior Secured Credit Agreement dated as of July 3, 2013 among Fly Acquisition II Limited, the Subsidiary Guarantors Party thereto, the Lenders Party thereto, and Deutsche Bank Trust Company Americas, as Security Trustee and as Administrative Agent. See Item 5 “Liquidity and Capital Resources — Financing — Fly Acquisition II Facility.”

18) Amended and Restated Term Loan Agreement dated as of November 21, 2013 among Fly Funding II S.A.R.L., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, each other Guarantor Party referred to therein, the Lenders identified therein, Citibank, N.A., and Well Fargo Bank Northwest, National Association. See Item 5 “Liquidity and Capital Resources – Financing – Term Loan.”

19) Indenture dated December 11, 2013 between Fly Leasing Limited and Wells Fargo Bank, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Unsecured Borrowing.”

20) First Supplemental Indenture dated December 11, 2013 between Fly Leasing Limited and Wells Fargo Bank, National Association. See Item 5 “Liquidity and Capital Resources—Financing—Unsecured Borrowing.”

* Confidential treatment has been requested with certain portions of this exhibit. The exhibit omits the information subject to this confidential treatment request. The omitted information has been filed separately with the Securities and Exchange Commission.

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Documents On Display

Documents concerning us that are referred to herein may be inspected at our principal executive headquarters at West Pier, Dun Laoghaire, County Dublin, Ireland. You may read and copy these documents, including the related exhibits and schedules, and any documents we file with the SEC without charge at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Copies of these documents are also available at the SEC's website, http://www.sec.gov. Copies of the material may be obtained by mail from the public reference branch of the SEC at the address listed above at rates specified by the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our internet address is www.flyleasing.com. However, the information on our website is not a part of this Annual Report.

Exchange Controls

We are not aware of any governmental laws, decrees or regulations, including foreign exchange controls, in Bermuda that restrict the export or import of capital, including the availability of cash and cash equivalents for our use, or that affect the remittance of dividends, interest or other payments to non-resident holders of our securities.

We are not aware of any limitation of non-resident or foreign owners to hold or vote our securities imposed by the laws of Bermuda of our memorandum of association or bye-laws.

Taxation

Irish Tax Considerations

The following discussion reflects the material Irish tax consequences applicable to both Irish and Non-Irish Holders (as defined below) of the acquisition, ownership and disposition of our shares. This discussion is based on Irish tax law, statutes, treaties, regulations, rulings and decisions all as of the date of this Annual Report. Taxation laws are subject to change, from time to time, and no representation is or can be made as to whether such laws will change, to what impact, if any, such changes will have on the summary contained in this Annual Report. Proposed amendments may not be enacted as proposed, and legislative or judicial changes, as well as changes in administrative practice, may

modify or change statements expressed herein.

This summary is of a general nature only. It does not constitute legal or tax advice nor does it discuss all aspects of Irish taxation that may be relevant to any particular holder of our shares. The Irish tax treatment of a holder of our shares may vary depending upon such holder's particular situation, and holders or prospective purchasers of our shares are advised to consult their own tax advisors as to the Irish or other tax consequences of the purchase, ownership and disposition of our shares.

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For the purposes of this summary of Irish tax considerations:

- An "Irish Holder" is a holder of our shares that (1) beneficially owns our shares by virtue of holding the related ADSs evidenced by the relevant American Depositary Receipt or ADR; (2) in the case of individual holders, is resident or ordinarily resident in Ireland under Irish taxation laws; and (3) in the case of a holder that is a company, is resident in Ireland under Irish taxation laws and is not also a resident of any other country under any double taxation agreement entered into by Ireland.

- A "Non-Irish Holder" is a holder of our shares that is not an Irish Holder and has never been an Irish Holder.

- A "US Holder" is a holder of our shares that: (1) beneficially owns our shares by virtue of holding the related ADSs evidenced by the relevant ADR; (2) is a resident of the United States for the purposes of the Ireland/United States Double Taxation Convention; (3) in the case of an individual holder, is not also resident or ordinarily resident in Ireland for Irish tax purposes; (4) in the case of a corporate holder, is not resident in Ireland for Irish tax purposes and is not ultimately controlled by persons resident in Ireland; and (5) is not engaged in any trade or business and does not perform independent personal services through a permanent establishment or fixed base in Ireland.

- "Relevant Territory" is defined as a country with which Ireland has a double tax treaty, (which includes the United States), or a member state of the European Union other than Ireland.

Irish Dividend Withholding Tax

Dividends that we pay on our shares generally are subject to a 20% dividend withholding tax, or DWT. DWT may not apply where an exemption is permitted by legislation or treaty and where all necessary documentation has been submitted to the ADS depository prior to the payment of the dividend.

Irish Holders. Individual Irish Holders are subject to DWT on any dividend payments that we make. Corporate Irish Holders will generally be entitled to claim an exemption from DWT by delivering a declaration to us in the form prescribed by the Irish Revenue Commissioners.

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Non-Irish Holders. Shareholders who are individuals resident in a Relevant Territory and who are not resident or ordinarily resident in Ireland may receive dividends free from DWT where the shareholder has provided the ADS depository with the relevant declaration and residency certificate required by Irish legislation. Corporate shareholders that are not resident in Ireland and

- who are ultimately controlled by persons resident in a Relevant Territory and who are not ultimately controlled by persons not resident in a Relevant Territory; or
- who are resident in a Relevant Territory and not controlled by Irish residents; or
- whose principal class of shares or the principal class of shares of whose 75% or greater parents are substantially and regularly traded on a recognized stock exchange in a Relevant Territory; or which are wholly owned by two or more companies, each of whose principal class of shares are substantially and regularly traded on a recognized stock exchange in a Relevant Territory

may receive dividends free from DWT where they provide the ADS depository with the relevant documentation required by Irish law.

Income Tax

Irish and Non-Irish Holders

Irish Holders. Individual Irish Holders are subject to income tax on the gross amount of any dividend (*i.e.*, the amount of the dividend received plus any DWT withheld), at their marginal rate of tax (currently either 20% or 41% depending on the individual's circumstances). Individual Irish Holders will be able to claim a credit against their resulting income tax liability in respect of any DWT. Individual Irish Holders may, depending on their circumstances, be subject to the Universal Social Charge with effect from 1 January 2011. The Universal Social Charge will apply to all income where an individual has income in excess of €10,036 . The Universal Social Charge is charged at three different rates: 2% on the first €10,036; 4% on the next €5,980; and 7% on the aggregate income in excess of €16,016. There is also a surcharge of 3% on individuals in receipt of non-PAYE income that exceeds €100,000 in a year.

Currently, individual Irish Holders may also, depending on their circumstances, be subject to Pay Related Social Insurance (PRSI) contributions of up to 4% in respect of dividend income.

Corporate Irish Holders generally will not be subject to Irish tax in respect of dividends received.

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Non-Irish Holders. Non-Irish Holders will not have an Irish income tax liability on dividends from us if the shareholder is neither resident nor ordinarily resident in Ireland and is:

- an individual resident in a Relevant Territory; or
- a corporation that is ultimately controlled by persons resident in a Relevant Territory; or
- a corporation whose principal class of shares (or whose 75% or greater parent's principal class of shares) are substantially and regularly traded on a recognized stock exchange in a Relevant Territory; or
- a corporation that is wholly owned by two or more corporations each of whose principal class of shares is substantially and regularly traded on a recognized stock exchange in a Relevant Territory; or
- otherwise entitled to an exemption from DWT.

If a Non-Irish Holder is not so exempted, such a shareholder will be liable for Irish income tax (currently 20%) on dividends received from us, but will be entitled to a credit for DWT withheld.

Taxation of Capital Gains

Irish Holders. Irish Holders that acquire shares will generally be considered, for Irish tax purposes, to have acquired their shares at a base cost equal to the amount paid for shares. On subsequent dispositions, shares acquired at an earlier time will generally be deemed, for Irish tax purposes, to be disposed of on a "first in first out" basis before shares acquired at a later time. Irish Holders that dispose of their shares will be subject to Irish capital gains tax (CGT) to the extent that the proceeds realized from such disposition exceed the base cost of the common shares or ADSs disposed of and any incidental expenses. Disposals made on or after 6 December 2012 are subject to CGT at 33%. Unutilized capital losses from other sources generally can be used to reduce gains realized on the disposal of our shares.

An annual exemption allows individuals to realize chargeable gains of up to €1,270 in each tax year without giving rise to CGT. This exemption is specific to the individual and cannot be transferred between spouses. Irish Holders are required, under Ireland's self-assessment system, to file a tax return reporting any chargeable gains arising to them in a

particular tax year. When disposal proceeds are received in a currency other than euro they must be translated into euro amounts to calculate the amount of any chargeable gain or loss. Similarly, acquisition costs denominated in a currency other than the euro must be translated at the date of acquisition to euro amounts. Irish Holders that realize a loss on the disposition of our shares generally will be entitled to offset such allowable losses against capital gains realized from other sources in determining their CGT liability in a year. Allowable losses which remain unrelieved in a year generally may be carried forward indefinitely for CGT purposes and applied against capital gains in future years. Transfers between spouses will not give rise to any chargeable gain or loss for CGT purposes.

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Non-Irish Holders. A person who is not resident or ordinarily resident in Ireland is not subject to Irish capital gains tax on the disposal of our shares.

Irish Capital Acquisitions Tax

A gift or inheritance of our shares will be within the charge to capital acquisitions tax (CAT) where the donor/deceased or the beneficiary is resident or ordinarily resident in Ireland at the date of the gift/inheritance or to the extent that the property of which the gift or inheritance consists is situated in Ireland at the relevant date. Special rules with regard to residence apply where an individual is not domiciled in Ireland. CAT is charged at a flat rate of 33% for gifts or inheritances taken on or after 6 December 2012 and there are various thresholds before the tax becomes applicable. Gifts and inheritances between spouses are not subject to capital acquisitions tax.

The Estate Tax Convention between Ireland and the United States generally provides for Irish CAT paid on inheritances in Ireland to be credited, in whole or in part, against tax payable in the United States, in the case where an inheritance of shares is subject to both Irish CAT and US federal estate tax. The Estate Tax Convention does not apply to Irish CAT paid on gifts.

Irish Stamp Duty

No Irish stamp or capital duty shall apply to the issuance of the common shares. Transfers of the common shares would not ordinarily be subject to Irish stamp duty, unless the transfer was related to Irish property or any matter or thing done or to be done in Ireland. Transfers of ADSs are exempt from Irish stamp duty when the ADSs are dealt in on the New York Stock Exchange, NASDAQ National Market or any recognized stock exchange in the United States or Canada and the transfer does not relate to Irish property or any matter or thing done or to be done in Ireland.

Irish Corporation Tax

In general, Irish-resident companies pay corporation tax at the rate of 12.5% on trading income and 25% on non-trading income. Fly and its Irish-tax-resident subsidiaries intend to conduct business so that they carry on a trading business for Irish tax purposes. Non-trading income, including certain categories of interest income, will be

subject to corporation tax at the rate of 25.0%.

U.S. Federal Income Tax Considerations

The following is a general discussion of the U.S. federal income taxation of us and of certain U.S. federal income tax consequences of acquiring, holding or disposing of the shares by U.S. Holders (as defined below) and information reporting and backup withholding rules applicable to both U.S. and Non-U.S. Holders (as defined below). It is based upon the U.S. Internal Revenue Code of 1986, as amended (the "Code"), issued and proposed income tax regulations ("Treasury Regulations") promulgated thereunder, legislative history, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change or differing interpretations (possibly with retroactive effect). In addition, the application and interpretation of certain aspects of the passive foreign investment company ("PFIC") rules, referred to below, require the issuance of regulations which in many instances have not been promulgated and which may have retroactive effect. There can be no assurance that any of these regulations will be enacted or promulgated, and if so, the form they will take or the effect that they may have on this discussion. This discussion is not binding on the U.S. Internal Revenue Service ("IRS") or the courts. This summary does not address any aspect of U.S. federal non-income tax laws, such as U.S. federal estate and gift tax laws, and does not purport to address all of the U.S. federal income tax consequences applicable to us or to all categories of investors, some of whom may be subject to special rules including, without limitation, dealers in securities, commodities, or foreign currencies, financial institutions or "financial services entities," insurance companies, holders of shares held as part of a "straddle," "hedge," "constructive sale," "conversion transaction," or other integrated transaction for U.S. federal income tax purposes, U.S. persons whose "functional currency" is not the U.S. dollar, persons who have elected "mark-to-market" accounting, persons who have not acquired their shares upon their original issuance, or in exchange for consideration other than cash, persons who hold their shares through a partnership or other entity which is a pass-through entity for U.S. federal income tax purposes, or persons for whom a share is not a capital asset, and persons holding, directly indirectly or constructively, 5% or more of our ADSs or underlying shares. The tax consequences of an investment in our shares will depend not only on the nature of our operations and the then-applicable U.S. federal tax principles, but also on certain factual determinations that cannot be made at this time, and upon a particular investor's individual circumstances. No rulings have been or will be sought from the IRS regarding any matter discussed herein.

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For purposes of this discussion, a “U.S. Holder” is (1) a citizen or resident of the United States; (2) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any political subdivision thereof; (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (4) a trust which (a) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person. A “Non-U.S. Holder” is a beneficial owner of our shares that is not a U.S. Holder and who, in addition, is not (1) a partnership or other fiscally transparent entity; (2) an individual present in the United States for 183 days or more in a taxable year who meets certain other conditions; or (3) subject to rules applicable to certain expatriates or former long-term residents of the United States. This summary does not purport to be a comprehensive description of all of the U.S. federal income tax considerations that may be relevant to a decision to purchase the shares. This summary does not describe any tax consequences arising under the laws of any state, locality or taxing jurisdiction other than the United States. For U.S. tax purposes holders of our ADSs are treated as if they hold the underlying common shares represented by the ADSs.

Taxation of U.S. Holders of Shares

We expect that we will be treated as 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, as summarized below. 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. If we are currently or were to become a PFIC, U.S. Holders of shares would be subject to special rules and a variety of potentially adverse tax consequences under the Code.

Tax Consequences of PFIC Status. The Code provides special rules regarding certain distributions received by U.S. persons with respect to, and sales, exchanges and other dispositions, including pledges, of shares of stock in a PFIC. We will be treated as a PFIC if (i) 75% or more of our gross income is passive income or (ii) at least 50% of our assets are held for the production of, or produce, passive income in a taxable year, based on a quarterly average and generally by value, including our pro rata share of the gross income or assets of any company, U.S. or foreign, in which we are considered to own directly or indirectly 25% or more of the shares by value. Passive income for this purpose generally includes, among other things, dividends, interest, rents, royalties, gains from commodities and securities transactions, and gains from assets that produce passive income. Assuming we are a PFIC, our dividends will not qualify for the reduced rate of U.S. federal income tax that applies to qualified dividends paid to non-corporate U.S. Holders. Thus, dividends (as determined for U.S. federal income tax purposes) will be taxed at the rate applicable to ordinary income of the U.S. Holder.

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 do), 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 gain as long-term capital gain, subject to a separate voluntary election to defer payment of taxes, which deferral is subject to an interest charge. If a QEF election is made, U.S. Holders will not be taxed again on our distributions, which will be treated as return of capital for U.S. federal income tax purposes. Instead, distributions will reduce the U.S. Holder’s basis in our shares and, to the extent in excess of such basis, will be treated as gain from the sale or exchange of a capital asset.

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U.S. Holders may, instead of making a QEF election, make a "mark-to-market" election, recognizing as ordinary income or loss each year an amount equal to the difference, as of the close of the taxable year, between the fair market value of the shares and the U.S. Holder's adjusted tax basis in the shares. Losses would be allowed only to the extent of net mark-to-market gain previously included by the U.S. Holder under the election for prior taxable years. If the mark-to-market election were made, then the rules set forth below would not apply for periods covered by the election. The U.S. Holder's basis in the shares will be adjusted to reflect the amounts included or deducted pursuant to the election. A mark-to-market election is only available if our shares meet trading volume requirements on qualifying exchange.

Because we are a PFIC, if a U.S. Holder does not make a QEF election or mark-to-market election, then the following special rules will apply:

- Excess distributions by us to a U.S. Holder would be taxed in a special way. "Excess distributions" are amounts received by a U.S. Holder with respect to our shares in any taxable year that exceed 125% of the average distributions received by such U.S. Holder from us in the shorter of either the three previous years or such U.S. Holder's holding period for shares before the present taxable year. Excess distributions must be allocated ratably to each day that a U.S. Holder has held our shares. A U.S. Holder must include amounts allocated to the current taxable year in its gross income as ordinary income for that year. A U.S. Holder must pay tax on amounts allocated to each prior taxable year in which we were a PFIC at the highest rate in effect for that year on ordinary income and the tax is subject to an interest charge at the rate applicable to deficiencies for income tax. The preferential U.S. federal income tax rates for dividends and long-term capital gain of individual U.S. Holders (as well as certain trusts and estates) would not apply, and special rates would apply for calculating the amount of the foreign tax credit with respect to excess distributions.

- The entire amount of gain realized by a U.S. Holder upon the sale or other disposition of shares will also be treated as an excess distribution and will be subject to tax as described above.

- The tax basis in shares that were acquired from a decedent who was a U.S. Holder would not receive a step-up to fair market value as of the date of the decedent's death but would instead be equal to the decedent's basis, if lower than fair market value.

If a corporation is a PFIC for any taxable year during which a U.S. Holder holds shares in the corporation, then the corporation generally will continue to be treated as a PFIC with respect to the U.S. Holder's shares, even if the corporation no longer satisfies either the passive income or passive assets test described above, unless the U.S. Holder terminates this deemed PFIC status by electing to recognize gain, which will be taxed under the excess distribution rules as if such shares had been sold on the last day of the last taxable year for which the corporation was a PFIC.

The QEF election is made on a shareholder-by-shareholder basis and can be revoked only with the consent of the IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621 to a timely filed U.S. federal income tax return or, if not required to file an income tax return, by filing such form with the IRS. Even if a QEF election is not made, a shareholder in a PFIC who is a U.S. Holder must file a completed IRS Form 8621 every year. We have provided and intend to continue to provide U.S. Holders with all necessary information to enable them to make QEF elections as described above. If any subsidiary is not subject to an election to be treated as a disregarded entity or partnership for U.S. tax purposes then a QEF election would have to be made for each such subsidiary.

You should consult your tax advisor about the PFIC rules, including the advisability of making a QEF election or mark-to-market election.

In addition, a U.S. Holder that is an individual (and, to the extent provided in future regulations, an entity), may be subject to recently-enacted reporting obligations with respect to shares and if the aggregate value of these and certain other "specified foreign financial assets" exceeds $50,000. If required, this disclosure is made by filing Form 8938 with the IRS. Significant penalties can apply if holders are required to make this disclosure and fail to do so. In addition, a U.S. Holder should consider the possible obligation to file a Form TD F 90-22.1—Foreign Bank and Financial Accounts Report as a result of holding shares. Holders are thus encouraged to consult their U.S. tax advisors with respect to these and other reporting requirements that may apply to their acquisition of shares.

Taxation of the Disposition of Shares. A U.S. Holder that has made a QEF election for the first year of its holding period will recognize capital gain or loss in an amount equal to the difference between such U.S. Holder's basis in the shares, which is usually the cost of such shares (as adjusted to take into account any QEF inclusion, which increases the basis of such shares, and any distribution, which decreases the basis of such shares) and the amount realized on a sale or other taxable disposition of the shares. If, as anticipated, the shares are publicly traded, a disposition of shares will be considered to occur on the "trade date," regardless of the U.S. Holder's method of accounting. If a QEF election has been made, capital gain from the sale, exchange or other disposition of shares held more than one year is long-term capital gain and is eligible for a maximum 20% rate of taxation for non-corporate U.S. Holders.

Medicare Tax

Beginning after December 31, 2012, certain U.S. Holders who are individuals, estates or trusts are required to pay a 3.8% Medicare surtax on all or part of that U.S. Holder's "net investment income", which includes, among other items, dividends on, and capital gains from the sale or other taxable disposition of, the shares, subject to certain limitations and exceptions. Prospective investors should consult their own tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the shares.

Information Reporting and Backup Withholding for U.S. Holders

Dividend payments made within the United States with respect to the shares, and proceeds from the sale, exchange or redemption of shares, may be subject to information reporting to the IRS and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. Generally, a U.S. Holder will provide such certification on IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's tax liability, and a U.S. Holder may obtain a refund of any excess amount withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS.

Information Reporting and Backup Withholding for Non-U. S. Holders

Information reporting to the United States and backup withholding to the IRS generally would not be required for dividends paid on our shares or proceeds received upon the sale, exchange or redemption of our shares to Non-U.S. Holders who hold or sell our shares through the non-U.S. office of a non-U.S. related broker or financial institution. Information reporting and backup withholding may apply if shares are held by a Non-U.S. Holder through a U.S., or U.S.-related, broker or financial institution, or the U.S. office of a non-U.S. broker or financial institution and the Non-U.S. Holder fails to establish an exemption from information reporting and backup withholding by certifying such holder's status on IRS Form W-8BEN, W-8ECI or W-8IMY, as applicable.

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The IRS may make information reported to you and the IRS available under the provisions of an applicable income tax treaty to the tax authorities in the country in which you reside. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, if any, provided the required information is timely furnished by you to the IRS. You should consult your own tax advisors regarding the filing of a U.S. tax return for claiming a refund of any such backup withholding. Non-U.S. Holders should consult their tax advisors regarding the application of these rules.

Taxation of Fly and Our Subsidiaries

Although Fly's income is primarily subject to corporate tax in Ireland, part of our income is also subject to taxation in France, Singapore and Australia.

In December 28, 2012, Fly sold its 15% investment in BBAM Limited Partnership ("BBAM LP"). For tax year 2013, Fly did not receive any allocated share of income, deductions and credits from BBAM LP or share of U.S. effectively connected income that would be subject to U.S. federal taxes and as applicable, state and local taxes.

In 2011, Fly made a 57.41% investment in Fly-Z/C Aircraft Holdings LP, a US partnership incorporated in Delaware. The partnership wholly owns an Irish company, Fly-Z/C Aircraft Limited. Fly-Z/C Aircraft Holdings LP and Fly-Z/C Aircraft Limited are not expected to have a deemed U.S. trade or business subject to tax on effectively connected income or a U.S. permanent establishment subject to tax on business profits under Article 7. Fly-Z/C Aircraft Limited is expected to be a qualified resident under the U.S. and Ireland tax treaty.

Effectively connected taxable income means the taxable income of the partnership which is effectively connected (or treated as effectively connected) with the conduct of a trade or business in the United States.

No assurances can be given, however, that we will continue to qualify each year for the benefits of the Irish Treaty or that we will not in the future be treated as maintaining a permanent establishment in the United States or having income that is effectively connected with the conduct of a trade or business in the United States. In order for us and our subsidiaries to be eligible for the benefits of the Irish Treaty for a particular fiscal year, we must each satisfy the requirements of Article 23 (Limitation on Benefits) of the Irish Treaty for that fiscal year. We will be eligible for the benefits of the Irish Treaty if the principal class of our shares is substantially and regularly traded on one or more recognized stock exchanges. Our shares will be considered substantially and regularly traded on one or more

recognized stock exchanges in a fiscal year if: (1) trades in such shares are effected on such stock exchanges in more than de minimis quantities during every quarter; and (2) the aggregate number of shares traded on such stock exchanges during the previous fiscal year is at least 6% of the average number of shares outstanding during that taxable year. We satisfied this requirement for each of the years since our inception. If our shares cease to be treated as regularly traded, then we may no longer be eligible for the benefits of the Irish Treaty. Our subsidiaries that are Irish tax-resident will be eligible for benefits under the Irish Treaty if we hold, directly or indirectly, 50% or more of the vote and value of the subsidiary and we meet the regularly traded test described above.

If we or any subsidiary were not entitled to the benefits of the Irish Treaty, any income that we or that subsidiary earns that is treated as effectively connected with a trade or business in the United States, either directly or through agents, would be subject to tax in the United States at a rate of 35%. In addition, we or that subsidiary would be subject to the U.S. federal branch profits tax at a rate of 30% on its effectively connected earnings and profits, considered distributed from the U.S. business. In addition, if we did not qualify for Irish Treaty benefits, certain U.S. source rental income not connected with a U.S. trade or business could be subject to withholding tax of 30% and certain U.S. source gross transportation income could be subject to a 4% gross transportation tax if an exemption did not apply.

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Bermuda Tax Considerations

We are incorporated under the laws of Bermuda. At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by us or by our shareholders in respect of our shares. We have obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 31, 2035, be applicable to us or to any of our operations or to our shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or is payable by us in respect of real property owned or leased by us in Bermuda.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Interest rate risk is the exposure to loss resulting from changes in the level of interest rates and the spread between different interest rates. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. We are exposed to changes in the level of interest rates and to changes in the relationship or spread between interest rates. Our primary interest rate exposures relate to our lease agreements and our floating rate debt obligations such as the Notes, the Term Loan and other borrowings. As of December 31, 2013, 102 out of our 112 lease agreements require the payment of a fixed amount of rent during the term of the lease, with rent under the remaining 10 leases varying based on LIBOR. Our indebtedness will require payments based on a variable interest rate index such as LIBOR. Therefore, increases in interest rates may reduce our net income by increasing the cost of our debt without any corresponding proportional increase in rents or cash flow from our leases.

We have entered into interest rate swap agreements to mitigate the interest rate fluctuation risk associated with our debt. We expect that these interest rate swaps will significantly reduce the additional interest expense that would be caused by an increase in variable interest rates.

Sensitivity Analysis

The following discussion about the potential effects of changes in interest rates is based on a sensitivity analysis, which models the effects of hypothetical interest rate shifts on our financial condition and results of operations. A sensitivity analysis is constrained by several factors, including the necessity to conduct the analysis based on a single point in time and by the inability to include the extraordinarily complex market reactions that normally would arise from the market shifts. Although the following results of a sensitivity analysis for changes in interest rates may have some limited use as a benchmark, they should not be viewed as a forecast. This forward-looking disclosure also is selective in nature and addresses only the potential impacts on our financial instruments and our variable rate leases. It does not include a variety of other potential factors that could affect our business as a result of changes in interest rates.

Assuming we do not hedge our exposure to interest rate fluctuations, a hypothetical 100 basis-point increase or decrease in our variable interest rates would have increased or decreased our interest expense by $21.7 million, and would have increased or decreased our revenues by $1.8 million and $0.8 million, respectively, on an annualized basis.

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The fair market value of our interest rate swaps is affected by changes in interest rates and credit risk of the parties to the swap. We determine the fair value of our derivative instruments using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the swap counterparty and an evaluation of Fly's credit risk in valuing derivative liabilities. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility. Changes in fair value of the derivatives are recorded as a component of accumulated other comprehensive income, net of a provision for income taxes. As of December 31, 2013, the fair market value of our interest rate swap derivative liabilities, excluding accrued interest, was $23.7 million. A 100 basis-point increase in the interest rate would reduce the fair market value of our derivative liabilities by approximately $19.3 million. A 100 basis-point decrease in the interest rate would increase the fair market value of our derivative liabilities by approximately $16.3 million. As of December 31, 2013, the fair market value of our interest rate swap derivative assets, excluding accrued interest, was $7.6 million. A 100 basis-point increase in the interest rate would increase the fair market value of our derivative assets by approximately $29.7 million. A 100 basis-point decrease in the interest rate would reduce the fair market value of our derivative assets by approximately $27.4 million.

Foreign Currency Exchange Risk

We have a lease pursuant to which we receive the lease payment in Australian dollars. We have entered into a foreign currency derivative related to this lease. Because of our swap agreement, changes in the foreign currency exchange rate would not have a material impact on our cash flows.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

American Depositary Shares

Fees and Expenses

We pay all fees, charges and expenses of the depositary, Deutsche Bank Trust Company Americas (the "Depositary") and any agent of the Depositary pursuant to agreements from time to time between us and the Depositary, except that if a holder elects to withdraw the common shares underlying their American Depositary Receipts, or ADRs, from the Depositary they will be required to pay the Depositary a fee of up to US$5.00 per 100 ADSs surrendered or any portion thereof, together with expenses incurred by the Depositary and any taxes or charges, such as stamp taxes or stock transfer taxes or fees, in connection with the withdrawal.

We will not receive any portion of the fee payable to the Depositary upon a withdrawal of shares from the Depositary. The Depositary will not make any payments to us, and we will not receive any portion of any fees collected by the Depositary.

Dividends and Other Distributions

The Depositary has agreed to pay holders of ADRs the cash dividends or other distributions it or the custodian receives on common shares or other deposited securities, less any fees for withholding taxes, duties and other governmental charges. Dividends on our shares are subject to deduction of Irish withholding taxes, unless an exemption to withholding is available. U.S. holders of ADSs (including U.S. citizens or residents) are entitled to claim a refund of Irish withholding taxes on dividends. Unless a U.S. holder of ADSs otherwise specifies, a customary fee of $0.005 per ADS will be deducted from each dividend paid to such holder so that such dividend may be paid gross of Irish withholding taxes.

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PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of December 31, 2013, an evaluation was conducted under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management of Fly Leasing Limited is responsible for establishing and maintaining adequate internal control over financial reporting for our company. With the participation of our Chief Executive Officer and our Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 using the framework and criteria established in Internal Control — Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Based on this assessment, our management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Our independent auditor, Ernst & Young LLP, a registered public accounting firm, has issued their report which is included below.

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(c) Report of the Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Fly Leasing Limited

We have audited Fly Leasing Limited's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Fly Leasing Limited's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Fly Leasing Limited maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Fly Leasing Limited and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

San Francisco, California

March 14, 2014

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(d) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board has determined that Joseph M. Donovan, the Chairman of our Audit Committee of the Board of Directors, qualifies as an audit committee financial expert and is "independent" as defined under the applicable rules of the New York Stock Exchange. See Item 6 — Directors, Senior Management and Employees.

ITEM 16B. CODE OF ETHICS

We have adopted our (i) Board Governance Document, (ii) Code of Business Conduct and Ethics and (iii) Supplemental Code of Ethics for the Chief Executive Officer and Senior Officers. These documents, along with the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee charters are available under "Corporate Governance" in the About Us section of our website (*www.flyleasing.com).*

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our principal accountants for the year ended December 31, 2013 were Ernst & Young LLP.

The table below summarizes the fees for professional services rendered by Ernst & Young LLP for the audit of our annual financial statements for the years ended December 31, 2013 and 2012 and fees billed for other services rendered (in thousands):

	For the year ended December 31,			
	2013		2012	
	Amount	**%**	**Amount**	**%**
Audit fees[1]	$2,128	76 %	$1,708	68 %
Audit-related fees	200	7 %	85	3 %
Tax fees	466	16 %	727	29 %
All other fees	19	1 %	—	—
Total	$2,813	100%	$2,520	100%

(1) Audit fees include annual audit fees for Fly and its subsidiaries.

The Audit Committee pre-approves all audit and non-audit services provided to the Company by its auditors. The fees incurred in 2013 and 2012 were approved by the Audit Committee.

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ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Issuer Purchases of Equity Securities

On May 1, 2013, our Board of Directors approved a $30.0 million share repurchase program expiring in May 2014. This replaced a similar $25.0 million repurchase program which expired in May 2013. Under this program, we may make share repurchases from time to time in the open market or in privately negotiated transactions. The timing of the repurchases under this program will depend upon a variety of factors, including market conditions, and the program may be suspended or discontinued at any time. We did not repurchase any shares in 2013.

The following table summarizes our repurchases of our common shares during 2012 and 2011 under our 2011 Repurchase Program and prior share repurchase programs:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Repurchased Plan	Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs	
March 1-31, 2011	23,135	$12.43	23,135	—	
September 1-30, 2011	16,293	$10.91	16,293	$ 29.8 million	(1)
October 1-31, 2011	27,240	$10.82	27,240	$ 29.5 million	(1)

(1) The 2011 Repurchase Program has been terminated.

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In addition to the purchases made pursuant to the 2011 Repurchase Program and prior share repurchase programs, we also repurchased 1,035,438 shares held by a third party at a price of $11.93 per share or $12.3 million pursuant to a Stock Purchase Agreement on March 8, 2011.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

The New York Stock Exchange requires companies with listed shares to comply with its corporate governance standards. As a foreign private issuer, we are not required to comply with all of the rules that apply to listed U.S. companies. However, we have generally chosen to comply with the New York Stock Exchange's corporate governance rules as though we were a U.S. company. Accordingly, we do not believe there are any significant differences between our corporate governance practices and those that would typically apply to a U.S. domestic issuer under the New York Stock Exchange corporate governance rules.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

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PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18 below for information regarding our financial statements and additional information required to be disclosed under this Item.

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ITEM 18. FINANCIAL STATEMENTS
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Report of Independent Registered Public Accounting Firm

The Board of Directors
and Shareholders of Fly Leasing Limited

We have audited the accompanying consolidated balance sheets of Fly Leasing Limited as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fly Leasing Limited at December 31, 2013 and 2012, and consolidated results of its operations and its cash flows for each of the three years ended in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Fly Leasing Limited s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated March 14, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young
LLP
San Francisco, California
March 14, 2014

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Fly Leasing Limited
Consolidated Balance Sheets

AS OF DECEMBER 31, 2013 AND 2012
(Dollar amounts in thousands, except par value data)

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 404,472	$ 163,124
Restricted cash and cash equivalents	174,829	137,457
Rent receivables	2,922	3,124
Investment in unconsolidated subsidiaries	8,179	6,308
Flight equipment held for operating leases, net	3,034,912	2,616,864
Deferred tax asset, net	—	9,450
Fair market value of derivative assets	7,395	319
Other assets, net	39,650	32,026
Total assets	**3,672,359**	**2,968,672**
Liabilities		
Accounts payable and accrued liabilities	16,592	15,662
Rentals received in advance	17,422	14,402
Payable to related parties	3,756	2,789
Security deposits	52,837	47,474
Maintenance payment liability	233,811	225,733
Unsecured borrowings, net	291,567	—
Secured borrowings, net	2,254,705	2,052,412
Deferred tax liability, net	7,746	—
Fair market value of derivative liabilities	24,577	48,967
Other liabilities	20,523	29,231
Total liabilities	**2,923,536**	**2,436,670**
Shareholders equity		
Common shares, $0.001 par value; 499,999,900 shares authorized; 41,306,338 and 28,040,305 shares issued and outstanding at December 31, 2013 and 2012, respectively	41	28
Manager shares, $0.001 par value; 100 shares authorized, issued and outstanding	—	—
Additional paid-in capital	658,492	482,733
Retained earnings	104,143	83,138
Accumulated other comprehensive loss, net	(13,853)	(33,897)
Total shareholders equity	**748,823**	**532,002**
Total liabilities and shareholders equity	**$ 3,672,359**	**$ 2,968,672**

The accompanying notes are an integral part of these consolidated financial statements.

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Fly Leasing Limited
Consolidated Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Dollar amounts in thousands, except per share data)

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Revenues			
Operating lease revenue	$ 359,409	$ 376,437	$ 230,716
Equity earnings from unconsolidated subsidiaries	1,871	9,383	5,647
Gain on sale of aircraft	6,277	8,360	9,137
Gain on sale of investment in unconsolidated subsidiary	—	36,882	—
Lease termination settlement	—	—	2,135
Interest and other income	1,930	1,634	1,154
Total revenues	**369,487**	**432,696**	**248,789**
Expenses			
Depreciation	146,400	136,633	95,718
Aircraft impairment	8,825	11,382	7,500
Interest expense	120,399	142,491	90,547
Net (gain) loss on extinguishment of debt	(15,881)	7,628	—
Selling, general and administrative	37,418	40,192	27,248
Ineffective, dedesignated and terminated derivatives	(1,263)	31,871	—
Acquisition costs	—	—	18,038
Maintenance and other costs	15,454	10,968	4,400
Total expenses	**311,352**	**381,165**	**243,451**
Net income before provision for income taxes	**58,135**	**51,531**	**5,338**
Provision for income taxes	5,659	3,862	4,242
Net income	**$ 52,476**	**$ 47,669**	**$ 1,096**
Weighted average number of shares:			
Basic	34,129,880	25,792,932	25,843,348
Diluted	34,243,456	25,961,605	25,992,062
Earnings per share:			
Basic	$ 1.51	$ 1.81	$ 0.03
Diluted	$ 1.50	$ 1.80	$ 0.03
Dividends declared and paid per share	**$ 0.88**	**$ 0.84**	**$ 0.80**

The accompanying notes are an integral part of these consolidated financial statements.

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Fly Leasing Limited
Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011 (UNAUDITED)
(Dollar amounts in thousands)

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Net income	**$ 52,476**	**$ 47,669**	**$ 1,096**
Other comprehensive income, net of tax			
Change in fair value of derivatives, net of deferred tax [1]	22,093	9,075	(4,959)
Reclassification from other comprehensive income into earnings due to termination of derivative liabilities, net of deferred tax [2]	—	27,479	—
Reclassification from other comprehensive income into earnings, net of deferred tax [3]	(1,302)	(290)	1,464
Comprehensive income (loss)	**$ 73,267**	**$ 83,933**	**$ (2,399)**

(1) Deferred tax expense was $3.5 million and $1.4 million for the years ended December 31, 2013 and 2012, respectively. Deferred tax benefit was $0.5 million for the year ended December 31, 2011.

(2) Deferred tax expense was $3.9 million

for the year ended December 31, 2012.

(3) Deferred tax benefit was $0.2 million and $41,000 for the years ended December 31, 2013 and 2012, respectively. Deferred tax expense was $0.2 million for the year ended December 31, 2011.

The accompanying notes are an integral part of these consolidated financial statements.

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Fly Leasing Limited
Consolidated Statements of Shareholders Equity

FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 AND 2013
(Dollar amounts in thousands)

	Manager Shares		Common Shares		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	Total Shareholders
	Shares	Amount	Shares	Amount	Capital	(Deficit)	Loss, net	Equity
Balance December 31, 2010	**100**	**$ —**	**26,707,501**	**27**	**463,559**	**77,984**	**(66,666)**	**474,904**
Dividends to shareholders	—	—	—	—	—	(20,738)	—	(20,738)
Dividend equivalents	—	—	—	—	—	(360)	—	(360)
Shares repurchased	—	—	(1,102,106)	(1)	(13,141)	—	—	(13,142)
Shares issued in connection with vested share grants	—	—	80,132	—	—	—	—	—
Share-based compensation	—	—	—	—	4,768	—	—	4,768
Net income	—	—	—	—	—	1,096	—	1,096
Net change in the fair value of derivatives, net of deferred tax asset of $470	—	—	—	—	—	—	(4,959)	(4,959)
Reclassified from other comprehensive income into earnings, net of deferred tax of $209	—	—	—	—	—	—	1,464	1,464
Balance December 31, 2011	**100**	**—**	**25,685,527**	**$ 26**	**$ 455,186**	**$ 57,982**	**$ (70,161)**	**$ 443,033**
Dividends to shareholders	—	—	—	—	—	(21,629)	—	(21,629)
Dividend equivalents	—	—	—	—	—	(884)	—	(884)
Shares issued in connection with vested share grants	—	—	163,718	—	—	—	—	—
Shares issued to Onex and Summit, net of commission of $1,086	—	—	2,191,060	2	23,912	—	—	23,914
Share-based compensation	—	—	—	—	3,635	—	—	3,635
Net income	—	—	—	—	—	47,669	—	47,669
Net change in the fair value of derivatives, net of deferred tax liability of $1,456	—	—	—	—	—	—	9,075	9,075
Reclassification from other comprehensive income into	—	—	—	—	—	—	27,479	27,479

earnings due to termination of derivative liabilities, net of deferred tax liability of $3,926								
Reclassified from other comprehensive income into earnings, net of deferred tax of $41	—	—	—	—	—	—	(290)	(290)
Balance December 31, 2012	**100**	**—**	**28,040,305**	**$ 28**	**$ 482,733**	**$ 83,138**	**$ (33,897)**	**$ 532,002**
Dividends to shareholders	—	—	—	—	—	(30,531)	—	(30,531)
Dividend equivalents	—	—	—	—	—	(940)	—	(940)
Shares issued in connection with public offering, net of expenses	—	—	13,142,856	13	172,582	—	—	172,595
Shares issued in connection with vested share grants	—	—	122,534	—	—	—	—	—
Shares issued in connection with SARs exercised	—	—	643	—	—	—	—	—
Share-based compensation	—	—	—	—	3,177	—	—	3,177
Derivative instruments terminated in connection with aircraft sale, net of deferred tax asset of $320 [1]	—	—	—	—	—	—	(747)	(747)
Net income	—	—	—	—	—	52,476	—	52,476
Net change in the fair value of derivatives, net of deferred tax liability of $3,486 [1]	—	—	—	—	—	—	22,093	22,093
Reclassified from other comprehensive income into earnings, net of deferred tax asset of $186 [1]	—	—	—	—	—	—	(1,302)	(1,302)
Balance December 31, 2013	**100**	**—**	**41,306,338**	**$ 41**	**$ 658,492**	**$ 104,143**	**$ (13,853)**	**$ 748,823**

(1) See Note 8 to Notes to Consolidated Financial Statements.

The accompanying notes are an integral part of these consolidated financial statements.

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Fly Leasing Limited
Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Dollar amounts in thousands)

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Cash Flows from Operating Activities			
Net Income	**$ 52,476**	**$ 47,669**	**$ 1,096**
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Equity earnings from unconsolidated subsidiaries	(1,871)	(9,383)	(5,647)
Gain on sale of aircraft	(6,277)	(8,360)	(9,137)
Gain on sale of investment in unconsolidated subsidiary	—	(36,882)	—
Depreciation	146,400	136,633	95,718
Aircraft impairment	8,825	11,382	7,500
Amortization of debt issuance costs	5,735	3,202	7,471
Amortization of lease incentives	9,019	6,989	6,856
Amortization of lease discounts/premiums and other items	8,173	6,281	1,307
Amortization of GAAM acquisition date fair market value adjustments	12,602	23,611	5,838
Net (gain) loss on extinguishment of debt	(15,881)	7,387	—
Share-based compensation	3,177	3,635	4,768
Deferred income taxes	6,195	(8,180)	2,562
Unrealized loss (gain) on derivative instruments	(1,263)	31,871	(1,489)
Security deposits and maintenance payment liability relieved	(31,360)	(47,694)	(3,911)
Security deposits and maintenance payment claims applied towards operating lease revenues	(2,596)	(7,671)	—
Changes in operating assets and liabilities:			
Rent receivables	(4,982)	(1,070)	120
Other assets	(1,969)	5,644	(1,913)
Payable to related parties	(10,544)	(4,837)	1,781
Accounts payable and accrued liabilities	(1,305)	8,148	2,415
Rentals received in advance	2,344	(1,240)	(2,923)
Other liabilities	4,576	13,247	(2,135)
Net cash flows provided by operating activities	**181,474**	**180,382**	**110,277**
Cash Flows from Investing Activities			
Investment in unconsolidated subsidiaries	—	—	(28,054)
Distributions from unconsolidated subsidiaries	—	6,269	26,951
Proceeds from sale of investment in BBAM LP	—	49,500	—
Purchase of GAAM Portfolio, net of cash assumed	—	—	(113,623)
Purchase of additional aircraft	(632,944)	(50,803)	(52,128)
Proceeds from sale of aircraft	48,539	67,740	126,913

Lessor contribution to maintenance	(24,185)	(16,626)	(11,312)
Net cash flows provided by (used in) investing activities	**(608,590)**	**56,080**	**(51,253)**
Cash Flows from Financing Activities			
Restricted cash and cash equivalents	(39,731)	160,947	(21,712)
Security deposits received	13,910	9,398	3,567
Security deposits returned	(7,271)	(4,257)	(3,703)
Maintenance payment liability receipts	56,968	57,892	53,515
Maintenance payment liability disbursements	(16,612)	(28,150)	(14,544)
Debt extinguishment costs	(3,856)	—	—
Proceeds from unsecured borrowings	291,389	—	—
Proceeds from secured borrowings	587,083	459,200	46,596
Proceeds from Term Loan upsizing	101,892	—	—
Debt issuance costs	(11,825)	(16,483)	(801)
Repayment of secured borrowings	(444,607)	(847,607)	(204,867)
Proceeds from sale of notes payable	—	87,282	33,765
Proceeds from (payment for) termination of interest rate swap contract	—	(35,066)	1,398
Shares repurchased	—	—	(13,142)
Proceeds from issuance of shares, net of fees paid	172,595	23,914	—
Dividends	(30,531)	(21,629)	(20,738)
Dividend equivalents	(940)	(884)	(360)
Net cash flows provided by (used in) activities	**668,464**	**(155,443)**	**(141,026)**
Net increase (decrease) in cash	**241,348**	**81,019**	**(82,002)**
Cash at beginning of period	163,124	82,105	164,107
Cash at end of period	**$ 404,472**	**$ 163,124**	**$ 82,105**
Supplemental Disclosure:			
Cash paid during the period for:			
Interest	$ 97,451	$ 118,672	$ 74,804
Taxes	84	2,057	1,381
Noncash Activities:			
Security deposits and maintenance payment liability disbursements applied as rentals received in advance	676	345	—
Security deposits assumed on purchase of flight equipment	1,774	1,080	—
Maintenance reserves assumed on purchase of flight equipment	—	8,482	—
Security deposit and maintenance payment liability disbursements applied to rent receivables	5,184	1,128	—
Withholding taxes netted against distributions received from BBAM LP	—	1,847	1,264
Security deposits netted against sales price from sale of flight equipment	—	2,170	1,700
Maintenance payment liabilities and claims netted against sales price from sale of flight equipment	—	—	8,006
Debt issuance costs netted with proceeds from secured borrowings	—	—	1,402
Noncash activities in connection with sale of aircraft:			
Secured borrowings assumed by buyer	38,500	—	—
Derivative liabilities assumed by buyer	5,000	—	—

The accompanying notes are an integral part of these consolidated financial statements.

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Fly Leasing Limited
Notes to Consolidated Financial Statements

For the year ended December 31, 2013

1. ORGANIZATION

Fly Leasing Limited (the Company or Fly) 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. The Company was formed to acquire, finance, lease and sell commercial jet aircraft and other aviation assets directly or indirectly through its subsidiaries.

Although the Company is organized under the laws of Bermuda, it is a resident of Ireland for tax purposes and is subject to Irish corporation tax on its income in the same way, and to the same extent, as if the Company were organized under the laws of Ireland.

In accordance with the Company s amended and restated bye-laws, Fly issued 100 shares (Manager Shares) with a par value of $0.001 to Fly Leasing Management Co. Limited (the Manager) for no consideration. Subject to the provisions of the Company s amended and restated bye-laws, the Manager Shares have the right to appoint the nearest whole number of directors to the Company which is not more than 3/7th of the number of directors comprising the board of directors. The Manager Shares are not entitled to receive any dividends, are not convertible into common shares and, except as provided for in the Company s amended and restated bye-laws, have no voting rights.

On October 14, 2011, the Company completed the acquisition of a portfolio of 49 aircraft and other assets (GAAM Portfolio) valued at approximately $1.4 billion and managed by Global Aviation Asset Management (GAAM). The purchase was funded with approximately $141.7 million of the Company s unrestricted cash and the assumption of approximately $1.2 billion of secured, non-recourse debt. The Company incurred approximately $18.0 million in expenses in connection with the acquisition, including a one-time $12.5 million fee to BBAM LP for arranging the acquisition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

Fly is a holding company that conducts its business through its subsidiaries. The Company directly or indirectly owns all of the common shares of its consolidated subsidiaries. The consolidated financial statements presented are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of Fly and all of its subsidiaries. In instances where it is the primary beneficiary, Fly would consolidate a Variable Interest Entity (VIE). All intercompany transactions and balances have been eliminated. The consolidated financial statements are stated in U.S. Dollars, which is the principal operating currency of the Company.

The Company has one operating and reportable segment which is aircraft leasing.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying

notes. The use of estimates is or could be a significant factor affecting the reported carrying values of flight equipment, deferred tax assets and accruals and reserves. To the extent available, the Company utilizes industry specific resources, third-party appraisers and other materials to support management s estimates, particularly with respect to flight equipment. Despite management s best efforts to accurately estimate such amounts, actual results could differ from those estimates.

RISKS AND UNCERTAINTIES

The Company encounters several types of risk during the course of its business, including credit and market risks. Credit risk addresses a lessee s or derivative counterparty s inability or unwillingness to make contractually required payments. Market risk reflects the change in the value of derivatives and credit facilities due to changes in interest rate spreads or other market factors, including the value of collateral underlying the Company s credit facilities.

Other types of risk encountered by the Company include the following:

- The success of the Company is dependent on the performance of the commercial aviation industry. A downturn in the industry could adversely impact the lessee s ability to make payments, increase the risk of unscheduled lease terminations and depress lease rates and the value of the Company s aircraft.

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- The Company will require access to the debt and equity markets to refinance its outstanding indebtedness and to grow its business through the acquisition of additional aircraft.

- The Company relies and is dependent upon an external servicer to manage its business and service its aircraft portfolio.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

RESTRICTED CASH AND CASH EQUIVALENTS

Pursuant to certain of the Company s debt facilities, payments received from lessees serve as collateral to the lenders and are thus subject to withdrawal restrictions. The Company s restricted cash and cash equivalents consist primarily of (i) security deposits and certain maintenance payments received from lessees under the terms of various lease agreements, (ii) a portion of rents collected which may be required to be held as cash collateral and (iii) other cash, which may be subject to withdrawal restrictions pursuant to the Company s credit agreements as further described in Note 7.

All restricted cash is held by major financial institutions in segregated accounts.

RENT RECEIVABLES

Rent receivables represent unpaid lessee obligations under existing lease contracts. Any allowance for doubtful accounts is established on a specific identification basis and is maintained at a level believed by management to be adequate to absorb probable losses inherent in rent receivables. The assessment of credit risk is primarily based on the extent to which amounts outstanding exceed the value of security held, the financial strength and condition of a debtor and the current economic and regulatory conditions of the debtor s operating environment. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows and consideration of current factors and economic trends impacting the lessees and their credit-worthiness, all of which may be susceptible to significant change. Uncollectible rent receivables are charged off against the allowance, while recoveries of amounts previously charged off are credited to the allowance. A provision for credit losses is recorded based on management s periodic evaluation of the factors previously mentioned, as well as other pertinent factors. As of December 31, 2013 and 2012, the Company had no allowance for doubtful accounts. The Company had one and two lessees on non-accrual status as of December 31, 2013 and 2012, respectively, and recognized revenue from those lessees when cash was received.

INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

Fly has a 57.4% interest in Fly-Z/C Aircraft Holdings LP (Fly-Z/C LP). On December 28, 2012, Fly sold its 15.0% interest in BBAM Limited Partnership (BBAM LP).

Fly accounts for its interest in unconsolidated subsidiaries using the equity method as the Company does not control the entities. Under the equity method, the Company s investment is initially recorded at cost and the carrying amount is

affected by its share of the unconsolidated subsidiaries undistributed earnings and losses, and distributions of dividends and capital.

The Company periodically reviews the carrying amount of its investment in the unconsolidated subsidiaries, or whenever events or changes in circumstances indicate that a decline in value may have occurred. If its investment is determined to be impaired on an other-than-temporary basis, a loss equal to the difference between the fair value of the investment and its carrying value is recorded in the period of identification.

FLIGHT EQUIPMENT HELD FOR OPERATING LEASES

Flight equipment held for operating leases are recorded at cost and depreciated to estimated residual values on a straight-line basis over their estimated remaining useful lives. Useful life is generally 25 years from the date of manufacture. Residual values are generally estimated to be 15% of original manufacturer s estimated realized price for the flight equipment when new. Management may, at its discretion, make exceptions to this policy on a case by case basis when, in its judgment, the residual value calculated pursuant to this policy does not appear to reflect current expectations of residual values. Examples of such situations include, but are not limited to:

- Flight equipment where original manufacturer s prices are not relevant due to plane modifications and conversions.
- Flight equipment which is out of production and may have a shorter useful life or lower residual value due to obsolescence.
- The remaining life of a converted freighter is determined based on the date of conversion, in which case, the total useful life may extend beyond 25 years from the date of manufacture.

Estimated residual values and useful lives of flight equipment are reviewed and adjusted, if appropriate, at each reporting period.

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Major improvements to be performed by the Company pursuant to the lease agreement are accounted for as lease incentives and are amortized against revenue over the term of the lease, assuming no lease renewals. Lessee specific modifications to the aircraft are capitalized and also amortized against revenue over the term of the lease. Generally, lessees are responsible for repairs, scheduled maintenance and overhauls during the lease term and to be compliant with return conditions of flight equipment at lease termination.

Major improvements and modifications incurred for an aircraft that is off-lease are capitalized and depreciated over the remaining life of the flight equipment. In addition, costs paid by us for scheduled maintenance and overhauls are also capitalized and depreciated over a period to the next scheduled maintenance or overhaul event. Miscellaneous repairs are expensed when incurred.

At the time of an aircraft acquisition, the Company evaluates whether the lease acquired with the aircraft is at fair market value by comparing the contractual lease rates to the range of current lease rates of like aircraft. A lease premium is recognized when it is determined that the acquired lease s terms are above market value; lease discounts are recognized when it is determined that the acquired lease s terms are below fair market value. Lease discounts are capitalized into other liabilities and accreted as additional rental revenue on a straight-line basis over the lease term. Lease premiums are capitalized into other assets and amortized against rental revenue on a straight-line basis over the lease term.

IMPAIRMENT OF FLIGHT EQUIPMENT

The Company evaluates flight equipment for impairment when circumstances indicate that the carrying amounts of such assets may not be recoverable. The Company s evaluation of impairment indicators include, but are not limited to, recent transactions for similar aircraft, adverse changes in market conditions for specific aircraft types, third party appraisals of specific aircraft, published values for similar aircraft, any occurrences of adverse changes in the aviation industry and the overall market conditions that could impact the fair value of our aircraft. The review for recoverability includes an assessment of the estimated future cash flows associated with the use of an asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, the Company will assess whether the carrying values of the flight equipment exceed the fair values and an impairment loss is required. The undiscounted cash flows consist of cash flows from currently contracted leases, future projected lease rates, transition costs, estimated down time and estimated residual or scrap values for an aircraft. The impairment loss is measured as the excess of the carrying amount of the impaired asset over its fair value. See Note 16 – Fair Value Measurements.

Future cash flows are assumed to occur under current market conditions and assume adequate time for a sale between a willing and able buyer and a willing seller. Expected future lease rates are based on all relevant information available, including the existing lease, current contracted rates for similar aircraft, appraisal data and industry trends. Residual value assumptions generally reflect an aircraft s salvage value, except where more recent industry information indicates a different value is appropriate.

The preparation of these impairment analyses requires the use of assumptions and estimates, including the level of future rents, the residual value of the flight equipment to be realized upon sale at some date in the future, estimated downtime between re-leasing events and the amount of re-leasing costs. For the year ended December 31, 2013, the Company recognized an impairment loss of $8.8 million in respect of an Airbus A319-100 aircraft which was manufactured in 2000. This aircraft will be sold by the Company in 2014. For the year ended December 31, 2012, the Company recognized an impairment loss of $11.4 million in respect of two Boeing 737-500 aircraft which were

manufactured in 1992 and one Airbus A320-200 aircraft which was manufactured in 2002. The Airbus A320-200 aircraft was sold during the first quarter of 2013. For the year ended December 31, 2011, the Company recognized an impairment loss of $7.5 million in respect of two Boeing 737-500 aircraft. The leases related to these two aircraft expired in 2012 and the Company disposed of the aircraft in 2013.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage its exposure to interest rate and foreign currency risks. All derivatives are recognized on the balance sheet at their fair values. Pursuant to hedge accounting provisions, changes in the fair value of the item being hedged are recognized into earnings in the same period and in the same income statement line as the change in the fair value of the derivative instrument. On the date that the Company enters into a derivative contract, the Company formally documents all relationships between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking each hedge transaction.

Derivative instruments designated in a hedge relationship to mitigate exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Cash flow hedges are accounted for by recording the fair value of the derivative instrument on the balance sheet as either a freestanding asset or liability. Changes in the fair value of a derivative that is designated and qualifies as an effective cash flow hedge are recorded in accumulated other comprehensive income, net of tax, until earnings are affected by the variability of cash flows of the hedged item. Any derivative gains and losses that are not effective in hedging the variability of expected cash flows of the hedged item or that do not qualify for hedge accounting treatment are recognized directly into income.

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At the hedge s inception and at least quarterly thereafter, a formal assessment is performed to determine whether changes in cash flows of the derivative instrument have been highly effective in offsetting changes in the cash flows of the hedged items and whether they are expected to be highly effective in the future. The Company discontinues hedge accounting prospectively when (i) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item; (ii) the derivative expires or is sold, terminated, or exercised; or (iii) management determines that designating the derivative as a hedging instrument is no longer appropriate. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the derivative instrument is carried at its fair market value on the balance sheet with changes in fair value recognized into current-period earnings. The remaining balance in accumulated other comprehensive income associated with the derivative that has been discontinued is not recognized in the income statement unless it is probable that the forecasted transaction will not occur. Such amounts are recognized in earnings when earnings are affected by the hedged transaction.

OTHER ASSETS

Other assets consist primarily of debt issuance costs, unamortized lease premiums, initial direct lease costs and other miscellaneous receivables. The Company capitalizes costs incurred in arranging financing as debt issuance costs. Debt issuance costs are amortized to interest expense using the effective interest method over the terms of the credit facilities. Lease premiums are amortized into operating lease income over the lease term.

SECURITY DEPOSITS

In the normal course of leasing aircraft to third parties under its lease agreements, the Company receives cash or letters of credit as security for certain contractual obligations which is held on deposit until termination of the lease. Security deposits are returned to the lessee at lease termination or taken into income if the lessee fails to perform under its lease.

MAINTENANCE PAYMENT LIABILITY

The Company s flight equipment is typically subject to triple-net leases under which the lessee is responsible for maintenance, insurance and taxes. Fly s operating leases also obligate the lessees to comply with all governmental requirements applicable to the flight equipment, including without limitation, operational, maintenance, registration requirements and airworthiness directives.

Under the terms of the lease agreements, cash collected from lessees for future maintenance of the aircraft is recorded as maintenance payment liabilities. The Company does not recognize such maintenance payments as revenue during the lease. Maintenance payment liabilities are attributable to specific aircraft and are typically based on hours or cycles of utilization, depending upon the component. Upon the occurrence of qualified maintenance events, the lessee submits a request for reimbursement and upon disbursement of the funds, the liability is relieved.

In some leases, the lessor may be obligated to contribute to maintenance related expenses on an aircraft during the term of the lease. In other instances, the lessee or lessor may be obligated to make a payment to the other party at lease termination based on a computation stipulated in the lease agreement. The calculation is based on utilization and condition of the airframe, engines and other major life-limited components as determined at lease termination.

The Company may also incur maintenance expenses on off-lease aircraft. Scheduled major maintenance or overhaul activities and costs for certain high-value components that are paid by the Company are capitalized and depreciated

over the period until the next overhaul is required. Such payments made by the Company for minor maintenance, repairs and re-leasing of aircraft are expensed as incurred.

Maintenance payment liability balances at the end of a lease or any amount received as part of a redelivery adjustment are recorded as lease revenue at lease termination, including early termination upon a default. When flight equipment is sold, the maintenance payment liability amounts may be remitted to the buyer in accordance with the terms of the related agreements and are released from the balance sheet as part of the disposition gain or loss.

REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Where revenue amounts do not meet these recognition criteria, they are deferred and recognized in the period in which the recognition criteria are met. Rental income from aircraft is recognized on a straight-line basis over the initial term of the respective lease. The operating lease agreements generally do not provide for purchase options, however, the leases may allow the lessee the option to extend the lease for an additional term. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when collection is not reasonably assured.

SHARE-BASED COMPENSATION

The Company has a 2010 Omnibus Incentive Plan (2010 Plan) which permitted the issuance of up to 1,500,000 share grants in the form of (i) stock appreciation rights (SARs); (ii) restricted stock units (RSUs); (iii) nonqualified stock options; and (iv) other stock-based awards. In May 2012, the Company made an additional aggregate grant of 300,000 SARs and RSUs to certain employees of BBAM LP, who provide services to the Company pursuant to management and servicing agreements. As of December 31, 2013 and 2012, the Company had made grants aggregating 1,500,000 under the 2010 Plan, respectively. There are no shares remaining available for grants under the 2010 Plan.

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In accordance with GAAP, compensation expense associated with grants to employees are valued at the grant date and amortized on a straight-line basis over the service period. Grants to non-employees are initially measured at grant date, and then re-measured at each interim reporting period until the awards are vested. Determining the appropriate fair value model and calculation of the fair value of stock-based awards requires judgment, including estimating stock price volatility, forfeitures and expected grant life.

TAXES

The Company provides for income taxes by tax jurisdiction (see Note 10). Deferred income tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statements and tax basis of existing assets and liabilities at the enacted tax rates expected to apply when the assets are recovered or liabilities are settled. A valuation allowance is used to reduce deferred tax assets to the amount which management ultimately expects to be more-likely-than-not realized.

The Company applies a recognition threshold of more-likely-than-not to be sustained in the examination of tax uncertainty in income taxes. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The Company has elected to classify any interest on unpaid income taxes and penalties as a component of the provision for income taxes. No interest on unpaid income taxes and penalties were incurred during the years ended December 31, 2013, 2012 and 2011.

NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued guidance which requires companies to present, in one place, information about reclassifications out of accumulated other comprehensive income (AOCI). It also requires companies to present the reclassifications by component. For significant items reclassified out of AOCI to net income in their entirety, companies must disclose the line item on the statement of income that was affected. This can be done on the face of the statement in certain circumstances or in the notes. For significant items not reclassified to net income in their entirety during the reporting period, companies must cross-reference the note where additional details about the effects of the reclassification are disclosed. The Company adopted the guidance prospectively commencing in the 2013 fiscal year and interim periods within the year.

3. FLIGHT EQUIPMENT HELD FOR OPERATING LEASES

As of December 31, 2013 and 2012, the Company had 113 and 109 aircraft held for operating leases, respectively. During the year ended December 31, 2013, the Company purchased fourteen aircraft for a total acquisition cost of $642.2 million.

During the year ended December 31, 2012, the Company purchased four aircraft for a total acquisition cost of $60.4 million. To partially finance the acquisitions, the Company entered into loan agreements with an international commercial bank to borrow a total of $50.0 million.

During the year ended December 31, 2013, the Company sold ten aircraft and recognized a pre-tax gain on sale totaling $6.3 million. The buyer of six of the aircraft also assumed the underlying debt financing and derivative instruments associated with the aircraft. During the year ended December 31, 2012, the Company sold four aircraft and recognized a pre-tax gain on sale totaling $8.4 million. A portion of the proceeds received was used to repay the debt associated with the four aircraft.

For the year ended December 31, 2013, the Company recognized an impairment loss of $8.8 million in respect of an Airbus A319-100 aircraft which was manufactured in 2000. This aircraft will be sold by the Company in 2014. For the year ended December 31, 2012, the Company recognized an impairment loss of $11.4 million in respect of two Boeing 737-500 aircraft which were manufactured in 1992 and one Airbus A320-200 aircraft which was manufactured in 2002. The Airbus A320-200 aircraft was sold during the first quarter of 2013. For the year ended December 31, 2011, the Company recognized an impairment loss of $7.5 million in respect of two Boeing 737-500 aircraft. The leases related to these two aircraft expired in 2012 and the Company disposed of the aircraft in 2013.

Flight equipment held for operating leases consist of the following:

	December 31, 2013	**December 31, 2012**
	(Dollars in thousands)	
Cost	$3,597,330	$ 3,047,274
Accumulated depreciation	(562,418)	(430,410)
Net flight equipment held for operating leases	**$3,034,912**	**$ 2,616,864**

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The Company capitalized $17.2 million and $11.4 million, respectively, of major maintenance expenditures for the years ended December 31, 2013 and 2012. These amounts have been included in flight equipment held for operating leases.

The classification of the net book value of flight equipment held for operating leases and operating lease revenues by geographic region in the tables and discussion below is based on the principal operating location of the aircraft lessee.

The distribution of the net book value of flight equipment held for operating leases by geographic region is as follows:

	December 31, 2013		December 31, 2012	
	(Dollars in thousands)			
Europe:				
United Kingdom	$347,627	11 %	$365,411	14 %
Turkey	191,527	6 %	113,244	4 %
Germany	152,894	5 %	107,568	4 %
Other	459,243	15 %	493,263	19 %
Europe — Total	**1,151,291**	**37 %**	**1,079,486**	**41 %**
Asia and South Pacific:				
China	353,868	12 %	300,568	11 %
India	120,771	4 %	146,659	6 %
Other	394,627	13 %	265,911	10 %
Asia and South Pacific — Total	**869,266**	**29 %**	**713,138**	**27 %**
North America:				
United States	291,724	10 %	266,603	10 %
Other	33,162	1 %	34,650	2 %
North America — Total	**324,886**	**11 %**	**301,253**	**12 %**
Mexico, South and Central America:				
Chile	255,832	9 %	—	—
Brazil	98,393	3 %	97,319	4 %
Mexico	127,943	4 %	169,710	6 %
Mexico, South and Central America — Total	**482,168**	**16 %**	**267,029**	**10 %**
Middle East and Africa — Total	**189,682**	**6 %**	**163,489**	**6 %**
Off-Lease — Total	**17,619**	**1 %**	**92,469**	**4 %**
Total flight equipment held for operating leases, net	**$3,034,912**	**100 %**	**$2,616,864**	**100 %**

At December 31, 2013, aircraft held for operating leases were on lease to 62 lessees in 34 countries. The Company had one aircraft that was off-lease at December 31, 2013. At December 31, 2012, aircraft held for operating leases were on lease to 55 lessees in 32 countries. The Company had six aircraft that were off-lease at December 31, 2012.

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The distribution of operating lease revenue by geographic region for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Year ended December 31, 2013		Year ended December 31, 2012		Year ended December 31, 2011	
	(Dollars in thousands)					
Europe:						
United Kingdom	$48,507	13 %	$45,916	12 %	$19,444	8 %
Turkey	14,703	4 %	12,319	3 %	5,874	3 %
Germany	19,882	6 %	28,746	8 %	15,560	7 %
Other	69,480	20 %	83,347	22 %	68,513	29 %
Europe — Total	**152,572**	**43 %**	**170,328**	**45 %**	**109,391**	**47 %**
Asia and South Pacific:						
China	41,332	12 %	36,918	10 %	13,620	6 %
India	21,894	6 %	39,312	10 %	22,341	10 %
Other	32,841	9 %	34,506	10 %	11,288	4 %
Asia and South Pacific — Total	**96,067**	**27 %**	**110,736**	**30 %**	**47,249**	**20 %**
North America:						
United States	40,482	11 %	41,311	11 %	39,088	17 %
Other	3,891	1 %	3,891	1 %	3,891	2 %
North America — Total	**44,373**	**12 %**	**45,202**	**12 %**	**42,979**	**19 %**
Mexico, South and Central America:						
Chile	10,055	3 %	—	—	—	—
Brazil	19,038	5 %	12,630	3 %	1,687	1 %
Mexico	18,996	5 %	18,843	5 %	16,276	7 %
Mexico, South and Central America — Total	**48,089**	**13 %**	**31,473**	**8 %**	**17,963**	**8 %**
Middle East and Africa — Total	**18,308**	**5 %**	**18,698**	**5 %**	**13,134**	**6 %**
Total Operating Lease Revenue	**$359,409**	**100 %**	**$376,437**	**100 %**	**$230,716**	**100 %**

The Company had no customer that accounted for 10% or more of total operating lease revenue for any of the years ended December 31, 2013, 2012 and 2011. In 2013, the Company had one lessee on non-accrual basis due to concerns about the lessee s financial condition and only recognized revenue as cash was received. In 2012 and 2011, the Company had two lessees which it placed on non-accrual status. These leases were terminated during the first quarter of 2013. During the years ended December 31, 2013, 2012 and 2011, the Company recognized revenue of $0.8 million, $7.5 million and $10.4 million, respectively, from these lessees.

For the years ended December 31, 2013, 2012 and 2011, the Company recognized end of lease revenues totaling $47.6 million, $49.8 million and $2.9 million, respectively.

The amortization of lease premiums, net of lease discounts which have been included as a component of operating lease revenue was $3.4 million and $7.5 million for the years ended December 31, 2013 and 2012, respectively. The amortization of lease discounts, net of lease premiums, was $1.9 million for the year ended December 31, 2011.

As of December 31, 2013 and 2012, the weighted average remaining lease term of the Company s aircraft held for operating leases was 4.3 and 3.2 years, respectively.

Presented below are the contracted future minimum rental payments due under non-cancellable operating leases, as of December 31, 2013. For leases that have floating rental rates based on the six-month LIBOR, the future minimum rental payments due assume that the rental payment due as of December 31, 2013 is held constant for the duration of the lease.

Year ending December 31,	**(Dollars in thousands)**
2014	$ 344,216
2015	277,152
2016	198,864
2017	164,308
2018	107,460
Thereafter	222,669
Future minimum rental payments under operating leases	**$ 1,314,669**

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For the years ended December 31, 2013, 2012 and 2011, amortization of lease incentives recorded as a reduction of operating lease revenue totaled $9.0 million, $7.0 million and $6.9 million, respectively. At December 31, 2013, lease incentive amortization for the next five years and thereafter is as follows:

Year ending December 31,	(Dollars in thousands)
2014	$ 12,327
2015	11,004
2016	8,994
2017	7,174
2018	3,785
Thereafter	2,811
Future amortization of lease incentives	**$ 46,095**

In connection with the early termination of four leases in a prior period, the Company reached a settlement with the guarantor of these leases in February 2009. Pursuant to the terms of the settlement agreement, the Company received a lump-sum payment of $6.3 million at the settlement date, with an additional $5.9 million that was paid in monthly installments through 2011 with interest at 8.0% per annum. During the year ended December 31, 2011, payments totaling $2.1 million were received.

4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES

Investment in BBAM LP

On April 29, 2010, the Company through its wholly-owned subsidiary, Fly-BBAM Holdings, Ltd. (Fly-BBAM), purchased a 15% interest in BBAM LP, a newly formed, privately-held aircraft leasing and management business for $8.75 million. BBAM LP provides management and administrative services to Fly, including servicing of its aircraft portfolio. Summit Aviation Partners LLC (Summit) owned the remaining 85% interest in BBAM LP.

On December 28, 2012, the Company sold its 15% interest in BBAM LP for $49.5 million and recognized a gain of $36.9 million. In June 2013, the Company received an additional $1.0 million of proceeds as a result of working capital adjustments pursuant to the purchase and sale agreement.

For the years ended December 31, 2012 and 2011, the Company recognized $7.8 million and $5.4 million, respectively, in equity earnings from its investment in BBAM LP. The Company amortized the difference between the cost of its initial investment and its share of underlying equity in the net assets of BBAM LP against its equity earnings from BBAM LP. The Company received distributions totaling $6.0 million and $5.0 million during the years ended December 31, 2012 and 2011, respectively.

Investment in Fly-Z/C LP

The Company has a 57.4% limited partnership interest in Fly-Z/C LP. Summit has a 10.2% interest in the joint venture and the limited partners appointed a subsidiary of BBAM LP as the general partner of the joint venture. For the years ended December 31, 2013, 2012 and 2011, the Company recognized $1.9 million, $1.6 million and $0.3 million, respectively, in equity earnings from its investment in Fly-Z/C LP. The Company did not receive any distributions in 2013. The Company received distributions totaling $0.5 million and $23.2 million during the years ended December 31, 2012 and 2011, respectively. The distribution in 2011 includes $22.2 million received in

connection with the completion of a $40.0 million debt financing by the Fly-Z/C LP.

5. OTHER ASSETS

The principal components of the Company s other assets are as follows:

	December 31, 2013	December 31, 2012
	(Dollars in thousands)	
Loan issuance costs, net	$ 25,593	$ 18,461
Lease premiums	4,949	8,718
Other assets	9,108	4,847
Total other assets	**$ 39,650**	**$ 32,026**

For the years ended December 31, 2013, 2012 and 2011, the Company amortized $5.1 million, $3.2 million and $6.5 million, respectively, of loan issuance cost into interest expense.

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6. UNSECURED BORROWINGS

	Balance as of December 31, 2013	December 31, 2012
	(in thousands)	
Outstanding principal balance:		
Unsecured Notes issued	$ 300,000	$ —
Unamortized discount	(8,433)	—
Unsecured borrowings, net	**$ 291,567**	**$ —**

On December 11, 2013, the Company completed a public offering of $300.0 million aggregate principal amount of 6.75% Senior Notes due 2020 (the Unsecured Notes). In connection with the issuance, the Company paid an underwriting discount totaling $8.5 million. The Unsecured Notes are unsecured obligations of the Company and will rank *pari passu* in right of payment with any existing and future senior indebtedness of the Company. Interest on the Unsecured Notes is payable semi-annually on June 15 and December 15 of each year, beginning on June 15, 2014.

At any time prior to December 15, 2016, the Company may redeem up to 35% of the original principal amount of the Unsecured Notes with the proceeds of certain equity offerings at a redemption price of 106.75% of the principal amount thereof, together with accrued and unpaid interest to, but not including, the date of redemption. On or after December 15, 2016, the Company may redeem the Unsecured Notes, in whole or in part, at the redemption prices listed below, plus accrued and unpaid interest to the redemption date.

Redeemed during the 12-month period commencing on December 15 of the years set forth below:	**Redemption Price**
2016	105.063 %
2017	103.375 %
2018	101.688 %
2019 and thereafter	100.000 %

At any time prior to December 15, 2016, the Company may also redeem all or a portion of the Unsecured Notes at par but will have to pay a make-whole premium equal to the present value of all future interest payments called for under the indenture.

Should the Company experience a change of control (as defined in the indenture), holders of the Unsecured Notes have the right to require the Company to repurchase all or any part of their Unsecured Notes for payment in cash equal to 101% of the aggregate principal amount of the Unsecured Notes repurchased plus accrued and unpaid interest.

The Company received net proceeds of approximately $291.4 million, after deducting underwriters discounts and commissions and offering expenses payable by the Company. The Company intends to use the net proceeds from the offering for general corporate purposes, including the acquisition of aircraft. The Unsecured Notes have a maturity date of December 15, 2020.

Pursuant to the indenture, the Company is subject to financial and operating covenants which relate to its operations, dividend payments, incurrence of debt, repurchases of common shares, investments, disposition of aircraft, and capital

expenditures. If the Unsecured Notes obtain a certain investment grade rating, certain covenants as specified in the indenture will be suspended. As of December 31, 2013, the Company was not in default under the Unsecured Notes.

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7. SECURED BORROWINGS

The Company s secured borrowings balance, net of unamortized debt discounts, as of December 31, 2013 is presented below:

	Net carrying value as of December 31,		Weighted average interest rate [1] as of December 31,		Maturity date
	2013	2012	2013	2012	
	(in thousands)				
Notes Payable	$575,326	$639,281	3.63 %	3.85 %	November 2033
Nord LB Facility	440,456	490,717	4.15 %	4.14 %	November 2018
CBA Facility	159,802	268,625	4.91 %	5.18 %	September 2014 – October 2020
Term Loan	465,103	377,646	4.50 %	5.75 %	August 2019
Fly Acquisition II	126,766		4.16 %		July 2018
Other aircraft secured borrowings	487,252	276,143	4.71 %	5.54 %	August 2014 – September 2025
Total	**$2,254,705**	**$2,052,412**			

(1) Represents the contractual interest rates and effect of derivative instruments, and excludes the amortization of debt discounts and debt issuance costs.

The Company is subject to certain operating covenants under its loan agreements relating to the maintenance, registration and insurance of its aircraft. The Company may also be required to maintain certain lease concentration limits, and there may be limitations on the re-leasing of aircraft and the disposition of aircraft. In addition, pursuant to certain of our loan agreements, the Company may be subject to additional operating covenants relating to the operations of the borrower entity; restrictions on the acquisition or substitution of additional aircraft; restrictions on the modification of aircraft and capital expenditures; limits on the amount and type of guarantees that can be provided or assumed or other indebtedness that can be incurred; and restrictions on the Company s ability to grant liens or other encumbrances on the aircraft. The Company s failure to comply with any one of these covenants may trigger an event of default under the relevant loan or facility agreement.

Generally, an event of default under any of the Company s loan or facility agreement may include, among other things:

- Interest or principal is not paid when due or within a prescribed period of time following its due date;
- Failure to make certain other payments and such payments are not made within a prescribed period of time following written notice;
- Failure to maintain required insurance levels;
- Failure to comply with certain other covenants and such noncompliance continues for a specified period of time following written notice; or

- Any of the aircraft owning or borrower entities become the subject of insolvency proceedings.

As of December 31, 2013, the Company was not in default under any of its secured borrowings.

Notes Payable

	Balance as of December 31, 2013 (in thousands)	December 31, 2012
Outstanding principal balance:		
Notes issued	$592,903	$ 660,444
Unamortized discount	(17,577)	(21,163)
Notes payable, net	**$575,326**	**$ 639,281**

On October 2, 2007, B&B Air Funding issued $853.0 million of aircraft lease-backed Class G-1 notes (the Notes) at an offering price of 99.71282%. The Notes are direct obligations of B&B Air Funding and are not obligations of, or guaranteed by Fly. Interest is payable monthly based on the current one-month LIBOR plus a spread of 0.77%, which includes an amount payable to Ambac Assurance Corporation, the provider of a financial guaranty insurance policy (the Policy Provider) that supports payment of interest and in certain circumstances, principal on the Notes.

As of December 31, 2013 and 2012 accrued interest on the Notes totaled $0.2 million and $0.3 million, respectively.

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The Notes are secured by: (i) first priority, perfected security interests in and pledges or assignments of equity ownership and beneficial interests in the subsidiaries of B&B Air Funding; (ii) interests in the leases of the aircraft they own; (iii) cash held by or for them; and (iv) rights under agreements with BBAM, the initial liquidity facility provider, hedge counterparties and the insurance policy provider. Rentals paid under leases and proceeds from the sale of aircraft are placed in the collections account and paid out according to the priority of payments set forth in the indenture. The Notes are also secured by a lien or similar interest in any of the aircraft B&B Air Funding currently owns that are registered in the United States or Ireland. B&B Air Funding may not encumber the aircraft it currently owns or incur additional indebtedness except as permitted under the securitization related documents.

In 2009, the Company repurchased through a wholly-owned subsidiary $169.4 million principal amount of the Notes. In 2011, the Company sold $40.8 million principal amount of these repurchased Notes. During the first quarter of 2012, the Company sold the remaining $106.7 million principal amount of Notes for $87.3 million.

As of December 31, 2013 and 2012, the outstanding principal amount of the Notes was $592.9 million and $660.4 million, respectively.

Until August 2012, there were scheduled minimum principal payments of approximately $1.0 million per month, subject to satisfying certain debt service coverage ratios and other covenants. Thereafter, all revenues collected during each monthly period have been applied to repay the outstanding balance of the Notes, after the payment of certain expenses and other costs, including the fees to the policy provider, interest and interest rate swap payments. The final maturity date of the Notes is November 14, 2033.

In 2013 and 2012, the Company made principal payments of $67.5 million and $14.4 million, respectively. The payment in 2012 was net of $0.1 million, which was paid back to the Company in respect of the Notes it previously held.

Prior to August 2012, a portion of the proceeds received from the sale of any aircraft included in the Initial Portfolio was applied to repay the debt allocated to such aircraft. In 2012, three aircraft were sold and the Company repaid debt of $38.8 million associated with these aircraft. The Company wrote-off loan costs and unamortized discounts of $1.5 million associated with the repaid debt.

During the year ended December 31, 2013, two aircraft that secured the Notes were sold.

The Company may, on a payment date, redeem the Notes in whole or from time to time in part, at the outstanding principal amount, together with accrued and unpaid interest.

B&B Air Funding is subject to financial and operating covenants which relate to, among other things, its operations, disposition of aircraft, lease concentration limits, restrictions on the acquisition of additional aircraft, and restrictions on the modification of aircraft and capital expenditures. A breach of the covenants could result in the acceleration of the Notes and exercise of remedies available in relation to the collateral, including the sale of aircraft at public or private sale.

On April 29, 2010, the servicing agreement for B&B Air Funding was amended to include the following servicer termination events:

- 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.

In connection with the issuance of the Notes, B&B Air Funding entered into a revolving credit facility (Note Liquidity Facility) that provides additional liquidity of up to $60.0 million. Subject to the terms and conditions of the Note Liquidity Facility, advances may be drawn for the benefit of the Note holders to cover certain expenses of B&B Air Funding, including maintenance expenses, interest rate swap payments and interest on the Notes. Advances shall bear interest at one-month LIBOR plus a spread of 1.20%. A commitment fee of 0.40% per annum is due and payable on each payment date based on the unused portion of the Note Liquidity Facility. As of December 31, 2013 and 2012, B&B Air Funding had not drawn on the Note Liquidity Facility.

The financial guaranty insurance policy (the Policy) issued by the Policy Provider supports the payment of interest due on the Notes and the payment of the outstanding principal balance of the Notes on the final maturity date and, under certain circumstances, prior thereto. A downgrade of the Policy Provider s credit rating or its failure to meet its obligations under the Policy will not have a direct impact on B&B Air Funding s obligations or rights under the Notes.

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B&B Air Acquisition Facility

In November 2007, B&B Air Acquisition entered into a credit facility that provided for aircraft financing (B&B Air Acquisition Facility). The facility was funded in two tranches, Tranche A and B. Tranche A was senior to Tranche B. Borrowings under the B&B Air Acquisition Facility incurred interest at a rate based on one-month LIBOR plus an applicable margin. The applicable margins for Tranche A and B were 1.50% per annum and 4.00% per annum, respectively.

On August 9, 2012, the B&B Air Acquisition Facility, which financed 16 aircraft at that time, was repaid with proceeds from a new Term Loan (see below) and approximately $122.5 million of the Company s cash.

Nord LB Facility

	Balance as of December 31, 2013	December 31, 2012
	(in thousands)	
Outstanding principal balance	$452,371	$ 508,942
Unamortized debt discount	(11,915)	(18,225)
Nord LB Facility balance, net	**$440,456**	**$ 490,717**

The Company assumed a debt facility (the Nord LB Facility) provided by Norddeutsche Landesbank Gironzentrale (Nord LB) that financed 19 of the aircraft acquired in the GAAM Portfolio. On February 6, 2012, the Company completed an extension of the Nord LB Facility from November 2012 to November 2018. On February 14, 2012, the Company paid $25.0 million to Nord LB which was applied towards repayment of outstanding principal amounts. On November 14, 2012, the Company made an additional principal payment of $15.0 million to Nord LB. From February 6, 2012 until November 14, 2012, the Company paid Nord LB a fee equal to 0.45% per annum, or $1.9 million.

Prior to November 14, 2012, the Nord LB Facility was structured as a single loan facility pursuant to which one of the Company s subsidiaries was the borrower. The Nord LB Facility is now structured as individual loans with each aircraft owning subsidiary acting as the borrower of its respective loan. Borrowings are secured by Fly s equity interest in the subsidiaries which own the financed aircraft, the related leases, maintenance reserves and other deposits. The loans are cross-collateralized and contain cross-default provisions.

Commencing November 14, 2012, the loans under the Nord LB Facility bear interest at one month LIBOR plus 3.30% until the final maturity date of November 14, 2018. As of December 31, 2013, the blended weighted average interest rate for the facility was 4.15%, excluding the amortization of debt discount and debt issuance costs. As of December 31, 2013 and 2012, interest accrued on the facility totaled $0.7 million and $0.9 million, respectively.

The Company pays 95% of lease rentals received towards interest and principal. Upon the termination or expiration of a lease, no payments are due under the Nord LB Facility with respect to the outstanding loan amount for that aircraft until the earlier of six months from such termination or expiration or the date the aircraft is re-leased. Interest during this period increases the outstanding balance under the facility. If an aircraft remains off-lease after six months from the termination or expiration, interest must be paid on each payment date. If an aircraft remains off-lease after twelve months, the Company must pay debt service equal to 85% of the lease rate paid under the prior lease agreement. The lenders may require payment in full or foreclose on an aircraft that remains off-lease after 24 months, but the lenders

may not foreclose on any other aircraft. During the years ended December 31, 2013 and 2012, the Company made total principal payments of $57.9 million and $110.1 million, respectively, under the Nord LB Facility.

In the event the Company sells any of the financed aircraft, substantially all sales proceeds (after payment of certain expenses) must first be used to repay the debt associated with such aircraft and second to repay the outstanding amounts which finance the other aircraft unless certain conditions are met. In addition, any security deposit amounts that the Company retains after termination of a lease and any maintenance reserve amounts which are retained and are not expected to be required for future maintenance will be used to prepay the Nord LB Facility. If the Company earns a 10% return on its equity investment after full repayment of the facility, the Company will pay Nord LB a fee equal to 10% of returns in excess of 10%, up to a maximum of $5.0 million.

In 2013, the Company sold one Boeing 737-700 aircraft from the Nord LB Facility and repaid the debt associated with this aircraft. In 2012, the Company sold one Airbus A319-100 aircraft financed by the Nord LB Facility. The Company repaid the debt associated with the aircraft and wrote off $0.8 million of unamortized discount.

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An event of default with respect to the loan on any aircraft will trigger an event of default on the loans with respect to every other financed aircraft. A default by any of the aircraft owning entities in respect of obligations in excess of $10,000,000 and holders of such obligation accelerate or demand repayment of amounts due thereunder would constitute an event of default.

The Nord LB Facility does not contain any financial covenants. As of December 31, 2013, 17 aircraft were financed under the Nord LB Facility.

CBA Facility

	Balance as of December 31, 2013 (in thousands)	December 31, 2012
Outstanding principal balance:		
Senior tranches	$30,512	$ 242,815
Junior tranches	5,900	32,701
Tranche A	87,925	—
Tranche B	37,486	—
Total outstanding principal balance	**161,823**	**275,516**
Unamortized debt discount	(2,021)	(6,891)
CBA Facility balance, net	**$159,802**	**$ 268,625**

The Company s subsidiaries assumed a debt facility provided by Bank of Scotland plc (BOS), Commonwealth Bank of Australia and CommBank Europe Limited (together, CBA) (the CBA Facility which the Company formerly referred to as the BOS Facility) that financed 21 of the 49 aircraft acquired in the GAAM Portfolio. The CBA Facility originally consisted of individual loans for each aircraft with maturity dates matching the scheduled lease expiry dates. The loan maturity dates ranged from 2013 to 2017 and could consist of a senior and junior tranche.

Subsequent to the acquisition of the GAAM Portfolio, twelve aircraft have been refinanced. One aircraft was refinanced in 2011 and nine aircraft were refinanced in 2012, resulting in repayments of $20.0 million and $194.9 million under this facility, respectively. Pursuant to the refinancing, the Company incurred debt extinguishment costs of $1.6 million which included non-cash write-offs of loan costs and unamortized debt discount totaling $1.4 million in 2012. In May 2013, two additional aircraft were refinanced, resulting in repayments of $54.5 million under this facility.

On November 15, 2013, the Company, through its subsidiaries, amended and extended the CBA Facility, which was then secured by nine aircraft. Pursuant to the amendment agreement, the Company made a one-time principal payment of $18.9 million and BOS forgave 11.25% or $9.9 million of its portion of the senior tranche borrowings and 100% or $19.2 million of the junior tranche borrowings. CBA has provided for seven new loans on seven of the nine aircraft.

In connection with the loan amendment, the Company recognized a net gain on forgiveness of debt of $22.2 million which included write-offs of unamortized debt discount and loan costs of $2.0 million, swap breakage costs of $4.9 million and closing costs of $0.9 million.

Subsequent to December 31, 2013, the Company entered into sale agreements for two Airbus A319-100 aircraft manufactured in 2000. The proceeds from the sale will be paid to the lenders as full and final discharge of the loans

secured by these aircraft. The loans have a total outstanding principal balance of $36.4 million as of December 31, 2013 and will mature in late 2014.

The loans provided pursuant to the CBA Facility are cross-collateralized and cross-defaulted. All payments under the CBA Facility are fully guaranteed by and recourse to the Company.

The Company makes scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule. The Company is required to repay the associated debt upon lease termination or sale of an aircraft. Upon a lease termination or expiration, the Company may elect to extend the loan maturity date for up to nine months during which only interest is payable. If the aircraft is re-leased during this nine month period with the consent of the facility agent, the loan will be extended. If the Company is unable to re-lease the aircraft on terms acceptable to the lenders or sell the aircraft, the loan becomes due and payable at the end of this nine month period. In 2013 and 2012, total scheduled payments of $13.5 million and $23.0 million, respectively, were made by the Company.

If any lessee fails to make a payment of rent on a financed aircraft, the Company may pay the interest and principal due under the respective loan from its own funds provided that the Company has not made such payments on six successive occasions or on any nine occasions. If a lease event of default continues and the Company is no longer permitted to make such payments, the lenders may instruct the Company to terminate the relevant lease agreement and re-pay the loan subject to the nine month remarketing period described above.

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Borrowings under the CBA Facility accrue interest at either a fixed or variable interest rate. Variable borrowings bear interest based on one-month LIBOR plus an applicable composite margin of 2.50%. As of December 31, 2013 and 2012, the weighted average interest rates on the tranche loans, excluding the debt discount amortization, are presented below:

	Balance as of December 31, 2013	December 31, 2012
Fixed rate loans:		
Senior tranche	5.62 %	5.88 %
Junior tranche	7.91 %	7.39 %
Tranche A	6.53 %	—
Tranche B	4.58 %	—
Variable rate loans:		
Senior tranche	—	1.64 %
Junior tranche	—	2.91 %
Tranche A	2.66 %	—
Tranche B	2.66 %	—
Facility weighted average interest rate	4.91 %	5.18 %

As of December 31, 2013 and 2012, interest accrued on the facility totaled $0.2 million and $0.4 million, respectively.

Borrowings under the CBA Facility are secured by the Company s equity interest in the subsidiaries which own the aircraft and the related leases. If, upon the repayment of any loan, the ratio of the total principal amount outstanding under the CBA Facility to the aggregate appraised value of the aircraft is equal to or greater than 80%, the Company will be required to pay into a collateral account an amount as is necessary to that reduces this ratio to less than 80%.

Term Loan

	Balance as of December 31, 2013 (in thousands)	December 31, 2012
Outstanding principal balance	$475,313	$ 390,062
Unamortized debt discount	(10,210)	(12,416)
Term loan, net	**$465,103**	**$ 377,646**

On August 9, 2012, the Company, through a wholly-owned subsidiary, entered into a $395.0 million senior secured term loan that was scheduled to mature in 2018 (the Term Loan) with a consortium of lenders. The Term Loan was originally issued at an offering price of 96% of par value, or a discount of $15.8 million, bearing interest at LIBOR plus a margin of 5.50%, with a LIBOR floor of 1.25%.

Debt proceeds of $266.7 million, along with approximately $122.5 million of the Company s cash, were applied towards full repayment of the B&B Air Acquisition Facility which financed 16 aircraft. The Company received the remaining proceeds of $112.5 million as seven additional aircraft, which were previously financed in the CBA Facility, were delivered into the Term Loan. These proceeds were applied towards full repayment of debt outstanding in the CBA Facility in respect of these seven aircraft, as well as associated break costs.

On December 18, 2012, the Company re-priced the Term Loan reducing the interest rate margin from 5.50% to 4.50%. In conjunction with the re-pricing, the Company paid the lenders a one-time prepayment penalty of 1.00% of the outstanding principal amount which totaled $3.9 million. The Company recorded debt extinguishment costs of $4.2 million associated with the lenders who did not participate in the re-pricing and whom were replaced with new lenders.

On May 21, 2013, the Company completed a second re-pricing of the Term Loan, further reducing the interest rate margin to 3.50% and the LIBOR floor by 0.25% to 1.00%. In conjunction with this re-pricing, the Company paid the lenders a prepayment penalty of 1.00% of the outstanding principal amount which totaled $3.8 million.

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During the first quarter of 2013, the Company sold one aircraft financed through the Term Loan. During the third quarter of 2013, the Company purchased one Boeing 737-800 aircraft using a combination of unrestricted cash and proceeds from the sale of the aircraft previously financed under this facility. The acquired aircraft replaced the aircraft that was sold as collateral under this facility.

On November 21, 2013, the Company amended and upsized the Term Loan by $105.0 million. The incremental borrowing was priced at 99.75% of the principal amount. The Company received net proceeds of approximately $102.0 million, which were used to finance the acquisition of aircraft. At December 31, 2013, $33.6 million was held in an escrow account to finance the acquisition of two additional aircraft, which were acquired during the first quarter of 2014. In connection with this amendment, the Company recorded debt extinguishment costs of $1.2 million.

In conjunction with the upsizing, the maturity of the Term Loan was extended by one year from August 2018 to August 2019. In addition, the maximum Loan-to-Value ratio (LTV) as measured on a quarterly basis, was increased from 67.5% to 70.0% of the lower of the mean or median of half-life adjusted base value of the financed aircraft as determined by three independent appraisers (LTV Maintenance Test). As of December 31, 2013, there was no breach of the LTV Maintenance Test. The Company is required to seek new appraisals semi-annually.

The Term Loan requires quarterly principal payments of $5.9 million. In 2013 and 2012, the Company made principal payments of $19.8 million and $4.9 million, respectively.

Until November 2014, the Term Loan can be prepaid in part or in whole for an amount equal to 101% of the outstanding principal amount being repaid. Thereafter, the Term Loan can be prepaid in part or in whole for an amount equal to the outstanding principal amount being repaid.

Borrowings under the Term Loan are secured by the Company s equity interests in the aircraft owning and/or leasing subsidiaries, the aircraft and related leases and other deposits. The loan is also guaranteed by the Company. The Term Loan contains certain concentration limits with respect to types of aircraft which can be financed in the Term Loan, as well as geographic and single lessee concentration limits. These concentration limits apply upon the acquisition, sale, removal or substitution of an aircraft. The Term Loan also includes certain customary covenants, including reporting requirements and maintenance of public ratings.

An event of default under the Term Loan includes any of the aircraft owning entities defaulting in respect of obligations in excess of $50,000,000 and holders of such obligation accelerate or demand repayment of amounts due thereunder.

As of December 31, 2013 and 2012, interest accrued on the Term Loan totaled $2.9 million and $3.2 million, respectively. As of December 31, 2013, 28 aircraft were financed under the Term Loan.

Fly Acquisition II Facility

On November 7, 2012, the Company, through a wholly-owned subsidiary, entered into a revolving credit facility with a consortium of lenders (Fly Acquisition II Facility) providing loans in an aggregate amount of up to $250.0 million for an availability period of two years followed by a three year term, with an initial maturity date of November 7, 2017.

On July 3, 2013, the Company increased total commitments under the Fly Acquisition II Facility to $450.0 million. The availability period was extended to July 3, 2015. The availability period will be followed by a three-year term period, with a final maturity date of July 3, 2018. The Company pays a commitment fee of 0.75% per annum on a monthly basis to each lender on the undrawn amount of their commitment which accrues during the availability period. The applicable margin has been reduced by 0.50% to 3.25% during the availability period, stepping up to 3.75%, 4.25% and 4.75% in each subsequent year during the term period.

In 2013, the Company purchased six Boeing 737-800 aircraft manufactured in 2013 using a combination of unrestricted cash and $195.6 million drawn under the Fly Acquisition II Facility. In addition, the Company refinanced two aircraft originally financed under the CBA Facility using a combination of unrestricted cash and $44.4 million drawn under the Fly Acquisition II Facility during the first quarter of 2013. During the third quarter of 2013, these two aircraft were refinanced out of this facility, resulting in repayments of $43.8 million. During the fourth quarter of 2013, two additional aircraft were refinanced out of this facility, resulting in repayments of $66.2 million. As of December 31, 2013, the outstanding principal balance under the facility was $126.8 million and four aircraft remained financed through this facility.

The borrowing base for each aircraft in the portfolio is equal to 72.5% of the lower of (x) the original purchase price of the aircraft depreciated on a straight line basis assuming a 25-year useful life and (y) the current market value or base value appraisal. The outstanding aggregate amount of loans under the facility cannot exceed 72.5% of the sum of (x) the aggregate borrowing base of all aircraft and (y) 50% of maintenance reserves paid with respect to the aircraft. Aircraft financed under the Fly Acquisition II Facility may not be more than eight years of age at the time of such funding.

During the availability period, the Company is required to make monthly principal payments equal to the aggregate outstanding principal amount of the loans less 72.5% of the aggregate purchase price of the aircraft depreciated on a straight line basis assuming a 25-year useful life of the aircraft.

The Company may make voluntary prepayments under the Fly Acquisition II Facility. In addition, the Company is required to make partial prepayments with any proceeds from the sale of aircraft and all insurance and other proceeds received with respect to any event of total loss of an aircraft. Amounts repaid may be redrawn during the availability period.

Borrowings are secured by the beneficial interests in the aircraft owning and leasing subsidiaries, the aircraft and related leases, certain cash collateral and other deposits. In addition, the Company is required to maintain cash collateral equal to 2% of the aggregate outstanding principal balance of the loans. If there is an event of default in respect of the borrowing base or if certain concentration criteria are not met at the end of the availability period, then all of the maintenance reserves to be paid in respect of the financed aircraft following the occurrence of such event will be pledged to the lenders. Upon the occurrence of an event of default in respect of the borrowing base, the Company will also be required to pledge to the lenders all maintenance reserves in respect of the financed aircraft prior to such event of default.

Events of default under the Fly Acquisition II Facility include, among other things:

- a final judgment for a payment obligation is rendered against Fly Acquisition II or any of its subsidiaries in an amount in excess of $2,500,000 which remains undischarged for 45 days; and
- certain early termination events related to Fly Acquisition II s swap agreements.

Other Aircraft Secured Debt

In addition to the debt financings described above, the Company has entered into and may periodically enter into secured debt to finance the acquisition of aircraft. These borrowings may finance the acquisition of one or more aircraft and are usually structured as individual loans which are secured by pledges of the Company s rights, title and interest in the financed aircraft and leases. The maturity date on each loan matches the corresponding lease expiration date. The Company makes scheduled monthly payments of principal and interest on each loan in accordance with a fixed amortization schedule. Principal payments totaled $28.7 million and $21.8 million in 2013 and 2012, respectively.

In 2013, the Company purchased four aircraft with unrestricted cash and secured debt financing in an aggregate amount of $237.5 million. At December 31, 2013, $134.9 million was recourse to the Company. Also in 2013, the Company refinanced four aircraft out of the Fly Acquisition II Facility with four aircraft notes payable totaling $112.0 million.

Although these recourse loans are secured by aircraft and their associated leases, the Company has guaranteed and will be responsible for timely payment of all debt service and other amounts due under these loans in the event that the underlying leases do not provide sufficient cash flow to meet required debt payments. In addition, certain of our secured, recourse indebtedness contain cross default provisions to other recourse indebtedness which if triggered could significantly increase the amount of indebtedness which is payable by the Company at the time of the cross default.

Other aircraft secured debt borrowings include: (i) two loans financing three aircraft that were assumed with the acquisition of the GAAM Portfolio, (ii) three loans that were arranged in connection with the re-lease of aircraft, (iii) eight loans that were arranged in connection with the purchase of additional aircraft and (iv) four loans re-financing aircraft already owned by the Company. As of December 31, 2013 and 2012, interest accrued on these loans totaled $1.1 million and $1.0 million, respectively.

The following table contains a summary of the key terms related to these other aircraft secured debt financings:

	Number of Aircraft Financed	**Principal Balance Outstanding as of December 31,**		**Weighted Average Interest Rates** [1]		**Maturity Date**
		2013	**2012**			
		(in thousands)				
GAAM Facility No. 1 [2]	—	$—	$42,090	—		—
GAAM Facility No. 2	2	29,095	31,630	6.30	%	August 2014 – December 2015
GAAM Note Payable [3]	4	59,813	65,298	4.57	%	December 2015 – January 2018
Aircraft Note Payable [4]	12	401,198	141,357	4.62	%	June 2015 – September 2025
Total outstanding principal balance		**$490,106**	**$280,375**			
Unamortized debt discount [2] [3]		(2,854)	(4,232)			
Other aircraft secured borrowings balance, net		**$487,252**	**$276,143**			

(1) Represents the contractual interest rates.

(2) In connection with the sale of the six aircraft financed by this facility in March 2013, the buyer assumed the debt facility which had an outstanding balance of $38.5 million, net of unamortized discount of $2.9 million. As of December 31, 2012, the unamortized discount associated with GAAM Facility No. 1 totaled $3.2 million.

(3) Includes four loans financing four aircraft. As of December 31, 2013 and 2012, the unamortized discount associated with the GAAM Note Payable totaled $0.6 million and $1.0 million, respectively.

(4) Includes twelve loans arranged in connection with the purchase of aircraft.

Other Secured Borrowing

The Company had an $85.0 million credit facility agreement with an international commercial bank. The outstanding principal balance of $34.5 million was fully repaid during the first quarter of 2012.

Borrowings Future Minimum Principal Payments

During the year ended December 31, 2013, the Company made scheduled principal payments on its borrowings totaling $444.6 million. The anticipated future minimum principal payments due for its borrowings are as follows:

Year ending December 31,	**(Dollars in thousands)**
2014	$ 235,651
2015	248,666
2016	196,290
2017	182,725
2018	490,043
Thereafter	945,907
Future minimum principal payments due	**$ 2,299,282**

8. DERIVATIVES

Derivatives are used by the Company to manage its exposure to identified risks, such as interest rate and foreign currency exchange fluctuations. The Company uses interest rate swap contracts to hedge variable interest payments due on loans associated with aircraft with fixed rate rentals. As of December 31, 2013, the Company s total unsecured and secured debt balance, excluding unamortized debt discount, was $2.6 billion. Debt with floating interest rates totaled $1.9 million, of which $1.6 million was associated with aircraft with fixed rate rentals.

Interest rate swap contracts allow the Company to pay fixed interest rates and receive variable interest rates with the swap counterparty based on the one-month LIBOR on the notional amounts over the life of the contracts. The notional amounts decrease over time. As of December 31, 2013 and 2012, the Company had interest rate swap contracts with notional amounts aggregating $1.5 billion and $933.3 million, respectively. Six of the interest rate swap contracts were assumed in connection with the acquisition of the GAAM Portfolio. The unrealized fair market value gain on the interest rate swap contracts, reflected as derivative assets, was $7.4 million as of December 31, 2013. The unrealized fair market value loss on the interest rate swap contracts, reflected as derivative liabilities, was $24.6 million and $47.5 million as of December 31, 2013 and 2012, respectively.

To mitigate its exposure to foreign currency exchange fluctuations, the Company enters into cross currency swap contracts in conjunction with leases in which a portion or all of the lease rentals are denominated in currency other than U.S. dollars (USD). Pursuant to such cross currency swaps, the Company receives USD based on a fixed conversion rate through the maturity date of the respective swap contract. As of December 31, 2013 and 2012, the Company had one and four cross currency swap contracts, respectively, that were assumed in connection with the acquisition of the GAAM Portfolio. The unrealized fair market value loss on the Australian dollar (AUD) cross currency swap contracts, reflected as derivative liabilities, was approximately $35,000 and $1.4 million as of December 31, 2013 and 2012, respectively. The unrealized fair market value gain on the Euro cross currency swap contracts, reflected as a derivative asset, was $0.3 million as of December 31, 2012.

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The Company determines the fair value of derivative instruments using a discounted cash flow model. The model incorporates an assessment of the risk of non-performance by the swap counterparty in valuing derivative assets and an evaluation of the Company s credit risk in valuing derivative liabilities.

The Company considers in its assessment of non-performance risk, if applicable, netting arrangements under master netting agreements, any collateral requirement, and the derivative payment priority in the Company s debt agreements. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility.

Designated Derivatives

The Company s interest rate derivatives have been designated as cash flow hedges. The effective portion of changes in fair value of these derivatives are recorded as a component of accumulated other comprehensive income, net of a provision for income taxes. Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. For the year ended December 31, 2013, the Company recorded an unrealized gain of $22.1 million, net of the applicable net tax expense of $3.5 million. For the year ended December 31, 2012, the Company recorded a net unrealized gain of $9.1 million, after the applicable net tax expense of $1.4 million. For the year ended December 31, 2011, the Company recorded a net unrealized loss of $5.0 million, after the applicable net tax benefit of $0.5 million.

As of December 31, 2013, the Company had the following designated derivative instruments classified as derivative assets on the balance sheet (dollar amounts in thousands):

Type	Quantity	Maturity Dates	Hedge Interest Rates	Swap Contract Notional Amount	Fair Market Value of Derivative Assets	Credit Risk Adjustment	Adjusted Fair Market Value of Derivative Assets	Deferred Tax Expense	Gain Recognized in Accumulated Comprehensive Loss	Gain Recognized into Earnings
Interest rate swap contracts	31	10/15/2017 -9/27/2025	0.89% - 6.22%	$540,742	$7,814	$(167)	$7,647	$(1,025)	$6,917	$82
Accrued interest				—	(252)	—	(252)	—	—	—
Total – designated derivative assets	31			**$540,742**	**$7,562**	**$(167)**	**$7,395**	**$(1,025)**	**$6,917**	**$82**

As of December 31, 2013, the Company had the following designated derivative instruments classified as derivative liabilities on the balance sheet (dollar amounts in thousands):

Type	Quantity

		Maturity Dates	Hedge Interest Rates	Swap Contract Notional Amount	Fair Market Value of Derivative Liability	Credit Risk Adjustment	Adjusted Fair Market Value of Derivative Liability	Deferred Tax Benefit	Loss Recognized in Accumulated Comprehensive Loss	Loss Recognized into Earnings
Interest rate swap contracts	9	1/14/2015 -9/27/2025	1.98% - 4.93%	$620,853	$(24,446)	$792	$(23,654)	$2,957	$(20,697)	$—
Accrued interest				—	(888)	—	(888)	—	—	—
Total – designated derivative liabilities	**9**			**$620,853**	**$(25,334)**	**$792**	**$(24,542)**	**$2,957**	**$(20,697)**	**$—**

Undesignated Derivatives

Cross currency swap contracts assumed in connection with the acquisition of the GAAM Portfolio have historically qualified for hedge accounting treatment. However, due to foreign currency exchange rates of the underlying contracts being different from market rates at the acquisition date, these contracts no longer qualified for hedge accounting treatment and were de-designated. Changes in the fair value of these derivatives are recorded directly into income.

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As of December 31, 2013, the Company had the following undesignated derivative liability (dollar amounts in thousands):

Type	Quantity	Maturity Date	Hedged Interest Rate	Contracted Fixed Conversion Rate to U.S. Dollar	Swap Contract Notional Amount	Fair Market Value of Derivative Liability	Credit Risk Adjustment	Adjusted Fair Market Value of Derivative Liability	Gain Recognized into Earnings
Cross currency swap contract	1	01/23/2014	—	$ 1AUD to 0.7803	$ 370	$ (35)	$ —	$ (35)	$ 1,397
Total – non-designated derivative liability	**1**				**$ 370**	**$ (35)**	**$ —**	**$ (35)**	**$ 1,397**

Terminated Derivatives

In 2010 and 2011, the Company terminated two interest rate swap contracts and received settlement proceeds totaling $2.1 million which were amortized into interest expense over the original term of the contracts. In 2013, of the remaining amount to be amortized, $0.3 million was amortized into interest expense and the balance of $1.0 million was written off as a loss on debt extinguishment upon repayment of the associated debt.

During the year ended December 31, 2013, in connection with three cross currency and one interest rate swap contracts that terminated, the Company recognized net fair value losses totaling $0.2 million.

During the year ended December 31, 2012, the Company terminated four cross currency swap contracts and received net settlement proceeds of $1.3 million. The gain associated with the terminated contracts totaled $0.7 million.

In connection with the repayment of the B&B Air Acquisition Facility, the Company terminated eleven swaps associated with the facility and made payments totaling $36.3 million in the third quarter of 2012. The loss recognized into earnings associated with the terminated contracts totaled $32.3 million.

During 2008, the Company terminated a cross currency swap contract and received settlement proceeds totaling $2.1 million which was amortized into operating lease revenue through April 15, 2016, the original contract maturity date. In connection with the sale of the aircraft and associated lease rentals, the remaining amount of $1.1 million was fully amortized in 2011.

9. SHARE-BASED COMPENSATION

Description of Plan

On April 29, 2010, the Company adopted the 2010 Omnibus Incentive Plan (2010 Plan) and reserved 1,500,000 shares for issuance under the 2010 Plan. The 2010 Plan permits the grant of (i) SARs; (ii) RSUs; (iii) nonqualified stock options; and (iv) other stock-based awards. In 2010, the Company made an initial grant aggregating 599,999 SARs

and RSUs to certain employees of BBAM LP who provide services to the Company pursuant to management and servicing agreements. In 2011 and 2012, the Company made additional grants of 600,001 and 300,000 SARs and RSUs, respectively. There are no remaining shares available for grants under the 2010 Plan.

SARs entitle the holder to receive any increase in value between the grant date price of Fly s ADSs and their value on the exercise date. RSUs entitle the holder to receive a number of Fly s ADSs equal to the number of RSUs awarded upon vesting. The granted SARs and RSUs vest in three equal installments and expire on the tenth anniversary of the grant date. The Company settles SARs and RSUs with newly issued ADSs.

The holder of a SAR or RSU is also entitled to dividend equivalent rights (Dividend Equivalent) on each SAR and RSU. For each Dividend Equivalent, the holder shall have the non-forfeitable right to receive a cash amount equal to the per share dividend paid by the Company during the period between the grant date and the earlier of the (i) award exercise date, (ii) termination date or (iii) expiration date (Dividend Amount). Dividend Equivalents expire at the same time and in the same proportion that the SARs and RSUs are either exercised, cancelled, forfeited or expired. Dividend Amounts are payable to the holder only when the SAR or RSU on which the Dividend Equivalent applies has vested.

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Valuation Assumptions

The Company accounts for grants to the CEO and CFO as grants to employees and grants to other BBAM LP employees as grants to non-employees. Grants to employees are valued at the grant date and amortized on a straight-line basis into share-based compensation expense over the service period. Grants to non-employees are initially measured at grant date, and then re-measured at each interim reporting period until the awards are vested.

The Company uses the Black-Scholes option pricing model to determine the fair value of SARs. The fair value of SARs expected to vest is estimated on the date of grant, or if applicable, on the measurement date using the following assumptions:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Risk-free interest rate	0.90% – 2.51%	0.90% – 2.73%	1.67% – 3.47%
Volatility	51% – 63%	54% – 70%	60% – 70%
Expected life	6 – 8 years	6 – 10 years	6 – 9 years

The expected stock price volatility was determined based on the historical volatility of the Company s common shares as well as other companies operating in similar businesses. The risk-free interest rate is based on the US Treasury yield curve in effect at the time of grant, or as applicable as of the measurement date, for the period corresponding with the expected life of the SAR. The dividend yield assumption was not factored into the valuation model as the SAR grant holder is entitled to the Dividend Amount.

Grant Activity

A summary of the Company s SAR activity for the years ended December 31, 2013, 2012 and 2011 are presented as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual life (in years)
Outstanding at January 1, 2011	359,605	$ 12.42	9.3
SARs granted	349,235	13.30	—
SARs exercised	—	—	—
SARs canceled or forfeited	—	—	—
Outstanding at December 31, 2011	708,840	12.85	8.8
SARs granted	183,164	12.28	—
SARs exercised	—	—	—
SARs canceled or forfeited	—	—	—
Outstanding at December 31, 2012	892,004	12.74	8.1
SARs granted	—	—	—
SARs exercised	(3,370)	12.42	—
SARs canceled or forfeited	—	—	—

Outstanding at December 31, 2013	888,634	12.74	7.1
Exercisable at December 31, 2013	650,116	$ 12.72	6.8

No SARs were granted to employees and non-employees during the year ended December 31, 2013. SARs granted to employees and non-employees during the year ended December 31, 2012 totaled 33,096 and 150,068, respectively. SARs granted to employees and non-employees during the year ended December 31, 2011 totaled 63,104 and 286,131, respectively.

The aggregate intrinsic value of the SARs is calculated as the difference between the exercise price of the underlying awards and the Company s closing ADS price of $16.07, $12.32 and $12.52 as of December 31, 2013, 2012 and 2011, respectively. The SARs had an intrinsic value of $0.8 million as of December 31, 2013. As of December 31, 2012 and 2011, the unvested SARs had no intrinsic value. The grant date fair value of the SARs granted in 2012 and 2011 was $1.4 million and $3.2 million, respectively.

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A summary of the Company s RSU activity for the years ended December 31, 2013, 2012 and 2011 is as follows:

	Number of shares	Weighted average grant date fair value
Outstanding and unvested at January 1, 2011	160,262	$ 12.42
RSUs granted	250,766	13.30
RSUs vested	(80,132)	12.42
RSUs canceled or forfeited	—	—
Outstanding and unvested at December 31, 2011	330,896	13.09
RSUs granted	116,836	12.28
RSUs vested	(163,718)	12.87
RSUs canceled or forfeited	—	—
Outstanding and unvested at December 31, 2012	284,014	12.88
RSUs granted	—	—
RSUs vested	(122,534)	12.98
RSUs canceled or forfeited	—	—
Outstanding and unvested at December 31, 2013	161,480	$ 12.81

No RSUs were granted to employees and non-employees during the year ended December 31, 2013. RSUs granted to employees and non-employees during the year ended December 31, 2012 totaled 21,112 and 95,724, respectively. RSUs granted to employees and non-employees during the year ended December 31, 2011 totaled 45,312 and 205,454, respectively.

The weighted average grant date fair value of the RSUs was determined based on the closing market price of the Company s ADSs on the date of the award. As of December 31, 2013, the aggregate intrinsic value of RSUs outstanding using the closing price of $16.07 per ADS was $2.6 million. The aggregate intrinsic value of RSUs outstanding using the closing price of $12.32 per ADS as of December 31, 2012 was $3.5 million. The aggregate intrinsic value of RSUs outstanding using the closing price of $12.52 per ADS as of December 31, 2011 was $4.1 million.

Share-based compensation expense related to SARs and RSUs is recorded as a component of selling, general and administrative expenses, and totaled $3.2 million, $3.6 million and $4.8 for the years ended December 31, 2013, 2012 and 2011, respectively. Unamortized share-based compensation expense totaled $0.9 million, $2.6 million and $3.6 million at December 31, 2013, 2012 and 2011, respectively. As of December 31, 2013, 2012 and 2011, unvested RSUs and SARs had weighted average remaining vesting terms of approximately six months, eleven months and twelve months, respectively.

10. INCOME TAXES

Fly is a tax resident of Ireland and has wholly-owned subsidiaries in Ireland, France, Luxembourg, Australia, Singapore and Labuan that are tax residents in those jurisdictions. In general, Irish resident companies pay corporation tax at the rate of 12.5% on trading income and 25.0% on non-trading income. In calculating net trading income, Fly and its Irish tax resident subsidiaries are entitled to a deduction for trading expenses and tax depreciation on their aircraft. In addition, repatriated earnings and any undistributed earnings from the Company s Cayman and Australian subsidiaries will be taxed at the 25.0% and 12.5% tax rate, respectively. Fly s French resident subsidiaries pay a

corporation tax of 33.33%, Fly s Luxembourg resident subsidiary pays a corporation tax of 28.8% and Fly s Australian resident subsidiaries pay a corporation tax of 30.0% on their net trading income.

The Company s tax provision also included U.S. federal and state taxes on its share of BBAM LP s taxable income sourced in the U.S. BBAM LP operates in jurisdictions in which it, rather than its partners, is responsible for the taxes levied. These taxes are included in BBAM LP s results and are reflected in the Company s equity earnings from BBAM LP.

Fly-BBAM was subject to Irish tax on dividends paid to it by BBAM LP at either 12.5% or 25.0% depending on the underlying source of income. Subject to limitations under current Irish law, U.S. taxes paid by the Company or taxes paid by BBAM LP s subsidiaries were credited against Irish tax liability associated with its investment in BBAM LP.

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Income tax expense by jurisdiction is shown below:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
	(Dollars in thousands)		
Current tax (benefit) expense:			
Ireland	$400	$ 10,201	$ 95
France	20	32	25
Luxembourg	175	26	—
United States	(1,131)	1,783	1,560
Current tax expense (benefit) — total	(536)	12,042	1,680
Deferred tax expense (benefit):			
Ireland	3,470	(10,118)	1,639
France	(13)	(2)	6
Australia	2,738	2,101	731
United States	—	(161)	186
Deferred tax expense (benefit) — total	6,195	(8,180)	2,562
Total income tax expense	**$5,659**	**$ 3,862**	**$ 4,242**

In the year ended December 31, 2013, the Company recognized a tax benefit of $1.1 million related to 2012 U.S. Federal and State taxes primarily resulting from the re-allocation of BBAM LP s U.S. sourced income among its partners.

The Company had no unrecognized tax benefits as of December 31, 2013 and 2012. The principal components of the Company s net deferred tax asset (liability) were as follows:

	December 31, 2013	December 31, 2012
	(Dollars in thousands)	
Deferred tax asset:		
Net operating loss carry forwards	$ 193,006	$ 165,397
Deductible intra-group interest	—	8,663
Net unrealized losses on derivative instruments	1,932	6,928
Basis difference on acquisition of GAAM Australian assets	9,597	16,493
Other	202	61
Valuation allowance	(19,412)	(24,588)
Total deferred tax asset	185,325	172,954
Deferred tax liability:		
Excess of tax depreciation over book depreciation	(171,969)	(137,509)
Book/tax differences identified in connection with GAAM Portfolio acquisition:		
Debt	(1,859)	(4,324)

Security deposits and maintenance reserve liability	(388)	(551)
Lease premiums, net	(142)	(307)
Net earnings of non-European Union member subsidiaries	(18,713)	(20,813)
Total deferred tax liability	(193,071)	(163,504)
Deferred tax (liability) asset, net	**$ (7,746)**	**$ 9,450**

The Company had recorded valuation allowances against a deferred tax asset in connection with basis differences on the acquisition of GAAM s Australian assets. In connection with the sale of aircraft owned by a wholly-owned Australian subsidiary in 2013, the Company generated capital gains and has utilized approximately $2.3 million of the deferred tax asset.

Under current tax rules in Ireland, the Company is allowed to carry forward its net operating losses for an indefinite period to offset any future income. However, the Company has recorded a net valuation allowance of $1.7 million for the year ended December 31, 2013.

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The Company records valuation allowances to reduce deferred tax assets to the extent it believes it is more likely than not that a portion of such assets will not be realized. In making such determinations, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and its ability to carry back losses to prior years. The Company is required to make assumptions and judgments about potential outcomes that may be outside its control. Critical factors include the projection, source, and character of future taxable income. Although realization is not assured, the Company believes it is more likely than not that deferred tax assets, net of the valuation allowance, will be realized. The amount of deferred tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward periods are reduced or current tax planning strategies are not implemented. At December 31, 2013 and 2012, the Company had a valuation allowance of $19.4 million and $24.6 million, respectively.

The Company is allowed to carry forward its net operating losses for an indefinite period to be offset against income of the same trade under current tax rules in Ireland.

The table below is a reconciliation of the Irish statutory corporation tax rate of 12.5% on trading income to the Company s recorded income tax expense (benefit):

	Year ended December 31, 2013	**Year ended December 31, 2012**	**Year ended December 31, 2011**
	(Percentage)		
Irish statutory corporate tax rate on trading income	12.5%	12.5 %	12.5 %
Valuation allowances	1.6 %	—	—
Equity earnings from Fly-Z/C LP	(0.4 %)	(0.4 %)	(0.7 %)
Tax on investment in BBAM LP	—	1.3 %	20.4 %
Tax impact of repurchased and resold Notes	(0.8 %)	(1.2 %)	(3.0 %)
Share-based compensation	0.7 %	0.9 %	11.2 %
Tax on gain on sale of investment in BBAM LP	—	9.1 %	—
Deductible intra-group interest	(2.2 %)	(12.9 %)	—
Foreign tax rate differentials	3.3 %	(2.4 %)	(2.8 %)
True-up of prior year tax provision	0.2 %	1.1 %	—
Non-taxable gain on debt extinguishment	(5.1 %)	—	—
Non-deductible transaction fees and expenses	0.1 %	—	40.7 %
Other	(0.2 %)	(0.5 %)	1.2 %
Income tax expense	**9.7 %**	**7.5 %**	**79.5 %**

The Company is not under examination in any tax jurisdiction at the present time. The tax years from 2009 onwards are open for examination by the tax authorities.

11. OTHER LIABILITIES

The following table describes the principal components of the Company s other liabilities:

	December 31, 2013	December 31, 2012
	(Dollars in thousands)	
Net current tax provision	$ 1,517	$ 9,985
Lease incentive obligation	8,534	9,483
Deferred rent payable	9,169	7,773
Unamortized lease discounts	256	1,345
Other	1,047	645
Total other liabilities	**$ 20,523**	**$ 29,231**

For the years ended December 31, 2013 and 2012, amortization of lease discounts recorded into rental revenue totaled $0.4 million and $0.5 million, respectively.

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12. SHAREHOLDERS EQUITY

In July 2013, the Company sold 13,142,856 common shares in the form of ADSs at a price of $14.00 per ADS in an underwritten public offering generating net proceeds of approximately $172.6 million. As of December 31, 2013, there were 41,306,338 shares outstanding.

During the years ended December 31, 2013, 2012 and 2011, the Company declared and paid dividends of $0.88 per share or $31.5 million, $0.84 per share or $22.5 million and $0.80 per share or $21.1 million, respectively. On January 9, 2014, the Company declared a dividend of $0.25 per share or approximately $10.3 million, including dividend equivalents paid to vested SARs, which was paid on February 20, 2014 to shareholders of record at January 31, 2014.

The Company s board of directors approved certain share repurchase programs pursuant to which the Company may make share repurchases from time to time in the open market or in privately negotiated transactions. The timing of the repurchases under these programs, as set forth below, may depend on a variety of factors, including market conditions, and the program may be suspended or discontinued at any time prior to the expiration date.

Board Approval Date	Expiration Date	Maximum dollar value of shares that may be purchased under this program	Calendar year shares were purchased	Total number of shares purchased	Average price paid per share
May 3, 2010	May 2011	$ 30.0 million	2011	23,135	$ 12.43
May 3, 2011	May 2012	$ 30.0 million	2011	43,533	$ 10.87
May 2, 2012	May 2013	$ 25.0 million	—	—	—
May 1, 2013	May 2014	$ 30.0 million	—	—	—

The Company also made share repurchases outside of these programs. On March 8, 2011, the Company repurchased 1,035,438 of its shares from a third party at a price of $11.93 per share or $12.3 million pursuant to a Stock Purchase Agreement.

On December 28, 2012, Summit and Onex Corporation and its affiliates (collectively, Onex) invested an aggregate of $25.0 million, for a total of 2,191,060 newly issued common shares of the Company at a price of $11.41 per share. The share price represents a 5% discount to the volume-weighted average price of the Company s common shares in the five-day period ended November 29, 2012. The shares are subject to lock-up provisions, and the Company has agreed to register these shares with the Securities and Exchange Commission pursuant to a registration rights agreement.

13. EARNINGS PER SHARE

The following table sets forth the calculation of basic and diluted earnings per share:

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011

	(Dollars in thousands, except share and per share data)		
Numerator			
Net income	$ 52,476	$ 47,669	$ 1,096
Less: Dividend equivalents paid to vested RSUs and SARs	(940)	(884)	(360)
Net income available to common shareholders	$ 51,536	$ 46,785	$ 736
Denominator			
Weighted average shares outstanding-Basic	34,129,880	25,792,932	25,843,348
Dilutive common equivalent shares:			
RSUs	102,914	164,998	143,344
SARs	10,662	3,675	5,370
Weighted average shares outstanding-Diluted	34,243,456	25,961,605	25,992,062
Earnings per share:			
Basic	$ 1.51	$ 1.81	$ 0.03
Diluted	$ 1.50	$ 1.80	$ 0.03

Basic earnings per share are calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated by dividing net income available to common shareholders by the sum of the weighted average number of common shares outstanding and the potential number of dilutive common shares outstanding during the period, excluding the effect of any anti-dilutive securities.

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SARs and RSUs granted by the Company that contain non-forfeitable rights to receive dividend equivalents are deemed participating securities (see Note 9). Net income available to common shareholders is determined by reducing the Company s net income for the period by dividend equivalents paid on vested RSUs and SARs during the period.

14. COMMITMENTS AND CONTINGENCIES

From time to time, the Company contracts with third-party service providers to perform maintenance or overhaul activities on its off-lease aircraft.

At December 31, 2013, the Company had a commitment to purchase two aircraft for approximately $36.5 million.

15. RELATED PARTY TRANSACTIONS

Fly has no employees and has outsourced the daily operations of the Company by entering into management, servicing and administrative agreements (the Agreements) with BBAM. Services to be rendered under these agreements include acquiring and disposing of aircraft; marketing of aircraft for lease and re-lease; collecting rent and other payments from the lessees; monitoring maintenance, insurance and other obligations under the leases; enforcing the Company s rights under the lease terms; and maintaining the books and records of the Company and its subsidiaries. The Manager manages the Company under the direction of its chief executive officer and chief financial officer. Pursuant to the terms of the Agreements, certain fees and expenses that may be payable to the Manager may be reduced for any like payments made to other BBAM affiliates.

In connection with the acquisition of the GAAM Portfolio, the Company amended its agreement with its Manager and entered into new servicing agreements with affiliates of BBAM LP related to the GAAM portfolio.

On December 28, 2012, in connection with the sale of the Company s 15% interest in BBAM to Onex, the Management Agreement was amended and the term of the agreement was extended to December 28, 2022, with an automatic five year renewal period unless the Company pays a termination fee to the Manager of $8.0 million, subject to potential future adjustment. In connection with the sale of its 15% interest in BBAM LP, the Company paid BBAM a fee equal to 1.5% of the selling price or $0.7 million.

Pursuant to the Agreements, BBAM is entitled to receive servicing fees. With respect to the Company s Initial Portfolio, BBAM is entitled to receive a base fee of $150,000 per month, subject to certain adjustments, and a rent fee equal to 1.0% of the aggregate amount of aircraft rent due and 1% of rent actually collected. With respect to all other aircraft, BBAM is entitled to receive a servicing fee equal to 3.5% of the aggregate amount of rent actually received for such aircraft. For the years ended December 31, 2013, 2012 and 2011, base and rent fees incurred amounted to $12.1 million, $12.6 million and $8.5 million, respectively.

BBAM is entitled to an administrative agency fee from B&B Air Funding equal to $750,000 per annum, subject to adjustments based on the Consumer Price Index. Until August 2012, BBAM was entitled to an administrative fee from B&B Air Acquisition of $240,000 per annum. For all other aircraft, BBAM is entitled to an administrative fee of $1,000 per month per aircraft. In addition, BBAM is entitled to a servicer administrative fee of $10,000 per month under each of the Term Loan and Fly Acquisition II Facility. For the years ended December 31, 2013, 2012 and 2011, $1.9 million, $1.8 million and $1.2 million of administrative fees were paid in each respective period.

For its role as exclusive arranger, BBAM receives a fee equal to 1.5% of the purchase price of aircraft acquired, excluding aircraft in the Initial Portfolio. BBAM also receives 1.5% of the sales proceeds of all disposed aircraft. However, in connection with the acquisition of the 49 aircraft in the GAAM Portfolio, the Company paid its Manager a one-time acquisition fee of $12.5 million. In addition, the Company paid the Manager a disposition fee equal to 2% of the gross proceeds in respect of the disposition of any of these 49 aircraft made on or prior to October 14, 2013 when the gross proceeds on such disposition exceeded the net book value of such aircraft. The disposition fee payable on these 49 acquired aircraft after October 14, 2013 will be 1.5% of the aggregate gross proceeds on disposition. For the year ended December 31, 2013, $9.5 million and $2.0 million of fees were incurred for aircraft acquired and disposed, respectively. For the year ended December 31, 2012, $0.9 million and $1.2 million of fees were incurred for aircraft acquired and disposed, respectively. For the year ended December 31, 2011, $1.5 million and $2.1 million of fees were incurred for aircraft acquired and disposed, respectively

On December 28, 2012, the Company issued 2,191,060 shares at $11.41 per share or $25.0 million to Summit and Onex. The share price represents a 5% discount to the volume-weighted average price of the Company s common shares in the five-day period ended November 29, 2012. The shares are subject to lock-up provisions, and the Company has registered these shares with the Securities and Exchange Commission pursuant to a registration statement. The Company paid a 4.0% commission or $1.0 million to BBAM in connection with the issuance of these shares.

The Company makes quarterly payments to the Manager as compensation for providing the chief executive officer, the chief financial officer and other personnel, and for certain corporate overhead costs related to Fly (Management Expenses), subject to adjustments tied to the Consumer Price Index. Beginning on October 15, 2011, the Company has agreed to make quarterly payments to the Manager in the amount of $2.5 million, subject to an annual adjustment tied to the Consumer Price Index applicable to the prior calendar year. The amount is subject to adjustment by notice from the Manager and the approval of the independent members of the Company s board of directors. For the years ended December 31, 2013, 2012 and 2011, the Company incurred $10.5 million, $10.3 million and $7.2 million of Management Expenses, respectively.

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In connection with its services, the Manager may incur expenses such as insurance, as well as legal and professional advisory fees on behalf of the Company. The Company had $0.8 million and $0.5 million of reimbursable expenses due to the Manager at December 31, 2013 and 2012, respectively.

In connection with the Company s underwritten public offering in July 2013, the Company sold 142,857 common shares in the form of ADSs to certain officers and directors of Fly and BBAM LP at the public offering price of $14.00 per ADS, generating proceeds of $2.0 million.

In connection with the repricing of the Term loan on December 18, 2012, the Company paid a one-time success fee to BBAM of $0.2 million.

The Company s minimum long-term contractual obligations with BBAM LP as of December 31, 2013, excluding rent fees, consisted of the following:

	2014	2015	2016	2017	2018	Thereafter	Total
	(Dollars in thousands)						
Fixed base fee payments[1]	$2,013	$2,013	$2,013	$2,013	$2,013	$ 14,095	$24,160
Fixed administrative agency fee payments due by B&B Air Funding[1]	839	839	839	839	839	5,872	10,067
Fixed administrative agency fee payments due by Fly Acquisition II	168	168	168	168	109	284	1,065
Fixed administrative services fee due by Fly Peridot	416	378	261	238	201	185	1,679
Fixed administrative agency fee payments due by other subsidiaries	540	448	335	293	190	304	2,110
Fixed payments for Management Expenses[1][2]	10,633	10,633	10,633	10,633	10,633	50,530	103,695
Total	**$14,609**	**$14,479**	**$14,249**	**$14,184**	**$13,985**	**$ 71,270**	**$142,776**

(1) Amounts in the table assume CPI rates in effect as of December 31, 2013 remain constant in future periods.

(2) The initial term of the Management Agreement is for ten years, with an automatic five year renewal period. The agreement provides for an early termination fee of $8.0 million, subject to potential future adjustment. The table assumes termination of the agreement after the initial ten year term and payment of the applicable termination fee.

In 2010, Summit purchased 1,000,000 shares of the Company from Babcock & Brown. Fly has a right of first refusal on any sale of these shares by Summit until April 2015.

16. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value on a recurring basis in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. The hierarchy levels established by FASB give the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are disclosed by level within the following fair value hierarchy:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument s anticipated life.

Level 3 — Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The Company s financial instruments consist principally of cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, derivative instruments, accounts payable and secured borrowings. Fair value of an asset is defined as the price a seller would receive in a current transaction between knowledgeable, willing and able parties. A liability s fair value is defined as the amount that an obligor would pay to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor.

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The fair value of the Company s cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, and accounts payable approximate their carrying value. (The fair values of cash, restricted cash and cash equivalents are a Level 1 hierarchy. The fair values of accounts receivable and accounts payable are Level 2 hierarchy.) Where available, the fair value of the Company s notes payable and debt facilities are based on observable market prices or parameters or derived from such prices or parameters (Level 2). Where observable prices or inputs are not available, valuation models are applied, using the net present value of cash flow streams over the term using estimated market rates for similar instruments and remaining terms (Level 3). These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments complexity. The Company determines the fair value of its derivative instruments using a discounted cash flow model which incorporates an assessment of the risk of non-performance by the swap counterparty and an evaluation of Fly s credit risk in valuing derivative liabilities. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility.

The Company also measures the fair value for certain assets and liabilities on a non-recurring basis, when GAAP requires the application of fair value, including events or changes in circumstances that indicate that the carrying amounts of assets may not be recoverable. Assets subject to these measurements include Fly s investments in unconsolidated affiliates and flight equipment held for operating leases. Fly accounts for its investments in unconsolidated affiliates under the equity method and records impairment when its fair value is less than its carrying value (Level 3).

The Company records flight equipment at fair value when the carrying value may not be recoverable. Such fair value measurements are based on management s best estimates and judgment, and uses Level 3 inputs which include assumptions as to future cash proceeds from the leasing and eventual disposition of the aircraft. For the years ended December 31, 2013 and 2012, the Company wrote down one aircraft to its net realizable value and recognized a charge of $8.8 million and $11.4 million, respectively. For the year ended December 31, 2011, the Company wrote down two aircraft to their net realizable value and recognized a charge of $7.5 million.

The carrying amounts and fair values of the Company s financial instruments are as follows:

	December 31, 2013		**December 31, 2012**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(Dollars in thousands)			
Notes payable	$575,326	$498,038	$639,281	$587,795
Nord LB Facility	440,456	440,456	490,717	490,717
CBA Facility	159,802	153,390	268,625	266,794
Term Loan	465,103	478,877	377,646	397,864
Fly Acquisition II	126,766	134,320	—	—
Other aircraft secured debt	487,252	488,267	276,143	275,122
Unsecured debt	291,567	305,250	—	—
Derivative asset	7,395	7,395	319	319
Derivative liabilities	24,577	24,577	48,967	48,967

As of December 31, 2013 and 2012, the categorized asset and liabilities measured at fair value on a recurring basis, based upon the lowest level of significant inputs to the valuations are as follows:

	Level 1	Level 2	Level 3	Total
	(Dollars in thousands)			
December 31, 2013:				
Derivative asset	—	$7,395	—	$7,395
Derivative liabilities	—	24,577	—	24,577
December 31, 2012:				
Derivative asset	—	319	—	319
Derivative liabilities	—	48,967	—	48,967

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17. UNAUDITED QUARTERLY CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The unaudited quarterly financial statements for the year ended December 31, 2013 are presented below:

(Dollars in thousands, except per share data)	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Total revenues	$114,365	$90,538	$ 79,115	$ 85,469
Net income	$32,845	$5,915	$ 304	$ 13,412
Earnings per share — Basic	$1.15	$0.20	$ 0.00	$ 0.32
Earnings per share — Diluted	$1.15	$0.20	$ 0.00	$ 0.32

The unaudited quarterly financial statements for the year ended December 31, 2012 are presented below:

(Dollars in thousands, except per share data)	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
Total revenues	$104,507	$110,910	$ 86,408	$ 130,871
Net income (loss)	$20,387	$25,729	$ (29,439)	$ 30,992
Earnings (loss) per share — Basic	$0.78	$1.00	$ (1.15)	$ 1.18
Earnings (loss) per share — Diluted	$0.78	$0.99	$ (1.15)	$ 1.17

18. SUBSEQUENT EVENTS

On January 9, 2014, the Company declared a dividend of $0.25 per share or approximately $10.3 million, which was paid on February 20, 2014 to shareholders of record at January 31, 2014.

In January 2014, the Company entered into two sale agreements with an unrelated third party in respect of two Airbus A319-100 aircraft.

In February 2014, the Company purchased two aircraft for $36.5 million. The acquisition was partially financed with proceeds received from the Term Loan of $33.6 million.

On February 4, 2014, the Company entered into two purchase agreements with an unrelated third party for two Boeing 737-800 aircraft.

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Report of Independent Registered Public Accounting Firm

The Board of Directors
and Shareholders of Fly Leasing Limited

We have audited the consolidated balance sheets of Fly Leasing Limited as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2013, and have issued our report thereon dated March 14, 2014 (included elsewhere in the Form 20-F). Our audits also included the financial statement schedule listed in Item 18 of this Form 20-F. This schedule is the responsibility of the Company s management. Our responsibility is to express an opinion on the schedule based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

San Francisco, California
March 14, 2014

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Schedule I — Consolidated financial information of parent

Fly Leasing Limited

Condensed Balance Sheets

AS OF DECEMBER 31, 2013 AND 2012

(Dollar amounts in thousands)

	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	$ 277,267	$ 82,124
Receivable from subsidiaries	309	—
Notes receivable from subsidiaries	56,132	5,986
Investments in subsidiaries	742,668	473,665
Investment in unconsolidated subsidiary	8,179	6,308
Other assets, net	1,524	445
Total assets	**1,086,079**	**568,528**
Liabilities		
Payable to related parties	24,051	1,126
Payable to subsidiaries	—	9,814
Note payable to subsidiaries	—	3,986
Unsecured borrowings, net	291,567	—
Deferred tax liability, net	17,955	19,609
Accrued and other liabilities	3,683	1,991
Total liabilities	**337,256**	**36,526**
Shareholders equity	**748,823**	**532,002**
Total liabilities and shareholders equity	**$ 1,086,079**	**$ 568,528**

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Fly Leasing Limited

Condensed Statements of Income

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(Dollar amounts in thousands, except per share data)

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Revenues			
Equity in earnings of subsidiaries	$ 51,136	$ 47,602	$ 6,613
Equity in earnings from unconsolidated subsidiary	1,871	1,631	279
Intercompany management fee income	15,780	16,154	9,550
Intercompany interest income	1,407	—	—
Interest and other income	185	176	79
Total revenues	**70,379**	**65,563**	**16,521**
Expense			
Interest expense	1,887	—	—
Selling, general and administrative	17,644	19,053	15,923
Total expenses	**19,531**	**19,053**	**15,923**
Net income before provision for income taxes	**50,848**	**46,510**	**598**
Income tax benefit	(1,628)	(1,159)	(498)
Net income	**$ 52,476**	**$ 47,669**	**$ 1,096**
Weighted average number of shares:			
Basic	34,129,880	25,792,932	25,843,348
Diluted	34,243,456	25,961,605	25,992,062
Earnings per share:			
Basic	$ 1.51	$ 1.81	$ 0.03
Diluted	$ 1.50	$ 1.80	$ 0.03

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Schedule I — Consolidated financial information of parent

Fly Leasing Limited
Condensed Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Dollar amounts in thousands)

	Year ended December 31, 2013	Year ended December 31, 2012	Year ended December 31, 2011
Cash Flows from Operating Activities			
Net Income	**$52,476**	**$47,669**	**$1,096**
Adjustments to reconcile net income to net cash flow provided by operating activities:			
Equity in earnings of subsidiaries	(51,136)	(47,602)	(6,613)
Equity in earnings of unconsolidated subsidiary	(1,871)	(1,631)	(279)
Income tax benefit	(1,654)	(1,203)	(497)
Share-based compensation	3,177	3,635	4,768
Amortization of debt discount and others	76	—	—
Changes in operating assets and liabilities:			
Receivable/(payable) to subsidiaries	12,797	(3,330)	13,967
Other assets	45	7	(69)
Payable to related parties	(1,435)	1,121	(22)
Accrued and other liabilities	670	1,316	(133)
Net cash flows provided by (used in) operating activities	**13,145**	**(18)**	**12,218**
Cash Flows from Investing Activities			
Capital contributions to subsidiaries	(256,515)	(21,000)	(122,703)
Distributions received from subsidiaries	6,000	41,462	102,109
Capital contributions to unconsolidated subsidiary	—	—	(5,863)
Distributions received from unconsolidated subsidiary	—	458	1,007
Notes payable to subsidiaries	—	—	(47,100)
Net cash flows provided by (used in) investing activities	**(250,515)**	**20,920**	**(72,550)**
Cash Flows from Financing Activities			
Proceeds from issuance of shares, net of fees paid	172,595	23,914	—
Proceeds from issuance of unsecured borrowings	291,389	—	—
Dividends	(30,531)	(21,629)	(20,738)
Dividend equivalents	(940)	(884)	(360)
Shares repurchased	—	—	(13,142)
Net cash flows provided by (used in) financing activities	**432,513**	**1,401**	**(34,240)**
Net increase in (decrease) cash	**195,143**	**22,303**	**(94,572)**
Cash at beginning of period	82,124	59,821	154,393

Cash at end of period	**$277,267**	**$82,124**	**$59,821**
Supplemental Disclosure of Non Cash Activities:			
Taxes paid	$—	$—	$—

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ITEM 19. EXHIBITS

We have filed the following documents as exhibits to this Annual Report.

Exhibit Number	Description of Exhibit
1.1	Memorandum of Association[(1)]
1.2	Amended and Restated Bye-Laws of Fly Leasing Ltd.[(3)SS]
2.1	Deposit Agreement between Deutsche Bank Trust Company Americas and Babcock & Brown Air Limited.[(1)]
4.1	Servicing Agreement, dated as of October 2, 2007, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation.[(1)]
4.2	Administrative Services Agreement, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, AMBAC Assurance Corporation, Babcock & Brown Air Management Co. Limited and Babcock & Brown Air Funding I Limited.[(1)]
4.3	Trust Indenture, dated as of October 2, 2007, among Deutsche Bank Trust Company Americas, BNP Paribas, AMBAC Assurance Corporation and Babcock & Brown Air Funding I Limited.[(1)]
4.4	Security Trust Agreement, dated as of October 2, 2007, between Deutsche Bank Trust Company Americas, and Babcock & Brown Air Funding I Limited.[(1)]
4.5	Cash Management Agreement between Deutsche Bank Trust Company Americas and Babcock & Brown Air Funding I Limited.[(1)]
4.6	Form of Director Service Agreement between Babcock & Brown Air Limited and each director thereof.[(1)]
4.7	Amendment No. 1 to Servicing Agreement, dated as of April 29, 2010, among Babcock & Brown Aircraft Management LLC, Babcock & Brown Aircraft Management (Europe) Limited, Babcock & Brown Air Funding I Limited and AMBAC Assurance Corporation.[(4)]
4.8	Fly Leasing Limited Omnibus Incentive Plan.[(4)]
4.9	Form of Stock Appreciation Right Award Agreement.[(4)]
4.10	Form of Restricted Stock Unit Award Agreement.[(4)]
4.11	

	Loan Agreement dated as of November 14, 2007, among Global Aviation Holdings Fund Limited, GAHF (Ireland) Limited, Caledonian Aviation Holdings Limited and Norddeutsche Landesbank Girozentrale.(5)
4.12	Form of Loan Agreement among Hobart Aviation Holdings Limited, Norddeutsche Landesbank Girozentrale and each borrower thereof.(5)
4.13	Form of Servicing Agreement among BBAM LLC, BBAM Aviation Services Limited and each company thereof.(5)
4.14	Securities Purchase Agreement dated November 30, 2012, by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein.(9)
4.15	Purchase Agreement dated November 30, 2012 by and among BBAM Limited Partnership, Summit Aviation Partners LLC, Fly-BBAM Holdings Ltd., Summit Aviation Management Co., Ltd. and such persons identified therein.(7)
4.16	First Amendment to Purchase Amendment dated December 28, 2012 by and among Fly Leasing Limited, Summit Aviation Partners LLC and such persons identified therein.(9)
4.17	Amended and Restated Fly Leasing Limited Management Agreement dated as of December 28, 2012, between Fly Leasing Limited and Fly Leasing Management Co. Limited.(9)
4.18	Registration Rights Agreement dated as of December 28, 2012, by and among Fly Leasing Limited and each shareholder identified therein.(9)

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Exhibit Number	Description of Exhibit
4.19	Amended and Restated Servicing Agreement dated as of January 24, 2013, by and among BBAM US LP, BBAM Aviation Services Limited and Fly Leasing Limited.(9)
4.20	Indenture dated December 11, 2013 between Fly Leasing Limited and Wells Fargo Bank, National Association.(8)
4.21	First Supplemental Indenture dated December 11, 2013 between Fly Leasing Limited and Wells Fargo Bank, Nation Association.(8)
8.1	List of the Company s subsidiaries.
10.1	Aircraft Mortgage and Security Agreement dated as of August 9, 2012, among Fly Funding II S.A.R.L., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, The Initial Intermediate Lessees, The Initial Lessor Subsidiaries, The Additional Grantors Referred to Therein and Wells Fargo Bank Northwest, National Association.(6)
10.2	Amended and Restated Senior Secured Credit Agreement dated July 3, 2013 among Fly Acquisition II Limited, the Subsidiary Guarantors party thereto, the Lenders party thereto, and Deutsche Bank Trust Company Americas, as Security Trustee and as Administrative Agent.(10)
10.3	Amended and Restated Term Loan Credit Agreement dated as of November 21, 2013 among Fly Funding II S.A.R.L., Fly Leasing Limited, Fly Peridot Holdings Limited, Babcock & Brown Air Acquisition I Limited, each other Guarantor Party referred to therein, the Lenders identified therein, Citibank, N.A., and Well Fargo Bank Northwest, National Association.
12.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
12.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
13.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
15.1	Consent of Ernst & Young LLP.
101	The following materials from the Company's Annual Report on Form 20-F for the year ended December 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2013 and 2012, (ii) Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2013, 2012 and 2011, (iv) Consolidated Statement of Shareholders' Equity for the years ended December 31, 2011, 2012 and 2013, (v) Consolidated Statements of Cash Flows for the years ended

December 31, 2013, 2012 and 2011, and (vi) Notes to Consolidated Financial Statements for the year ended December 31, 2013.

(1) Previously filed with the Registration Statement on Form F-1, File No. 333-145994.
(2) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2007.
(3) Previously filed as an exhibit on Form 6-K dated June 30, 2010.
(4) Previously filed as an exhibit on Form 6-K dated May 7, 2010.
(5) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2011.
(6) Previously filed as an exhibit on Form 6-K dated November 13, 2012.
(7) Confidential treatment has been requested with certain portions of this exhibit. This exhibit omits the information subject to this confidential treatment request. The omitted information has been filed separately with the Securities and Exchange Commission.
(8) Previously filed as an exhibit on Form 6-K dated December 11, 2013.
(9) Previously filed with the Annual Report on Form 20-F for the year ended December 31, 2012.
(10) Previously filed as an exhibit on Form 6-K dated August 6, 2013

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

Fly Leasing Limited

By: /s/ Colm Barrington
Colm Barrington
Chief Executive Officer and Director

Dated: March 14, 2014