

Fly Leasing Limited
Interim Financial
Statements
As of and for the
Six Months Ended
June 30, 2021

EXPLANATORY NOTE

On August 2, 2021, an affiliate of Carlyle Aviation Partners Ltd. (“Carlyle Aviation”) completed its previously announced acquisition (the “Merger”) of Fly Leasing Limited (“Fly”). Upon consummation of the Merger, FLY became a privately held company and ceased reporting with the United States Securities and Exchange Commission (the “SEC”). Following consummation of the Merger, affiliates of Carlyle Aviation have taken over as the primary manager and servicer for Fly and its subsidiaries.

The consolidated financial statements, accompanying notes and related disclosures included in this report relate to periods prior to consummation of the Merger and may not be comparable to the results Fly and its subsidiaries will realize following completion of the Merger.

PRELIMINARY NOTE

This Interim Report should be read in conjunction with the consolidated financial statements and accompanying notes included elsewhere in this Interim Report and with our Annual Report on Form 20-F, for the year ended December 31, 2020 filed with the SEC on March 1, 2021, as well as in the (i) Exchange Offer Offering Memorandum of Carlyle Aviation Elevate Merger Subsidiary Ltd., dated May 28, 2021 and (ii) the Offering Memorandum of Fly dated August 3, 2021 (collectively, the “New Notes Offering Memoranda”).

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.

This report contains 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 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 financial and operating covenants, interest rates, dividends, the integration of Fly into the Carlyle Aviation platform and its ability to realize the expected benefits of the Merger and acquisitions and dispositions of aircraft and other aviation assets. 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. Additional or unforeseen effects from the COVID-19 pandemic and the global economic climate may give rise to or amplify many of these factors. The extent to which the COVID-19 pandemic ultimately impacts our business, results of operations and financial condition will depend on future developments, including the emergence of new variants and wide-spread acceptance of available vaccines, which are highly uncertain and cannot be predicted. Actual results may differ materially from these expectations due to changes in political, economic, business, competitive, market and regulatory factors and risks and uncertainties related to the Merger. We believe that these factors include, but are not limited to those described in Item 3 “Key Information — Risk Factors” and elsewhere in our Annual Report on Form 20-F, for the year ended December 31, 2020, as well as in the “Risk Factors” sections of the New Notes Offering Memoranda.

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 Interim Report, (1) the term “Fly” refers to Fly Leasing Limited; (2) the terms “Company,” “we,” “our” and “us” refer to Fly and its subsidiaries; (3) all references to our shares for periods prior the Merger refer to our common shares held in the form of American Depositary Shares, or ADSs; (4) the term “BBAM LP” refers to BBAM Limited Partnership and its subsidiaries and affiliates; (5) the terms “BBAM” and “BBAM Servicer” refer to BBAM Aircraft Management LP, BBAM Aircraft Management (Europe) Limited, BBAM Aviation Services Limited and BBAM US LP collectively; and (6) the term “BBAM Manager” refers to, Fly Leasing Management Co. Limited.

All percentages and weighted average characteristics of the aircraft in our portfolio have been calculated using net book values as of the date specified.

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Fly Leasing Limited
Consolidated Balance Sheets

AT JUNE 30, 2021 AND DECEMBER 31, 2020 (UNAUDITED)
(Dollars in thousands, except par value data)

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Assets		
Cash and cash equivalents	\$ 108,125	\$ 132,097
Restricted cash and cash equivalents	49,080	29,432
Rent receivables, net	72,787	57,015
Investment in finance lease, net	9,751	10,396
Flight equipment held for sale, net	9,027	—
Flight equipment held for operating lease, net	2,434,305	2,529,428
Maintenance rights	246,574	279,124
Deferred tax asset, net	10,262	11,753
Fair value of derivative assets	3,072	2,085
Other assets, net	122,470	116,255
Total assets	\$ 3,065,453	\$ 3,167,585
Liabilities		
Accounts payable and accrued liabilities	\$ 21,589	\$ 18,135
Rentals received in advance	6,868	8,724
Payable to related parties	4,118	4,058
Security deposits	35,831	36,439
Maintenance payment liability, net	206,148	203,684
Unsecured borrowings, net	297,288	296,876
Secured borrowings, net	1,558,263	1,642,242
Deferred tax liability, net	52,055	51,366
Fair value of derivative liabilities	33,822	46,169
Other liabilities	64,594	70,896
Total liabilities	2,280,576	2,378,589
Shareholders' equity		
Common shares, \$0.001 par value; 499,999,900 shares authorized; 30,481,069 shares issued and outstanding at June 30, 2021 and December 31, 2020	31	31
Manager shares, \$0.001 par value; 100 shares authorized, issued and outstanding	—	—
Additional paid-in capital	509,738	509,738
Retained earnings	299,462	312,967
Accumulated other comprehensive loss, net	(24,354)	(33,740)
Total shareholders' equity	784,877	788,996
Total liabilities and shareholders' equity	\$ 3,065,453	\$ 3,167,585

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

Fly Leasing Limited
Consolidated Statements of Income (Loss)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)
(Dollars in thousands, except per share data)

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenues				
Operating lease revenue	\$ 53,145	\$ 79,117	\$ 132,989	\$ 166,557
Finance lease revenue	126	141	255	286
Gain on sale of aircraft	234	—	234	31,717
Interest and other income	630	704	1,514	2,957
Total revenues	<u>54,135</u>	<u>79,962</u>	<u>134,992</u>	<u>201,517</u>
Expenses				
Depreciation	29,575	31,977	59,542	63,608
Flight equipment impairment	—	—	22,546	—
Interest expense	21,703	25,284	43,769	52,439
Selling, general and administrative	7,840	7,093	20,340	14,757
Provision for uncollectible operating lease receivables	2,000	2,000	3,000	2,000
Loss (gain) on derivatives	603	65	(2,121)	572
Fair value loss (gain) on marketable securities	274	1,083	(1,565)	10,495
Loss on extinguishment of debt	—	—	—	850
Maintenance and other costs	1,347	1,032	2,451	2,216
Total expenses	<u>63,342</u>	<u>68,534</u>	<u>147,962</u>	<u>146,937</u>
Net income (loss) before provision for income taxes	<u>(9,207)</u>	<u>11,428</u>	<u>(12,970)</u>	<u>54,580</u>
Provision for income taxes	905	1,822	535	6,902
Net income (loss)	<u><u>\$ (10,112)</u></u>	<u><u>\$ 9,606</u></u>	<u><u>\$ (13,505)</u></u>	<u><u>\$ 47,678</u></u>
Weighted average number of shares:				
Basic and Diluted	30,481,069	30,481,069	30,481,069	30,623,455
Earnings (loss) per share:				
Basic and Diluted	\$ (0.33)	\$ 0.32	\$ (0.44)	\$ 1.56

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

Fly Leasing Limited

Consolidated Statements of Comprehensive Income (Loss)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)**(Dollars in thousands)**

	<u>Three months ended June 30, 2021</u>	<u>Three months ended June 30, 2020</u>	<u>Six months ended June 30, 2021</u>	<u>Six months ended June 30, 2020</u>
Net income (loss)	\$ (10,112)	\$ 9,606	\$ (13,505)	\$ 47,678
Other components of comprehensive income (loss), net of deferred tax:				
Change in fair value of derivatives, net of deferred tax ⁽¹⁾	1,107	(1,737)	8,684	(21,335)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax ⁽²⁾	461	3	702	4
Comprehensive income (loss)	<u>\$ (8,544)</u>	<u>\$ 7,872</u>	<u>\$ (4,119)</u>	<u>\$ 26,347</u>

(1) The associated deferred tax was \$225 and \$1,341 for the three and six months ended June 30, 2021, respectively. The associated deferred tax was \$(72) and \$(3,650) for the three and six months ended June 30, 2020, respectively.

(2) The associated deferred tax was \$154 and \$275 for the three and six months ended June 30, 2021, respectively. The associated deferred tax was \$1 for the three and six months ended June 30, 2020.

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

Fly Leasing Limited

Consolidated Statement of Shareholders' Equity

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 (UNAUDITED)

(Dollars in thousands)

	Manager Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2020	100	\$ —	30,481,069	\$ 31	\$ 509,738	\$ 312,967	\$ (33,740)	\$ 788,996
Net loss	—	—	—	—	—	(3,393)	—	(3,393)
Net change in the fair value of derivatives, net of deferred tax of \$1,116 ⁽¹⁾	—	—	—	—	—	—	7,577	7,577
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$121 ⁽¹⁾	—	—	—	—	—	—	241	241
Balance March 31, 2021	100	\$ —	30,481,069	\$ 31	\$ 509,738	\$ 309,574	\$ (25,922)	\$ 793,421
Net loss	—	—	—	—	—	(10,112)	—	(10,112)
Net change in the fair value of derivatives, net of deferred tax of \$225 ⁽¹⁾	—	—	—	—	—	—	1,107	1,107
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$154 ⁽¹⁾	—	—	—	—	—	—	461	461
Balance June 30, 2021	100	\$ —	30,481,069	\$ 31	\$ 509,738	\$ 299,462	\$ (24,354)	\$ 784,877

(1) See Note 10 to Notes to Consolidated Financial Statements.

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

Fly Leasing Limited

Consolidated Statement of Shareholders' Equity

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 (UNAUDITED)

(Dollars in thousands)

	Manager Shares		Common Shares		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance December 31, 2019	100	\$ —	30,898,410	\$ 31	\$ 516,254	\$ 380,392	\$ (18,400)	\$ 878,277
Shares repurchased	—	—	(417,341)	—	(6,516)	—	—	(6,516)
Net income	—	—	—	—	—	38,072	—	38,072
Net change in the fair value of derivatives, net of deferred tax of \$(3,578) ⁽¹⁾	—	—	—	—	—	—	(19,598)	(19,598)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment	—	—	—	—	—	—	1	1
Balance March 31, 2020	100	\$ —	30,481,069	\$ 31	\$ 509,738	\$ 418,464	\$ (37,997)	\$ 890,236
Net income	—	—	—	—	—	9,606	—	9,606
Net change in the fair value of derivatives, net of deferred tax of \$(72) ⁽¹⁾	—	—	—	—	—	—	(1,737)	(1,737)
Reclassification from other comprehensive loss into earnings due to derivatives that no longer qualified for hedge accounting treatment, net of deferred tax of \$1 ⁽¹⁾	—	—	—	—	—	—	3	3
Balance June 30, 2020	100	\$ —	30,481,069	\$ 31	\$ 509,738	\$ 428,070	\$ (39,731)	\$ 898,108

(1) See Note 10 to Notes to Consolidated Financial Statements.

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

Fly Leasing Limited
Consolidated Statements of Cash Flows

FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020 (UNAUDITED)
(Dollars in thousands)

	Six months ended	
	June 30, 2021	June 30, 2020
Cash Flows from Operating Activities		
Net income (loss)	\$ (13,505)	\$ 47,678
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:		
Gain on sale of aircraft	(234)	(31,717)
Depreciation	59,542	63,608
Flight equipment impairment	22,546	—
Amortization of debt discounts and debt issuance costs	4,196	3,696
Amortization of lease incentives and other items	2,676	1,635
Provision for uncollectible operating lease receivables	3,000	2,000
Fair value (gain) loss on marketable securities	(1,565)	10,495
Loss on extinguishment of debt	—	850
Provision for deferred income taxes	565	6,763
Maintenance payment liability recognized into earnings	—	(2,487)
Cash receipts from maintenance rights	7,847	2,725
Other	(1,325)	252
Changes in operating assets and liabilities:		
Rent receivables	(27,921)	(47,549)
Other assets	(5,449)	3,490
Payable to related parties	47	(6,458)
Accounts payable, accrued liabilities and other liabilities	4,122	(72)
Net cash flows provided by operating activities	54,542	54,909
Cash Flows from Investing Activities		
Purchase of flight equipment	—	(74,128)
Proceeds from sale of aircraft, net	29,402	160,271
Payments for aircraft improvement	(4,658)	(12,888)
Payments for lessor maintenance obligations	(1,888)	(357)
Other	308	(890)
Net cash flows provided by investing activities	23,164	72,008
Cash Flows from Financing Activities		
Security deposits received	4,243	3,305
Security deposits returned	(704)	—
Maintenance payment liability receipts	9,641	12,039
Maintenance payment liability disbursements	(7,427)	(10,109)
Debt extinguishment costs	—	(20)
Debt issuance costs	(498)	—
Repayment of secured borrowings	(87,257)	(154,625)
Shares repurchased	—	(6,504)
Net cash flows used in financing activities	(82,002)	(155,914)

	Six months ended	
	June 30, 2021	June 30, 2020
Effect of exchange rate changes on unrestricted and restricted cash and cash equivalents	\$ (28)	\$ 41
Net decrease in unrestricted and restricted cash and cash equivalents	(4,324)	(28,956)
Unrestricted and restricted cash and cash equivalents at beginning of period	161,529	338,303
Unrestricted and restricted cash and cash equivalents at end of period	\$ 157,205	\$ 309,347
 Reconciliation to Consolidated Balance Sheets:		
Cash and cash equivalents	\$ 108,125	\$ 288,980
Restricted cash and cash equivalents	49,080	20,367
Unrestricted and restricted cash and cash equivalents	\$ 157,205	\$ 309,347

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

Fly Leasing Limited

Notes to Consolidated Financial Statements (unaudited)

1. ORGANIZATION

Fly Leasing Limited (“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. Fly was formed to acquire, finance, lease and sell commercial jet aircraft directly or indirectly through its subsidiaries (Fly and its subsidiaries collectively, the “Company”).

Although Fly 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 Fly’s amended and restated bye-laws (the “Company Bye-Laws”) that were in effect prior to the acquisition of us by an affiliate of Carlyle Aviation Partners (“Carlyle Aviation”), Fly issued 100 shares (“Manager Shares”) with a par value of \$0.001 to Fly Leasing Management Co. Limited (the “BBAM Manager”) for no consideration. Subject to the provisions of the Company Bye-Laws, the Manager Shares have the right to appoint the nearest whole number of directors to Fly 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 Bye-Laws, have no voting rights. Following the consummation of the Merger (as defined), the Manager Shares were retired and the related arrangements are no longer in place.

Merger Agreement with Carlyle Aviation

On March 27, 2021, Fly entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Carlyle Aviation Elevate Ltd. (“Parent”), an affiliate of Carlyle Aviation Partners (“Carlyle Aviation”), and Carlyle Aviation Elevate Merger Subsidiary Ltd., a wholly-owned subsidiary of Carlyle Aviation (“Merger Sub”). Pursuant to the Merger Agreement, on August 2, 2021 Merger Sub merged with and into Fly, with Fly surviving as the continuing company and becoming a wholly-owned subsidiary of Carlyle Aviation (the “Merger”).

Subject to the terms and conditions of the Merger Agreement, each common share, par value \$0.001 (the “Shares”), of Fly issued and outstanding prior to the effective time of the Merger, including Shares represented by American Depository Shares, other than Shares held in the treasury of Fly or owned by Fly, Parent, Merger Sub or any wholly-owned subsidiary of Fly, were cancelled and converted into the right to receive \$17.05 in cash (the “Merger Consideration”), without interest, subject to deduction for any required withholding tax.

Fly, the BBAM Manager and certain affiliates of the BBAM Manager had historically been party to agreements (the “BBAM Agreement”), which provided among other things, for the management of Fly by the BBAM Manager. Concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and an affiliate of Carlyle Aviation (the “Carlyle Servicer”) entered a sub-servicing agreement (the “Sub-Servicing Agreement”) pursuant to which the (i) BBAM Servicers delegated to the Carlyle Servicer certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly under a sub-servicer arrangement, and (ii) BBAM Agreement would be terminated at the closing of the Merger. After the consummation of the Merger, Fly is managed and serviced by Carlyle Aviation Management Limited (the “Carlyle Manager”) an affiliate of the Carlyle Aviation.

Concurrently with the execution of the Merger Agreement, Fly, BBAM LP and certain of their affiliates, also entered into an assignment and assumption of contracts (the “Assignment and Assumption of Contracts”), pursuant to which, Fly assigned to an affiliate of BBAM all of Fly’s rights and obligations under certain contracts with AirAsia Group Berhad (“AirAsia”) and its affiliates. The BBAM Agreement, the Sub-Servicing Agreement and the Assignment and Assumption of Contracts are described in greater detail in Note 16. Related Party Transactions, below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

Fly is a holding company that conducts its business through its subsidiaries. Fly 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, the Company consolidates a Variable Interest Entity (“VIE”). Fly is deemed the primary beneficiary when it has both the power to direct the activities of the VIE that most significantly impact the economic performance of such VIE, and it bears the significant risk of loss and participates in gains of the 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's interim financial statements reflect all normally recurring adjustments that are necessary to fairly state the results for the interim periods presented. Certain information and footnote disclosures required by U.S. GAAP for complete annual financial statements have been omitted and, therefore, the Company's interim financial statements should be read in conjunction with its Annual Report on Form 20-F for the year ended December 31, 2020, filed with the SEC on March 1, 2021 (the "2020 Annual Report"). The results of operations for the six months ended June 30, 2021 are not necessarily indicative of those for a full fiscal year.

The Company has one operating and reportable segment which is aircraft and aircraft equipment 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 rent receivables, flight equipment, deferred tax assets, liabilities 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, market, aviation industry and capital 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. Aviation industry risk is the risk of a downturn in the commercial aviation industry, as a result of global, regional or industry-specific factors, which could adversely impact a 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 and aircraft equipment. Capital market risk is the risk that the Company is unable to obtain capital at reasonable rates to fund the growth of its business or to refinance existing credit facilities.

COVID-19 PANDEMIC

On January 30, 2020, the spread of COVID-19 was declared a Public Health Emergency of International Concern by the World Health Organization ("WHO"), and on March 11, 2020, the WHO characterized the COVID-19 outbreak as a pandemic. The COVID-19 pandemic and the measures that governments and private parties have implemented in response to the pandemic have caused significant economic disruption and have had, and are likely to continue to have, a material adverse effect on the demand for worldwide air travel, the airline industry and demand for commercial jet aircraft globally, all of which have had, and are likely to continue to have, an adverse effect on the Company's business, results of operations, financial condition, cash flows and growth prospects.

Beginning in March 2020 and continuing into 2021, airlines around the world experienced a material decline in demand for their services as well as materially increased cancellations for pre-paid trips compared to historic norms. Although air travel demand improved in the second half of 2020, it remained significantly less than the prior year and the emergence of new viral variants has in the summer of 2021 has had an impact on demand of late. These circumstances have had a material adverse effect on the ability of the Company's lessees to fulfill their obligations under their leases with the Company and, in some cases, have caused the Company's lessees to default on their obligations, or to initiate bankruptcy or similar proceedings.

In response to these developments, beginning in March 2020 and continuing into 2021, the Company has worked closely with its airline customers to support their continued operations, while at the same time seeking to enhance the Company's liquidity and position it for recovery.

As of June 30, 2021, the Company had 34 agreements in place with 12 lessees to defer their rent payment obligations for 27 aircraft and seven engines totaling \$62.4 million due to the Company over the life of the leases. These deferrals are for an average of 12 months with approximately 40% of the deferrals to be repaid by the end of 2021. The Company also agreed to lease restructurings with certain of its lessees. In addition to rent deferrals, the significant decline in air travel has resulted in decreased usage of the Company's aircraft by lessees, which is likely to reduce future supplemental maintenance rent and end-of-lease compensation payable by the lessees to the Company. Reductions in payments by the Company's lessees under their leases has adversely affected the Company's cash flows and its results of operations.

The full extent of the impact of COVID-19 on the airline industry and the Company's business, results of operations, financial condition, cash flows, and growth prospects is uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the measures implemented by governments or private parties to reduce the spread of COVID-19; and the impact of the pandemic on the global economy and demand for air travel.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2019, the Financial Accounting Standards Board (the "FASB") issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is part of the FASB's initiative to reduce complexity in accounting standards. The proposed guidance eliminates certain exceptions to the general principles of ASC 740, *Income Taxes*, and simplifies income tax accounting in several areas. The standard is effective for fiscal periods beginning after December 15, 2020. The Company adopted the guidance effective January 1, 2021. The adoption of the standard did not have a material effect on the Company's consolidated financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which clarifies some of its guidance as part of the FASB's monitoring of global reference rate reform activities. ASU 2021-01 expands the scope of ASC 848 to include all affected derivatives and give market participants the ability to apply certain aspects of the contract modification and hedge accounting expedients to derivative contracts affected by the discounting transition. ASU 2021-01 permits entities to elect certain optional expedients and exceptions when accounting for derivative contracts and certain hedging relationships affected by changes in the interest rates used for discounting cash flows, for computing variation margin settlements, and for calculating price alignment interest in connection with reference rate reform activities. In addition, ASU 2021-01 adds implementation guidance to clarify which optional expedients in ASC 848 may be applied to derivative instruments that do not reference LIBOR or a reference rate that is expected to be discontinued, but that are being modified as a result of the discounting transition. The amendments are effective immediately. An entity may elect to apply the amendments retrospectively for any interim period that includes or is subsequent to March 12, 2020 through December 31, 2022, or prospectively for any interim period that includes or is subsequent to January 7, 2021. As of June 30, 2021, the Company has not elected to apply the standard, and will continue to evaluate the permissible optional expedients and exceptions. The Company does not expect the standard to have a material effect on the Company's consolidated financial statements.

In January 2021, the FASB issued ASU 2021-02, *Franchisors-Revenue from Contracts with Customers (Subtopic 952-606)*, which introduced a new practical expedient that simplifies the application of the guidance about identifying performance obligations. The practical expedient permits franchisors that are not public business entities to account for pre-opening services provided to a franchisee as distinct from the franchise license if the services are consistent with those included in a predefined list within the guidance. If an entity has not yet adopted Topic 606, the existing transition provisions and effective date in paragraph 606-10-65-1 are required. That guidance allows for an option of modified retrospective transition or full retrospective transition and an effective date of annual reporting periods beginning after December 15, 2019, and interim reporting periods within annual reporting periods beginning after December 15, 2020. The Company's adoption of this new accounting pronouncement did not have a material effect on the Company's consolidated financial statements.

In March 2021, the FASB issued ASU 2021-03, *Intangibles - Goodwill and Other (Topic 350)*, which provides private companies and not-for-profit entities with an accounting alternative to perform the goodwill impairment triggering event evaluation as required on Subtopic 350-20 as of the end of the reporting period. An entity that elects this alternative is not required to monitor for goodwill impairment triggering events during the reporting period but, instead, should evaluate the facts and circumstances as of the end of each reporting period to determine whether a triggering event exists and, if so, whether it is more likely than not that goodwill is impaired. The amendments in this update are effective on a prospective basis for fiscal years beginning after December 15, 2019. Early adoption was permitted for both interim and annual financial statements that have not yet been issued or made available for issuance as of March 30, 2021. An entity should not retroactively adopt the amendments in this update for interim financial statements already issued in the year of adoption. As of June 30, 2021, the Company has not elected to apply the standard. This new accounting pronouncement does not have a material effect on the Company's consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260)*, *Debt-Modifications and Extinguishments (subtopic 470-50)*, *Compensation-Stock Compensation (Topic 718)*, and *Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. The amendments in this update provide the following guidance for a modification or an exchange of a freestanding equity-classified written call option that is not within the scope of another Topic:

1. An entity should treat a modification of the terms or conditions or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as an exchange of the original instrument for a new instrument.
2. An entity should measure the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange as follows:
 - a. For a modification or an exchange that is a part of or directly related to a modification or an exchange of an existing debt instrument or line-of-credit or revolving-debt arrangements (hereinafter, referred to as a "debt" or "debt instrument"), as the difference between the fair value of the modified or exchanged written call option and the fair value of that written call option immediately before it is modified or exchanged. Specifically, an entity should consider:
 - i. An increase or a decrease in the fair value of the modified or exchanged written call option in applying the 10 percent cash flow test and/or calculating the fees between debtor and creditor in accordance with Subtopic 470-50, Debt—Modifications and Extinguishments.
 - ii. An increase (but not a decrease) in the fair value of the modified or exchanged written call option in calculating the third-party costs in accordance with Subtopic 470-50.
 - b. For all other modifications or exchanges, as the excess, if any, of the fair value of the modified or exchanged written call option over the fair value of that written call option immediately before it is modified or exchanged.
3. An entity should recognize the effect of a modification or an exchange of a freestanding equity-classified written call option that remains equity classified after modification or exchange on the basis of the substance of the transaction, in the same manner as if cash had been paid as consideration, as follows:
 - a. A financing transaction to raise equity. The effect should be recognized as an equity issuance cost in accordance with the guidance in Topic 340, Other Assets and Deferred Costs.
 - b. A financing transaction to raise or modify debt. The effect should be recognized as a cost in accordance with the guidance in Topic 470, Debt, and Topic 835, Interest.
 - c. Other modifications or exchanges that are not related to financings or compensation for goods or services or other exchange transactions within the scope of another Topic. The effect should be recognized as a dividend. For entities that present EPS in accordance with Topic 260, that dividend should be an adjustment to net income (or net loss) in the basic EPS calculation.

The amendments in this update are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The Company will apply the standard when it is effective. The Company does not expect the standard to have a material effect on the Company's consolidated financial statements.

3. SUPPLEMENTAL DISCLOSURE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six months ended	
	June 30, 2021	June 30, 2020
	(Dollars in thousands)	
Cash paid during the period for:		
Interest	\$ 39,473	\$ 50,176
Taxes	5	52
Noncash Activities:		
Security deposits applied to rent receivables, other liabilities and maintenance payment liability	5,968	1,540
Maintenance payment liability applied to rent receivables, other liabilities and other income	3,244	6,661
Other liabilities applied to maintenance payment liability and security deposits	1,820	2,243
Noncash investing activities:		
Aircraft improvement	22,763	8,610
Noncash activities in connection with purchase of flight equipment	—	1,211
Noncash activities in connection with sale of flight equipment	4,240	6,162

4. INVESTMENT IN FINANCE LEASE

At each of June 30, 2021 and December 31, 2020, the Company had one aircraft classified as an investment in finance lease, which had an implicit interest rate of 5%.

The Company's net investment in finance lease consisted of the following (dollars in thousands):

	June 30, 2021	December 31, 2020
Total minimum lease payments receivable	\$ 6,900	\$ 7,800
Estimated unguaranteed residual value of leased asset	4,227	4,227
Unearned finance income	(1,376)	(1,631)
Net Investment in Finance Lease	\$ 9,751	\$ 10,396

Presented below are the contracted future minimum rental payments due under the non-cancellable finance lease, as of June 30, 2021.

	(Dollars in thousands)
July 1 through December 31, 2021	\$ 900
Year ending December 31,	
2022	1,800
2023	1,800
2024	1,800
2025	600
Future minimum rental payments under finance lease	\$ 6,900

5. FLIGHT EQUIPMENT HELD FOR SALE

At June 30, 2021, the Company had two aircraft classified as flight equipment held for sale, both of which were off-lease. In March and April 2021, the Company entered into consignment agreements related to these two aircraft. The Company wrote down these aircraft to their estimated net sales proceeds and recorded an impairment charge of \$22.5 million during the first quarter of 2021.

On March 3, 2021, the Company agreed to sell four aircraft for an aggregate base purchase price of \$35.7 million, subject to adjustments based on rents and interest in respect of the aircraft. During the second quarter of 2021, the Company delivered these aircraft to the buyer and recognized an aggregate gain on sale of aircraft of \$0.2 million.

At December 31, 2020, the Company had no aircraft classified as flight equipment held for sale.

During the six months ended June 30, 2020, the Company sold six aircraft and two part out engines that had been classified as flight equipment held for sale and recognized an aggregate gain on sale of aircraft of \$31.7 million.

6. FLIGHT EQUIPMENT HELD FOR OPERATING LEASE, NET

As of June 30, 2021, the Company had 77 aircraft and seven engines held for operating lease, of which 71 aircraft and seven engines were on lease to 35 lessees in 20 countries and six aircraft were off-lease. As of December 31, 2020, the Company had 83 aircraft and seven engines held for operating lease, of which 78 aircraft and seven engines were on lease to 36 lessees in 22 countries and five aircraft were off-lease.

During the six months ended June 30, 2020, the Company capitalized \$53.9 million of flight equipment purchased. The Company did not purchase any flight equipment during the six months ended June 30, 2021.

Flight equipment held for operating lease, net, consists of the following (dollars in thousands):

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Cost	\$ 3,076,594	\$ 3,197,702
Accumulated depreciation	(642,289)	(668,274)
Flight equipment held for operating lease, net	<u>\$ 2,434,305</u>	<u>\$ 2,529,428</u>

The Company capitalized \$27.3 million of major maintenance for the six months ended June 30, 2021. The Company capitalized \$26.8 million of major maintenance for the six months ended June 30, 2020.

The classification of the net book value of flight equipment held for operating lease, net and operating lease revenue by geographic region in the tables and discussion below is based on the principal operating location of the lessees.

The distribution of the net book value of flight equipment held for operating lease by geographic region is as follows (dollars in thousands):

	<u>June 30, 2021</u>		<u>December 31, 2020</u>	
Europe:				
Spain	\$ 150,913	6%	\$ 154,414	6%
France	66,185	3%	67,839	3%
Other	277,289	11%	249,827	10%
Europe — Total	<u>494,387</u>	<u>20%</u>	<u>472,080</u>	<u>19%</u>
Asia and South Pacific:				
India	406,362	17%	446,164	18%
Malaysia	386,474	16%	390,469	16%
Indonesia	207,224	9%	211,560	8%
China	155,703	6%	160,012	6%
Philippines	145,573	6%	148,356	6%
Other	73,913	3%	79,452	3%
Asia and South Pacific — Total	<u>1,375,249</u>	<u>57%</u>	<u>1,436,013</u>	<u>57%</u>
Mexico, South and Central America — Total	<u>42,086</u>	<u>2%</u>	<u>17,611</u>	<u>1%</u>
North America — Total	<u>52,561</u>	<u>2%</u>	<u>85,808</u>	<u>3%</u>
Middle East and Africa:				
Ethiopia	288,218	12%	293,137	11%
Other	51,709	2%	91,032	4%
Middle East and Africa — Total	<u>339,927</u>	<u>14%</u>	<u>384,169</u>	<u>15%</u>
Off-Lease — Total	<u>130,095</u>	<u>5%</u>	<u>133,747</u>	<u>5%</u>
Total flight equipment held for operating lease, net	<u>\$ 2,434,305</u>	<u>100%</u>	<u>\$ 2,529,428</u>	<u>100%</u>

The Company receives lease revenue from flight equipment under operating leases. 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. If the revenue amounts do not meet these criteria, recognition is delayed until the criteria is met. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when the Company determines that collection is not probable regardless of the existence of any of the aforementioned criteria.

Rental income from aircraft and aircraft equipment is recognized on a straight-line basis over the initial term of the respective lease. Changes to the timing of cash rent receipts, such as underrent deferral arrangements, do not generally affect the total amount of consideration to be received under the lease and therefore do not typically impact revenue recognition, provided the Company determines that collection of rents is probable.

The Company maintains a provision for uncollectible operating lease receivables for losses it estimates will arise from its lessees' inability to make their required lease payments. The Company evaluates the collectability of rent receivables and determines the appropriate provision for uncollectible operating lease receivables based on historical experience and a review of specific lessees. During the three and six months ended June 30, 2021, the Company recorded a provision for uncollectible operating lease receivables of \$2.0 million and \$3.0 million, respectively. During the three and six months ended June 30, 2020, the Company recorded a provision for uncollectible operating lease receivables of \$2.0 million. As of June 30, 2021 and December 31, 2020, the Company had an allowance for uncollectible operating lease receivables of \$7.0 million and \$4.0 million, respectively.

The distribution of operating lease revenue by geographic region for the three months ended June 30, 2021 and 2020 is as follows (dollars in thousands):

	Three months ended			
	June 30, 2021		June 30, 2020	
Europe:				
Spain	\$ 1,368	3%	\$ 4,340	5%
France	2,722	5%	3,388	4%
Other	5,147	9%	5,910	8%
Europe — Total	9,237	17%	13,638	17%
Asia and South Pacific:				
India	11,227	21%	14,531	18%
Malaysia	12,522	24%	13,921	18%
Indonesia	796	1%	6,759	9%
China	3,712	7%	4,291	5%
Philippines	1,568	3%	8,104	10%
Other	2,297	4%	3,215	4%
Asia and South Pacific — Total	32,122	60%	50,821	64%
Mexico, South and Central America — Total	28	—	1,004	1%
North America — Total	2,366	5%	3,355	4%
Middle East and Africa:				
Ethiopia	7,505	14%	7,505	10%
Other	1,887	4%	2,794	4%
Middle East and Africa — Total	9,392	18%	10,299	14%
Total Operating Lease Revenue	\$ 53,145	100%	\$ 79,117	100%

The distribution of operating lease revenue by geographic region for the six months ended June 30, 2021 and 2020 is as follows (dollars in thousands):

	Six months ended			
	June 30, 2021		June 30, 2020	
Europe:				
Spain	\$ 5,035	4%	\$ 8,686	5%
France	5,443	4%	6,775	4%
Other	8,584	6%	12,024	8%
Europe — Total	19,062	14%	27,485	17%
Asia and South Pacific:				
India	48,913	37%	33,754	20%
Malaysia	21,981	17%	28,145	17%
Indonesia	1,648	1%	13,529	8%
China	9,600	7%	9,941	6%
Philippines	3,136	2%	16,412	10%
Other	4,595	4%	6,657	4%
Asia and South Pacific — Total	89,873	68%	108,438	65%
Mexico, South and Central America — Total	(10)	0%	1,964	1%
North America — Total	5,721	4%	6,981	4%
Middle East and Africa:				
Ethiopia	15,009	11%	15,009	9%
Other	3,334	3%	6,680	4%
Middle East and Africa — Total	18,343	14%	21,689	13%
Total Operating Lease Revenue	\$ 132,989	100%	\$ 166,557	100%

In the three month ended June 30, 2021, the Company had three customers (Air India, AirAsia Berhad and Ethiopian Airlines) that accounted for 10% or more of total operating lease revenue at 16%, 15% and 14%, respectively. In the six months ended June 30, 2021, the Company had four customers (IndiGo, Air India, AirAsia Berhad and Ethiopian Airlines) that accounted for 10% or more of total operating lease revenue at 20%, 13%, 12% and 11%, respectively. In the three months ended June 30, 2020, the Company had two customers (Air India and AirAsia Berhad) that accounted for 10% or more of total operating lease revenue at 12% and 10%, respectively. In the six months ended June 30, 2020, the Company had one customer (Air India) that accounted for 10% or more of total operating lease revenue at 11%.

For the three and six months ended June 30, 2021, the Company recognized end of lease income, which is included in operating lease revenue, of \$0.6 million and \$26.4 million, respectively. During the first quarter of 2021, the Company recognized end of lease income of \$25.8 million, which was attributable to IndiGo. For the three and six months ended June 30, 2020, the Company recognized end of lease income of \$0.2 million and \$2.7 million, respectively.

As noted above, the COVID-19 pandemic has had an unprecedented impact on the airline industry, causing multiple lessees in the Company's fleet to fail to make rent and maintenance payments. This has led to the Company placing a number of lessees on non-accrual status in 2020 and 2021, which in turn has caused the operating lease revenue concentration of other lessees to increase.

At June 30, 2021, the Company had 10 lessees, leasing a total of 19 aircraft and one engine, on non-accrual status, as the Company had determined that it was not probable that the Company would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) the Company's evaluation of the lessees' financial condition. During the three months ended June 30, 2021, the Company recognized \$4.6 million of operating lease revenue from these lessees, and would have recognized \$15.5 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the six months ended June 30, 2021, the Company recognized \$12.5 million of operating lease revenue from these lessees, and would have recognized \$29.7 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At June 30, 2020, the Company had five lessees, leasing a total of seven aircraft, on non-accrual status. During the three and six months ended June 30, 2020, the Company recognized \$2.4 million and \$6.8 million, respectively, of operating lease revenue from these lessees.

As of June 30, 2021, the Company had 34 agreements in place with 12 lessees to defer their rent payment obligations for 27 aircraft and seven engines totaling \$62.4 million due to the Company over the life of the leases. These deferrals are for an average of 12 months with approximately 40% of the deferrals to be repaid by the end of 2021. The Company has also agreed to lease restructurings with certain of its lessees.

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of June 30, 2021. There can be no assurance that the Company's lessees will make their payments in accordance with the deferral terms during the expected repayment periods or at all.

	Rent Deferrals Granted	Scheduled Deferral Repayments
	(Dollars in thousands)	
2020	\$ 51,636	\$ 278
2021	10,762	24,888
2022	—	15,949
Thereafter	—	21,283
Total	\$ 62,398	\$ 62,398

As of June 30, 2021 and December 31, 2020, the weighted average remaining lease term of the Company's aircraft held for operating lease was 4.8 years and 4.7 years, respectively.

Leases are entered into with specified lease terms and may provide the lessee with an option to extend the lease term. The Company's leases do not typically provide for early termination or purchase options.

For the three months ended June 30, 2021, the Company recognized \$53.7 million of operating lease rental revenue, \$10.8 million of which was from leases with variable rates. For the six months ended June 30, 2021, the Company recognized \$109.1 million of operating lease rental revenue, \$21.2 million of which was from leases with variable rates. For the three months ended June 30, 2020, the Company recognized \$79.8 million of operating lease rental revenue, \$15.5 million of which was from leases with variable rates. For the six months ended June 30, 2020, the Company recognized \$165.4 million of operating lease rental revenue, \$31.6 million of which was from leases with variable rates. Variable rates are rents that reset based on changes in LIBOR or usage of aircraft.

Presented below are the contracted future minimum rental payments, inclusive of rents due from lessees on non-accrual status and rent deferrals, due under non-cancellable operating leases for flight equipment held for operating lease, as of June 30, 2021. For leases that have floating rental rates, the future minimum rental payments assume that LIBOR as of June 30, 2021 is held constant for the duration of the lease.

	(Dollars in thousands)
July 1 through December 31, 2021	\$ 153,969
Year ending December 31,	
2022	280,650
2023	238,177
2024	219,457
2025	197,899
2026	157,101
Thereafter	186,791
Future minimum rental payments under operating leases	\$ 1,434,044

7. MAINTENANCE RIGHTS

Changes in maintenance right assets during the six months ended June 30, 2021 and 2020 are as follows (dollars in thousands):

	Six months ended	
	June 30, 2021	June 30, 2020
Maintenance rights, beginning balance	\$ 279,124	\$ 290,958
Acquisitions	—	19,780
Capitalized to aircraft improvements	(22,471)	(7,204)
Cash receipts from maintenance rights	(7,847)	(2,725)
Maintenance rights associated with aircraft sold	(2,232)	(14,940)
Maintenance rights, ending balance	\$ 246,574	\$ 285,869

8. UNSECURED BORROWINGS

	Balance as of	
	June 30, 2021	December 31, 2020
	(dollars in thousands)	
Outstanding principal balance:		
2024 Notes	\$ 300,000	\$ 300,000
Total outstanding principal balance	300,000	300,000
Unamortized debt discounts and loan costs	(2,712)	(3,124)
Unsecured borrowings, net	\$ 297,288	\$ 296,876

On October 16, 2017, the Company sold \$300.0 million aggregate principal amount of unsecured 5.250% Senior Notes due 2024 (the “2024 Notes”). The 2024 Notes are senior unsecured obligations of the Company and rank *pari passu* in right of payment with any existing and future senior unsecured indebtedness of the Company. The 2024 Notes have a maturity date of October 15, 2024.

Interest on the 2024 Notes is payable semi-annually on April 15 and October 15 of each year. As of each of June 30, 2021 and December 31, 2020, accrued interest on the 2024 Notes was \$3.3 million.

Pursuant to the indenture governing the 2024 Notes, the Company is subject to restrictive covenants which relate to dividend payments, incurrence of debt and issuance of guarantees, incurrence of liens, repurchases of common shares, investments, disposition of aircraft, consolidation, merger or sale of the Company and transactions with affiliates. The Company is also subject to certain operating covenants, including reporting requirements. The Company’s failure to comply with any of the covenants under the indenture governing the 2024 Notes could result in an event of default which, if not cured or waived, may result in the acceleration of the indebtedness thereunder and other indebtedness containing cross-default or cross-acceleration provisions. Certain of these covenants will be suspended if the 2024 Notes obtain an investment grade rating. As of June 30, 2021, the Company was not in default under the indenture governing the 2024 Notes.

In connection with the Merger, in August 2021, Merger Sub completed an Offer to Exchange (the “Exchange Offer”) any and all of Fly’s 2024 Notes for new 7.000% Senior Notes due 2024 (the “New Notes”) issued by Merger Sub that were assumed by the Company upon completion of the Merger. The covenants in the indenture governing the New Notes are substantially consistent with those that governed the 2024 Notes. . Holders of an aggregate of \$290,447,000 in principal amount of the 2024 Notes participated in the Exchange Offer and received an aggregate of \$ 290,307,000 in principal amount of the New Notes as consideration. In the Exchange Offer, participating Holders consented to certain amendments to the indenture governing the 2024 Notes to, among other things, waive the Change of Control provisions as they relate to the Merger and align the covenants with those included in the indenture governing the New Notes. The amendments to the 2024 Notes indenture became effective and operative prior to consummation of the Merger.

In August 2021, the Company issued an additional \$100.0 million aggregate principal amount of New Notes (“Additional Notes”). The Additional Notes were issued under the indenture governing the New Notes mentioned above. The Additional Notes are fungible with and form a single series with the other New Notes.

9. SECURED BORROWINGS

The Company's secured borrowings, net as of June 30, 2021 and December 31, 2020 are presented below (dollars in thousands):

	Outstanding principal balance as of		Weighted average interest rate ⁽¹⁾ as of		Maturity date
	June 30, 2021 ⁽²⁾	December 31, 2020 ⁽²⁾	June 30, 2021	December 31, 2020	
Nord LB Facility	\$ 59,678	\$ 60,667	1.92%	2.00%	August 2021
2012 Term Loan	351,759	362,960	2.87%	3.26%	August 2025
2020 Term Loan	175,500	180,000	7.00%	7.00%	October 2025
Magellan Acquisition Limited Facility	238,872	252,143	3.95%	3.95%	December 2025
Fly Aladdin Acquisition Facility	218,102	229,644	4.83%	4.83%	June 2023
Fly Aladdin Engine Funding Facility	39,962	40,640	4.95%	4.95%	December 2021 – April 2022
Other Aircraft Secured Borrowings	497,420	543,002	3.22%	3.21%	May 2022 – June 2028
Total outstanding principal balance	1,581,293	1,669,056			
Unamortized debt discounts and loan costs	(23,030)	(26,814)			
Total secured borrowings, net	\$ 1,558,263	\$ 1,642,242			

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

(2) As of June 30, 2021 and December 31, 2020, accrued interest on secured borrowings totaled \$6.0 million and \$6.5 million, respectively.

The Company is subject to restrictive covenants under its secured borrowings which relate to the incurrence of debt, issuance of guarantees, incurrence of liens or other encumbrances, the acquisition, substitution, disposition and re-lease of aircraft, maintenance, registration and insurance of its aircraft, restrictions on modification of aircraft and capital expenditures, and requirements to maintain concentration limits.

The Company's loan agreements include events of default that are customary for these types of secured borrowings. The Company's failure to comply with any restrictive covenants, or any other operating covenants, may trigger an event of default under the relevant loan agreement. In addition, certain of the Company's loan agreements contain cross-default provisions that could be triggered by a default under another loan agreement.

As of June 30, 2021, the Company was not in default under any of its secured borrowings.

Fly, the BBAM Manager and certain affiliates of the BBAM Manager had historically been party to the BBAM Agreement, which provided among other things, for the management of Fly by the BBAM Manager. Concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and the Carlyle Servicer entered the Sub-Servicing Agreement pursuant to which the (i) BBAM Servicers delegated to the Carlyle Servicer certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly under a sub-servicer arrangement, and (ii) BBAM Agreement would be terminated at the closing of the Merger. After the consummation of the Merger, Fly is managed and serviced by the Carlyle Manager.

For more information about the Company's secured borrowings, refer to Note 10 of the 2020 Annual Report.

Nord LB Facility

As of June 30, 2021, the Company had \$59.7 million principal amount outstanding under its non-recourse debt facility with Norddeutsche Landesbank Girozentrale (the "Nord LB Facility"), which was secured by three aircraft. The Nord LB Facility is structured with loans secured by each aircraft individually. The loans are cross-collateralized and contain cross-default provisions. The loans under the Nord LB Facility bear interest at one-month LIBOR plus a margin of 1.85% until maturity. During the second quarter of 2021, the Company amended the Nord LB Facility to extend the maturity date from May 14, 2021 to August 13, 2021. The facility has not been repaid. The lenders under the facility have notified the servicer under the facility that an event of default has occurred and is continuing. The facility is not recourse to Fly or any of its subsidiaries other than the borrowers under the facility and the fair

market value of the aircraft collateralizing the facility is less than the amount of loans and accrued interest outstanding. The event of default under the Nord LB Facility does not trigger a cross-default or cross-acceleration under any of the Company's other debt instruments. The Company is currently in discussions with the lenders in order to address the situation in a manner that is economically acceptable to all stakeholders.

Under the terms of the Nord LB Facility, the Company applies 95% of lease rentals collected towards interest and principal. If no lease rental payments are collected in the applicable period for any financed aircraft, then no payment is due under the loan associated with that aircraft during such period. Any unpaid interest increases the principal amount of the associated loan.

In the event the Company sells any of the financed aircraft, substantially all sale proceeds (after payment of certain expenses) must first be used to repay the debt associated with such aircraft and then to repay the outstanding amounts which finance the remaining aircraft. In addition, any maintenance reserve amounts retained by the Company will be used to prepay the Nord LB Facility, provided such reserves are not required for future maintenance of such aircraft.

2012 Term Loan

As of June 30, 2021, the Company had \$351.8 million principal amount outstanding under its senior secured term loan (the "2012 Term Loan"), which was secured by 23 aircraft. Fly has guaranteed all payments under the 2012 Term Loan. The maturity date of the 2012 Term Loan is August 9, 2025. The 2012 Term Loan can be prepaid in whole or in part at par.

The 2012 Term Loan bears interest at three-month LIBOR plus a margin of 1.75%.

The 2012 Term Loan requires that the Company maintain a maximum loan-to-value ratio ("LTV") of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2012 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all such covenants and requirements as of June 30, 2021.

2020 Term Loan

As of June 30, 2021, the Company had \$175.5 million principal amount outstanding under its senior secured term loan (the "2020 Term Loan"), which was secured by 11 aircraft. The Company has guaranteed all payments under the 2020 Term Loan. The maturity date of the 2020 Term Loan is the earlier of (i) October 15, 2025 and (ii) the date falling 30 days prior to the maturity of the 2024 Notes if not redeemed. The 2020 Term Loan can be prepaid in whole or in part on or after October 15, 2021 without any prepayment premium.

The 2020 Term Loan bears interest at three-month LIBOR plus a margin of 6.00%, with a LIBOR floor of 1.00%.

The 2020 Term Loan requires that the Company maintain a maximum LTV of 70.0% based on the lower of the mean or median of half-life adjusted base values of the financed aircraft as determined by three independent appraisers on a semi-annual basis. The 2020 Term Loan also includes certain customary covenants, including reporting requirements and maintenance of credit ratings. The Company was in compliance with all such covenants and requirements as of June 30, 2021.

Magellan Acquisition Limited Facility

As of June 30, 2021, the Company had \$238.9 million principal amount outstanding in loans and notes under its term loan facility (the "Magellan Acquisition Limited Facility"), which was secured by nine aircraft. Fly has guaranteed all payments under this facility. The Magellan Acquisition Limited Facility has a maturity date of December 8, 2025.

The interest rate on the loans is based on one-month LIBOR plus an applicable margin of 1.65% per annum. The interest rate on the notes is a fixed rate of 3.93% per annum.

The facility contains financial and operating covenants, including a covenant that Fly maintain a tangible net worth of at least \$325.0 million, as well as customary reporting requirements. The borrower is required to maintain (i) an interest coverage ratio ("ICR") of at least 1.40:1.00 and (ii) an LTV ratio of (a) 70% through December 8, 2022, (b) 65% from December 9, 2022 through December 8, 2024 and (c) 60% thereafter. The LTV is based on the lower of the average half-life adjusted current market value and base value of all aircraft financed under the facility as determined by three independent appraisers on an annual basis. Upon the occurrence of certain conditions, including a failure by Fly to maintain a minimum liquidity of at least \$25.0 million, the borrower will be required to deposit certain amounts of maintenance reserves and security deposits received into pledged accounts. Also, upon the occurrence of a breach of the ICR or the LTV ratio and certain other events, all cash collected will be applied to repay the outstanding principal balance of the loans and notes until such breach is cured. The LTV ratio was breached on each payment date falling in the first quarter

of 2021 and a breach of the ICR occurred on the payment date falling in March 2021, both events triggering a cash sweep under the facility. The ICR breach was subsequently cured in April 2021.

In July 2021, the Company made a prepayment amount of \$4.4 million to cure the LTV deficiency. The Company was in compliance with all other covenants and requirements under the Magellan Acquisition Limited Facility as of June 30, 2021.

Fly Aladdin Acquisition Facility

As of June 30, 2021, the Company had an aggregate of \$218.1 million principal amount outstanding of Series B loans under its term loan facility (the “Fly Aladdin Acquisition Facility”), which were secured by 14 aircraft. The Series B loans bear interest based on three-month LIBOR, plus an applicable margin of 1.80% per annum, and have a maturity date of June 15, 2023.

Fly has provided a guaranty of certain of the representations, warranties and covenants under the Fly Aladdin Acquisition Facility (including, without limitation, the borrowers’ special purpose covenants), as well as the obligations, upon the occurrence of certain conditions, to deposit maintenance reserves and security deposits received into pledged accounts.

The facility contains operating covenants, including covenants that the borrowers maintain (i) a debt service coverage ratio of at least 1.15:1.00, (ii) that 85% of aircraft financed under the facility (a) are on lease, (b) have been subject to a lease in the previous six months or (c) are subject to a letter of intent for a re-lease or sale (the “utilization test”) and (iii) a LTV ratio of (a) 65% through June 14, 2021, (b) 63.5% from June 15, 2021 through December 14, 2021, (c) 62% from December 15, 2021 through June 14, 2022, (d) 60% from June 15, 2022 through December 14, 2022 and (e) 58% thereafter. The utilization test and LTV ratio are based on the average of the half-life adjusted current market value of all financed aircraft as determined by three independent appraisers on a semi-annual basis.

Upon the occurrence of certain events, including a breach of the debt service coverage ratio continuing for two consecutive quarterly payment dates, Fly will be required to deposit, or cause the borrowers to deposit, all maintenance reserves and security deposits received under the associated leases into pledged accounts. Also, upon the occurrence of a breach, on any payment date, of the LTV ratio and certain other events, all cash collected will be applied to repay the outstanding principal balance of Series B loans until such breach is cured. The LTV ratio was initially breached in the third quarter of 2020. As a consequence of entering into deferral agreements with the Company’s lessees, in the fourth quarter of 2020, the debt service coverage ratio was breached for two consecutive quarterly payment dates, requiring the Company to deposit approximately \$7.6 million in cash maintenance reserves and security deposits received under the associated leases into pledged accounts. The Company was in compliance with all covenants and requirements under the facility as of June 30, 2021.

Fly Aladdin Engine Funding Facility

As of June 30, 2021, the Company had \$40.0 million principal amount outstanding under a term loan facility (the “Fly Aladdin Engine Funding Facility”), which was secured by seven engines. Fly has guaranteed all payments under this facility. The loans bear interest ranging from 4.94% to 4.96% per annum, per engine and have maturity dates ranging from December 31, 2021 to April 30, 2022.

The Fly Aladdin Engine Funding Facility contains customary covenants. A violation of any of these covenants could result in a default under the Fly Aladdin Engine Funding Facility. The Company was in compliance with all covenants and requirements under the Magellan Acquisition Limited Facility as of June 30, 2021.

Other Aircraft Secured Borrowings

The Company has entered into other aircraft secured borrowings to finance the acquisition of aircraft, one of which is denominated in Euros. As of June 30, 2021, the Company had \$497.4 million principal amount outstanding of other aircraft secured borrowings, which were secured by 13 aircraft. Of this amount, \$261.4 million was recourse to Fly.

These borrowings are structured as individual loans secured by pledges of the Company’s rights, title and interests in the financed aircraft and leases. In addition, Fly may provide guarantees of its subsidiaries’ obligations under certain of these loans and may be subject to financial and operating covenants in connection therewith. The maturity dates of other aircraft secured borrowings range from May 2022 to June 2028. The Company was in compliance with all covenants and requirements under the Magellan Acquisition Limited Facility as of June 30, 2021.

10. 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 borrowings associated with aircraft with fixed rate rentals. As of June 30, 2021, the Company had \$1,042.4 million of floating rate debt 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 either the one-month or three-month LIBOR applied to the notional amounts over the life of the contracts. As of June 30, 2021 and December 31, 2020, the Company had interest rate swap contracts with notional amounts aggregating \$581.6 million and \$675.3 million, respectively. The unrealized fair value loss on the interest rate swap contracts, reflected as derivative liabilities, was \$33.8 million and \$46.2 million as of June 30, 2021 and December 31, 2020, respectively.

To mitigate its exposure to foreign currency exchange fluctuations, the Company entered into a cross currency swap contract in 2018 in conjunction with a lease in which a portion of the lease rental is denominated in Euros. Pursuant to such cross currency swap, the Company receives U.S. dollars based on a fixed conversion rate through the maturity date of the swap contract. Over the remaining life of the cross currency swap contract, the Company expects to receive \$43.7 million in U.S. dollars. The unrealized fair value gain, reflected as a derivative asset, was \$3.1 million and \$2.1 million as of June 30, 2021 and December 31, 2020, respectively.

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 and credit spreads.

During the three and six months ended June 30, 2021, the Company recorded \$3.8 million and \$7.8 million, respectively, of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts.

During the three and six months ended June 30, 2020, the Company recorded \$3.4 million and \$5.3 million, respectively, of interest expense in the consolidated statements of income (loss) from its interest rate swap contracts. The Company also recognized \$0.4 million and \$0.8 million, respectively, of rental revenue, included in operating lease revenue in the consolidated statements of income (loss), under its cross currency swap contract during the three and six months ended June 30, 2020.

Designated Derivatives

Certain of the Company's interest rate derivatives have been designated as cash flow hedges. Changes in fair value of these derivatives are recorded as a component of accumulated other comprehensive income (loss), net of deferred tax. Changes in the fair value of these derivatives are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

As of June 30, 2021, the Company had the following designated derivative instruments classified as derivative liabilities on its balance sheet (dollars in thousands):

Type	Quantity	Maturity Date	Hedge Interest Rate	Swap Contract Notional Amount	Credit Risk Adjusted Fair Value	Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax
Interest rate swap contracts	22	2/9/23- 12/8/25	2.28%- 3.13%	\$ 480,207	\$ (26,454)	\$ (23,122)
Accrued interest				—	(1,369)	—
Total – designated derivative liabilities	22			\$ 480,207	\$ (27,823)	\$ (23,122)

Dedesignated Derivatives

The Company's cross currency swap no longer qualifies for hedge accounting and has been dedesignated due to missed rent payments associated with a variable rate lease. The Company had the following dedesignated derivative instrument classified as a derivative asset on its balance sheet as of June 30, 2021 (dollars in thousands):

<u>Type</u>	<u>Quantity</u>	<u>Maturity Date</u>	<u>Contracted Fixed Conversion Rate to U.S. Dollar</u>	<u>Total Contracted USD to be Received</u>	<u>Credit Risk Adjusted Fair Value</u>	<u>Gain Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax</u>
Cross currency swap contract	1	11/26/25	1 Euro to \$1.3068	\$ 43,737	\$ 3,059	\$ 2,965
Accrued rent				—	13	—
Total - dedesignated derivative asset	1			\$ 43,737	\$ 3,072	\$ 2,965

At June 30, 2021, the Company had an accumulated other comprehensive gain, net of deferred tax, of \$3.0 million, which will be amortized over the remaining term of the cross currency swap contract. During the six months ended June 30, 2021, the Company reclassified \$0.2 million from accumulated other comprehensive loss, net of deferred tax, to gain on derivatives.

Certain of the Company's interest rate swap contracts no longer qualify for hedge accounting and have been dedesignated due to debt repayments associated with aircraft sales. As of June 30, 2021, the Company had the following dedesignated derivative instruments classified as derivative liabilities on its balance sheet (dollars in thousands):

<u>Type</u>	<u>Quantity</u>	<u>Maturity Date</u>	<u>Hedge Interest Rate</u>	<u>Swap Contract Notional Amount</u>	<u>Credit Risk Adjusted Fair Value</u>	<u>Loss Recognized in Accumulated Comprehensive Loss, Net of Deferred Tax</u>
Interest rate swap contracts	11	6/15/23	2.66% - 3.12%	\$ 101,439	\$ (5,452)	\$ (4,322)
Accrued interest				—	(547)	—
Total – dedesignated derivative liabilities	11			\$ 101,439	\$ (5,999)	\$ (4,322)

At June 30, 2021, the Company had an accumulated other comprehensive loss, net of deferred tax, of \$4.4 million, attributable to both dedesignated interest rate swaps and terminated interest rate swaps, and will be amortized over the remaining term of the interest rate swap contracts. During three and six months ended June 30, 2021, the Company amortized \$0.5 million and \$0.9 million, respectively, from accumulated other comprehensive loss, net of deferred tax, to interest expense.

11. INCOME TAXES

Fly is a tax resident of Ireland and has wholly-owned subsidiaries in Ireland, France, Luxembourg, Malta and Cayman Islands 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. Historically, most of the Company's operating income has been trading income in Ireland.

The Company's effective tax rates were (9.8)% and (4.1)% for the three and six months ended June 30, 2021, respectively. The Company's effective tax rates were 15.9% and 12.6% for the three and six months ended 2020, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances and the amount of income earned by the Company in different tax jurisdictions. In addition, during the three and six months ended June 30, 2021, the Company incurred certain merger related expenses that are not expected to be tax deductible.

The Company recognizes a valuation allowance if, based on the weight of available evidence, it is more-likely-than-not (likelihood of more than 50 percent) that some portion, or all, of its deferred tax asset will not be realized. Future realization of a deferred tax asset depends on the existence of sufficient taxable income of the appropriate character in the carryforward period under the tax law.

The Company had no unrecognized tax benefits as of June 30, 2021 or December 31, 2020.

12. SHAREHOLDERS' EQUITY

During the six months ended June 30, 2020, Fly repurchased 417,341 shares at an average price of \$15.57 per share, or \$6.5 million, before commissions and fees.

Fly did not repurchase any shares during the six months ended June 30, 2021.

No dividends were declared or paid during the three and six months ended June 30, 2021 and 2020.

On August 2, 2021, the Merger was completed and each common share, par value \$0.001, of Fly issued and outstanding prior to the effective time of the Merger, including shares represented by American Depository Shares, were cancelled and converted into the right to receive \$17.05 in cash, without interest, subject to deduction for any required withholding tax (the "Merger Consideration"). Following the Merger, Fly is wholly-owned by affiliates of Carlyle Aviation.

13. SHARE-BASED COMPENSATION

On April 29, 2010, Fly adopted the 2010 Omnibus Incentive Plan ("2010 Plan") permitting 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. Fly has issued all shares available under the 2010 Plan. Since June 30, 2015, all SARs and RSUs granted under the 2010 Plan have vested. During the first quarter of 2021, 9,200 SARs expired at a weighted average price of \$13.30 per share. At June 30, 2021, there were 4,825 SARs outstanding and exercisable at a weighted average exercise price of \$12.28 per share.

Pursuant to the Merger Agreement, upon the effectiveness of the Merger, each outstanding SAR was required to be canceled and Fly was required to pay to each former holder of any such canceled SAR an amount (without interest, and subject to deduction for any required withholding tax in accordance with the Merger Agreement) equal to the product of (i) the excess (if any) of the Merger Consideration over the applicable exercise price of such SAR and (ii) the number of Shares subject to such SAR; provided, that if the exercise price of any such SAR is equal to or greater than the Merger Consideration, such SAR will be canceled without any consideration (including any cash payment) being made in respect thereof. Prior to the effectiveness of the Merger, Fly repurchased all outstanding SARs. Accordingly, upon the effectiveness of the Merger, there were no remaining outstanding SARs.

14. EARNINGS (LOSS) PER SHARE

The following table sets forth the calculation of basic and diluted earnings per common share using the two-class method, in which dividends attributable to SARs, if any, are deducted from net income (loss) in determining net income (loss) attributable to common shareholders (dollars in thousands, except per share data):

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Numerator				
Net income (loss) attributable to common shareholders	\$ (10,112)	\$ 9,606	\$ (13,505)	\$ 47,678
Denominator				
Weighted average shares outstanding-Basic	30,481,069	30,481,069	30,481,069	30,623,455
Dilutive common equivalent shares:				
SARs	—	—	—	—
Weighted average shares outstanding-Diluted	<u>30,481,069</u>	<u>30,481,069</u>	<u>30,481,069</u>	<u>30,623,455</u>
Earnings (loss) per share:				
Basic				
Distributed earnings	\$ —	\$ —	\$ —	\$ —
Undistributed income (loss)	\$ (0.33)	\$ 0.32	\$ (0.44)	\$ 1.56
Basic earnings (loss) per share	<u>\$ (0.33)</u>	<u>\$ 0.32</u>	<u>\$ (0.44)</u>	<u>\$ 1.56</u>
Diluted				
Distributed earnings	\$ —	\$ —	\$ —	\$ —
Undistributed income (loss)	\$ (0.33)	\$ 0.32	\$ (0.44)	\$ 1.56
Diluted earnings (loss) per share	<u>\$ (0.33)</u>	<u>\$ 0.32</u>	<u>\$ (0.44)</u>	<u>\$ 1.56</u>

Basic earnings (loss) per share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by dividing net income (loss) 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.

SARs granted by the Company that contain non-forfeitable rights to receive dividend equivalents are deemed participating securities (see Note 13). Net income (loss) available to common shareholders is determined by reducing the Company's net income (loss) for the period by dividend equivalents paid on vested SARs during the period.

15. 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.

In 2016, the Company entered into agreements with third-party lessors to guarantee the residual value of three aircraft subject to twelve-year leases ("RVGs") and received residual value guarantee fees totaling \$6.6 million, which are being amortized over a twelve-year period. The third-party lessors may exercise their rights under the RVGs by issuing a notice eleven months prior to the respective lease maturity requiring the Company to purchase the aircraft on such date. The RVGs will terminate if not exercised accordingly. During each of the three and six months ended June 30, 2021 and 2020, the Company recognized income of \$0.1 million and \$0.3 million, respectively. The RVGs contain covenants requiring the Company to post cash collateral in an aggregate amount of \$23.0 million as security for the Company's obligations upon the occurrence of certain corporate events, including a change in control, a downgrade in the Company's corporate family rating beyond a specified threshold, or a sale of all or substantially all of the Company's assets.

On February 28, 2018, the Company agreed to acquire 21 Airbus A320neo family aircraft to be leased to AirAsia and its affiliated airlines (the "AirAsia Group") as the aircraft delivered from the manufacturer ("Portfolio B"). The first of these aircraft delivered in the fourth quarter of 2019. The Company also acquired options to purchase up to 20 Airbus A320neo family aircraft, not subject to lease ("Portfolio C"). The Company did not exercise its options with respect to any of the Portfolio C aircraft delivered in 2019. In August 2019, the Company exercised options with respect to eight Portfolio C aircraft to be delivered in 2020 and 2021. The Portfolio C aircraft slated for delivery in 2020 were not delivered, and the Company does not expect the Portfolio C aircraft slated for delivery in 2021 to deliver in the next 12 months. Assuming the eight options exercised but not delivered are re-exercised at a future date, the Company has options remaining to purchase up to 17 Portfolio C aircraft delivered between 2021 and 2025. Due to the impact of COVID-19, the Company expects that the delivery of the Portfolio B and Portfolio C aircraft will be delayed substantially, and that no aircraft will deliver under either of these agreements in the next 12 months.

Concurrently with the execution and delivery of the Merger Agreement, the Company and its subsidiary, Fly Aladdin Holdings Limited ("Fly Aladdin"), entered into the Assignment and Assumption of Contracts with BBAM LP and one of its subsidiaries, pursuant to which upon closing of the Merger Fly Aladdin assigned to the subsidiary of BBAM LP all of its rights, title and interests in and to, and such subsidiary assumed, all of Fly Aladdin's rights, title and interests in and to, and obligations under, Fly Aladdin's agreements with AirAsia and its affiliates with respect to Portfolio B and Portfolio C (the "Assigned Contracts"). As a result, the Company no longer has any rights or obligations with respect to such Assigned Contracts.

16. RELATED PARTY TRANSACTIONS

Prior to the Merger, BBAM was entitled to receive a servicing fee equal to 3.5% of the aggregate amount of rents actually collected, plus an administrative fee of \$1,000 per aircraft per month. Under the 2012 Term Loan, the 2020 Term Loan, the Magellan Acquisition Limited Facility and the Fly Aladdin Acquisition Facility, BBAM is also entitled to an administrative fee of \$10,000 per month. Under the Fly Aladdin Engine Funding Facility, BBAM is entitled to receive a servicing fee equal to 3.5% of monthly rents actually collected and an administrative fee equal to \$1,000 per month.

For the three and six months ended June 30, 2021, BBAM received servicing and administrative fees totaling \$2.2 million and \$4.6 million, respectively. For the three and six months ended June 30, 2020, BBAM received servicing and administrative fees totaling \$3.1 million and \$6.5 million, respectively.

BBAM also was entitled to receive an acquisition fee of 1.5% of the gross acquisition cost for any aviation asset purchased by the Company, and a disposition fee of 1.5% of the gross proceeds for any aviation asset sold by the Company. During the three and six months ended June 30, 2020, the Company incurred \$0.7 million and \$1.1 million of acquisition fees, respectively, payable to BBAM. The Company did not incur any acquisition fees during the three and six months ended June 30, 2021. During the three and six months ended June 30, 2021, the Company incurred disposition fees of \$0.5 million and \$0.9 million, respectively, payable to BBAM. During the six months ended June 30, 2020, the Company incurred disposition fees of \$2.9 million, payable to BBAM.

In addition, Fly paid an annual management fee to the BBAM Manager as compensation for providing the services of the chief executive officer, the chief financial officer and other personnel, and for certain corporate overhead costs related to the Company. The management fee was adjusted each calendar year by (i) 0.3% of the change in the book value of the Company's aircraft portfolio during the preceding year, up to a \$2.0 billion increase over \$2.7 billion and (ii) 0.25% of the change in the book value of the Company's aircraft portfolio in excess of \$2.0 billion, with a minimum management fee of \$5.0 million. The management fee is also subject to an annual CPI adjustment applicable to the prior calendar year. For the three and six months ended June 30, 2021, the Company incurred management fees of \$1.7 million and \$3.4 million, respectively. For the three and six months ended June 30, 2020, the Company incurred management fees of \$2.0 million and \$3.9 million, respectively.

Concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and the Carlyle Servicer entered the Sub-Servicing Agreement whereby the BBAM Servicers delegated to the Carlyle Servicer certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly. After the consummation of the Merger, Fly is managed and serviced by the Carlyle Manager.

The Manager Shares were automatically redeemed for their par value in the Merger. In connection with the Merger, the BBAM Manager agreed to reduce the change of control and termination fees payable to the BBAM Manager under the original management agreement with BBAM (the "Management Agreement") in connection with the Merger by \$1.0 million. In addition, from and after the closing of the Merger, the BBAM Servicers delegated to an affiliate of Carlyle Aviation certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly. Carlyle Aviation agreed to pay the BBAM Servicers a one-time fee of \$500,000 on the closing date of the Merger and an annual fee equal to \$250,000 in cash as consideration for the BBAM Servicers' performance of arrangement following the closing of the Merger. Fly also agreed to reimburse the BBAM Servicers for all costs and expenses incurred by the BBAM Servicers in connection with the negotiation and execution of the agreement governing the management, servicing and sub-servicing of Fly after the Merger and other documents related thereto and agreed to indemnify the BBAM Servicers, BBAM LP and each officer, director, agent, employee, or affiliate of the BBAM Servicers and/or certain BBAM LP from and against loss, liability, costs and expenses, claim or damage suffered or incurred by them. Additionally, in connection with the Merger both Fly and Carlyle Aviation waived and released certain claims against the BBAM Servicers and their affiliates, arising from or in connection with the Management Agreement and the Merger.

In addition, concurrently with the execution and delivery of the Merger Agreement, Fly and its subsidiary, Fly Aladdin, entered into the Assignment and Assumption of Contracts, pursuant to which Fly Aladdin assigned to a subsidiary of BBAM LP all of its rights, title and interests in and to, and such subsidiary assumed, all of Fly Aladdin's rights, title and interests in and to, and obligations under, the Assigned Contracts.

In connection with the termination of the Management Agreement, the BBAM Manager received a change of control fee in an amount equal to 1.5% of the Enterprise Value (as defined in the Management Agreement) of Fly (which fee amount was approximately \$[] million) and a termination fee equal to approximately \$15.6 million as required by the Management Agreement, less \$1.0 million.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

Assets and liabilities recorded at fair value on a recurring and non-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 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 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.

Where available, the fair value of the Company's investment in equity certificates, notes payable and debt facilities is based on observable market prices or parameters or derived from such prices or parameters (Level 2). For the three and six months ended June

30, 2021, the Company recognized an unrealized fair value loss of \$0.3 million and an unrealized fair value gain of \$1.6 million, respectively, on its investment in equity certificates to mark the equity certificates to estimated fair value. For the three and six months ended June 30, 2020, the Company recognized an unrealized fair value loss of \$1.1 million and \$10.5 million, respectively, on its investment in equity certificates to write down the equity certificates to estimated fair value.

Where observable prices or inputs are not available, valuation models are applied, using the net present value of cash flows 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 its credit risk in valuing derivative liabilities. The valuation model uses various inputs including contractual terms, interest rate curves, credit spreads and measures of volatility (Level 2).

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 Portfolio B orderbook value and flight equipment held for operating lease, net (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 use Level 3 inputs which include assumptions of future projected lease rates, re-leasing costs, estimated down time and estimated residual or scrap values of the aircraft on its eventual disposition. The Company will record an impairment charge if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset. The impairment charge is equal to the excess of the carrying amount of the impaired asset over its fair value. Fair value reflects the present value of the expected future cash flows, discounted at an appropriate rate. The Company will also record an impairment charge if the estimated net sales proceeds of an aircraft classified as flight equipment held for sale is less than the net book value of the asset. During the six months ended June 30, 2021, the Company recorded an impairment charge of \$22.5 million related to two off-lease aircraft that have been classified as flight equipment held for sale (see Note 5). The Company did not record any impairment during the six months ended June 30, 2020.

The carrying amounts and fair values of certain of the Company's debt instruments are as follows (dollars in thousands):

	<u>As of June 30, 2021</u>		<u>As of December 31, 2020</u>	
	<u>Principal Amount</u>	<u>Fair Value</u>	<u>Principal Amount</u>	<u>Fair Value</u>
	<u>Outstanding</u>		<u>Outstanding</u>	
2012 Term Loan	\$ 351,759	\$ 346,265	\$ 362,960	\$ 342,997
2020 Term Loan	175,500	176,158	180,000	177,750
Magellan Acquisition Limited Facility	238,872	234,393	252,143	244,579
Fly Aladdin Acquisition Facility	218,102	215,648	229,644	192,407
2024 Notes	300,000	306,039	300,000	286,500

The Company's principal amount outstanding on its remaining debt instruments approximates fair value at June 30, 2021 and December 31, 2020.

As of June 30, 2021 and December 31, 2020, the categorized assets and liabilities measured at fair value on a recurring basis, based upon the lowest level of significant inputs to the valuations are as follows (dollars in thousands):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2021:				
Derivative assets	—	\$ 3,072	—	\$ 3,072
Derivative liabilities	—	33,822	—	33,822
Investment in equity certificates	—	4,588	—	4,588
December 31, 2020:				
Derivative assets	—	\$ 2,085	—	\$ 2,085
Derivative liabilities	—	46,169	—	46,169
Investment in equity certificates	—	3,023	—	3,023

18. SUBSEQUENT EVENTS

The Merger Agreement with Carlyle Aviation was consummated on August 2, 2021.

In connection with the Merger, in August 2021, Merger Sub completed the Exchange Offer for any and all of Fly's 2024 Notes for New Notes that were initially issued by Merger Sub and assumed by the Company upon completion of the Merger. The covenants in the indenture governing the New Notes are substantially consistent with those that governed the 2024 Notes. Holders of an aggregate of \$290,447,000 in principal amount of the 2024 Notes participated in the Exchange Offer and received an aggregate of \$290,307,000 in principal amount of the New Notes as consideration. In the Exchange Offer, participating Holders consented to certain amendments to the indenture governing the 2024 Notes to, among other things, waive the Change of Control provisions as they relate to the Merger and align the covenants with those included in the indenture governing the New Notes. The amendments to the 2024 Notes indenture became effective and operative prior to consummation of the Merger.

In August 2021, the Company issued an additional \$100.0 million aggregate principal amount of New Notes ("Additional Notes"). The Additional Notes were issued under the indenture governing the New Notes mentioned above. The Additional Notes are fungible with and form a single series with the other New Notes.

On August 13, 2021 The Nord LB Facility, a non-recourse debt facility collateralized by three aircraft within the FLY Leasing structure matured and became fully payable. The facility has not been repaid. The lenders have notified the Servicer under the facility that an event of default has occurred and is continuing. The facility is not recourse to Fly or any of its subsidiaries other than the borrower under the facility and the fair market value of the aircraft collateralizing the facility is currently less than the amount of loans and accrued interest outstanding. The event of default under the Nord LB Facility does not trigger a cross-default or cross-acceleration under any of the Company's other debt instruments. We are currently in discussions with the lenders in order to address the situation in a manner that is economically acceptable to all stakeholders.

Item 2. Management's Discussion & Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our (i) consolidated financial statements and related notes included elsewhere in this Interim Report and (ii) Annual Report on Form 20-F for the year ended December 31, 2020. 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."

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 and aircraft equipment, which we lease under multi-year contracts to a diverse group of airlines throughout the world.

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.

For the three and six months ended June 30, 2021, we had net losses of \$10.1 million and \$13.5 million, respectively, or diluted losses per share of \$0.33 and \$0.44, respectively. Net cash flows provided by operating activities for the six months ended June 30, 2021 totaled \$54.5 million and net cash flows provided by investing activities totaled \$23.2 million. Net cash flows used in financing activities totaled \$82.0 million for the six months ended June 30, 2021.

Merger Agreement with Carlyle Aviation

On March 27, 2021, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Carlyle Aviation Elevate Ltd. (the "Parent"), an affiliate of Carlyle Aviation, and Carlyle Aviation Elevate Merger Subsidiary Ltd., a wholly-owned subsidiary of Carlyle Aviation ("Merger Sub"). Pursuant to the Merger Agreement, on August 2, 2021 Merger Sub merged with and into Fly, with Fly surviving as the continuing company in the Merger and becoming a wholly-owned subsidiary of Carlyle Aviation (the "Merger"), upon the terms and conditions set forth in the Merger Agreement.

Subject to the terms and conditions of the Merger Agreement, each common share, par value \$0.001 (the "Shares"), of Fly issued and outstanding prior to the effective time of the Merger, including Shares represented by American Depositary Shares, other than Shares held in the treasury of Fly or owned by Fly, Parent, Merger Sub or any wholly-owned subsidiary of Fly was cancelled and converted into the right to receive \$17.05 in cash (the "Merger Consideration"), without interest, subject to deduction for any required withholding tax.

Fly, the BBAM Manager and certain affiliates of the BBAM Manager had historically been party to agreements (the "BBAM Agreement"), which provided among other things, for the management of Fly by the BBAM Manager. Concurrently with the execution of the Merger Agreement, Fly, the BBAM Manager and an affiliate of Carlyle Aviation (the "Carlyle Servicer") entered a sub-servicing agreement (the "Sub-Servicing Agreement") pursuant to which the (i) BBAM Servicers delegated to the Carlyle Servicer certain administrative and management services with respect to certain aviation assets owned directly or indirectly by Fly under a sub-servicer arrangement, and (ii) BBAM Agreement would be terminated at the closing of the Merger. After the consummation of the Merger, Fly is managed and serviced by Carlyle Aviation Management Limited (the "Carlyle Manager") an affiliate of the Carlyle Aviation.

Concurrently with the execution of the Merger Agreement, Fly, BBAM LP and certain of their affiliates, also entered into an assignment and assumption of contracts (the "Assignment and Assumption of Contracts"), pursuant to which, Fly assigned to an affiliate of BBAM all of Fly's rights and obligations under certain contracts with AirAsia Group Berhad ("AirAsia") and its affiliates. The BBAM Agreement, the Sub-Servicing Agreement and the Assignment and Assumption of Contracts are described in greater detail in Note 16. Related Party Transactions to the consolidated financial statements included elsewhere in this report.

AirAsia Transactions

On February 28, 2018, we agreed to acquire 21 Airbus A320neo family aircraft to be leased to AirAsia and its affiliated airlines as the aircraft deliver from the manufacturer ("Portfolio B"). The first of these aircraft delivered in the fourth quarter of 2019. We also acquired options to purchase up to 20 Airbus A320neo family aircraft, not subject to lease ("Portfolio C"). We did not exercise our options with respect to any of the Portfolio C aircraft delivering in 2019. In August 2019, we exercised options with respect to eight Portfolio C aircraft to be delivered in 2020 and 2021. The Portfolio C aircraft slated for delivery in 2020 were not delivered, and we do not expect the Portfolio C aircraft slated for delivery in 2021 to deliver in the next 12 months.

As noted above, concurrently with the execution of the Merger Agreement, we, BBAM LP and certain of our respective affiliates entered into the Assignment and Assumption of Contracts, pursuant to which, subject to the closing of the Merger, we assigned to an affiliate of BBAM LP, and such affiliate assumed, all of our rights and obligations under the Portfolio B and Portfolio C agreements, on the terms and conditions set forth therein.

Flight Equipment Held for Sale

On March 3, 2021, we agreed to sell four aircraft for an aggregate base purchase price of \$35.7 million, subject to adjustments based on rents and interest in respect of the aircraft. These aircraft were delivered to the buyer during the second quarter of 2021.

In March and April 2021, we entered into consignment agreements related to two off-lease aircraft. We wrote down these aircraft to their estimated net sales proceeds to be received from the consignment sales and recorded an impairment charge of \$22.5 million during the first quarter of 2021.

Market Conditions

The airline industry is cyclical, and subject to macroeconomic, geopolitical and other risks which may negatively impact airline profitability or create volatility in the aircraft leasing market. Global passenger air traffic grew and the airline industry was profitable in every year from 2012 to 2019. However, because of the continuing effects of the COVID-19 pandemic on air travel, global passenger air traffic and load factors declined significantly in 2020 with overall passenger traffic decreasing 66% and a global load factor of 64.8% for the year, a decline of nearly 18 percentage points. As of April 21, 2021, the International Air Transport Association ("IATA") predicted that 2021 global passengers will reach 2.4 billion, as compared to 1.8 billion in 2020 and 4.5 billion in 2019. Global air traffic demand is not expected to recover to pre-pandemic levels until at least 2024 with many airlines continuing to experience negative cash flows through most of 2021 and possibly beyond.

The COVID-19 pandemic has negatively impacted the financial health of some airlines and already has led some airlines to enter restructurings, including bankruptcy and similar proceedings. The longer the pandemic persists, the more material the ultimate effects on the financial health of airlines are likely to be. In addition, market lease rates for competing widebody and narrowbody aircraft may be adversely impacted due to the increased supply of aircraft. Finally, uncertainty about geopolitical events and pressures such as environmental impact concerns, Brexit and ongoing U.S.-China trade tensions could affect the economic health of airlines and the aircraft leasing market. These and other factors, known and unknown, may adversely affect the airline industry and the airline leasing market in 2021 and beyond.

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 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. We have made no significant changes in our critical accounting policies and significant estimates from those disclosed in our Annual Report on Form 20-F for the year ended December 31, 2020, filed with the SEC on March 1, 2021 (the "2020 Annual Report").

It is likely that there will be negative effects of the COVID-19 pandemic that we cannot presently predict, including near term effects, which may have a material adverse effect on our results of operations, financial condition and cash flows. Due to worldwide government-imposed travel restrictions, significantly reduced flight schedules, and a severe decline in passenger demand for air travel, we have been in active discussions with our impacted lessees and we have entered into agreements to defer lease payments or restructure leases with some of our lessees. As a result, we anticipate that the decline in our cash rent collections and operating lease rental revenue will continue during the course of 2021 compared to the pre-COVID 19 operating environment. Our estimates of the amount of rent ultimately collectible from our lessees, which impacts revenue recognition, have a higher degree of uncertainty due to the COVID-19 pandemic, and these estimates could change in the near term. Further, the impact of COVID-19 on the airline industry may result in changes to our assumptions used to evaluate impairment of flight equipment, including the level of future rents, the residual value of the flight equipment and estimated downtime between re-leasing events.

During the first quarter of 2021, we recognized flight equipment impairment of \$22.5 million related to two off-lease aircraft that have been classified as flight equipment held for sale. We entered into consignment agreements related to these aircraft and wrote down the aircraft to their estimated net sales proceeds to be received from the consignment sales.

We also recorded a provision for uncollectible operating lease receivables of \$2.0 million and \$3.0 million during the three and six months ended June 30, 2021, respectively. Future changes to our assumptions, which could be caused by airline bankruptcies or otherwise, could result in further provisions for uncollectible operating lease receivables or impairment charges, and these charges could be material.

Operating Results

As of June 30, 2021, we had 80 aircraft and seven engines in our portfolio, of which 71 aircraft and seven engines were held for operating lease, one aircraft was classified as an investment in finance lease and two aircraft were classified as flight equipment held for sale. As of June 30, 2021, eight aircraft were off-lease. As of June 30, 2020, we had 86 aircraft and seven engines in our portfolio, of which 81 aircraft and seven engines were held for operating lease, one aircraft was classified as an investment in finance lease and four aircraft were off-lease.

During the six months ended June 30, 2021, we sold four aircraft for an aggregate gain on sale of aircraft of \$0.2 million. During the six months ended June 30, 2020, we sold six aircraft and two part out engines for an aggregate gain on sale of aircraft of \$31.7 million.

We classify flight equipment as held for sale when we commit to and commence a plan of sale that is reasonably expected to be completed within one year and satisfies other criteria. We recognize revenue from each aircraft until the date that such aircraft is delivered to the purchaser and cease to recognize depreciation as of the date the aircraft is classified as flight equipment held for sale. As of June 30, 2021, we had two aircraft classified as flight equipment held for sale.

During the first quarter of 2021, we recognized end of lease income of \$25.8 million related to the expiry of two leases, and recognized flight equipment impairment of \$22.5 million related to those two off-lease aircraft. These aircraft have been classified as flight equipment held for sale as of June 30, 2021. We entered into consignment agreements related to these aircraft and wrote down the aircraft to their estimated net sales proceeds to be received from the consignment sales.

We receive lease revenue from flight equipment under operating leases. Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured. If the revenue amounts do not meet these criteria, recognition is delayed until the criteria is met. Contingent rents are recognized as revenue when the contingency is resolved. Revenue is not recognized when we determine that collection is not probable.

We maintain an allowance for uncollectible operating lease receivables for losses we estimate will arise from our lessees' inability to make their required lease payments. We evaluate the collectability of rent receivables and determine the appropriate provision for uncollectible operating lease receivables based on historical experience and a review of specific lessees. During the three and six months ended June 30, 2021, we recorded a provision for uncollectible operating lease receivables of \$2.0 million and \$3.0 million, respectively.

At June 30, 2021, we had 10 lessees, leasing a total of 19 aircraft and one engine, on non-accrual status, as we had determined that it was not probable that we would receive the economic benefits of the leases, principally due to (i) the lessees' failure to pay rent and maintenance payments on a timely basis and (ii) our evaluation of the lessees' financial condition. During the three months ended June 30, 2021, we recognized \$4.6 million of operating lease revenue from these lessees, and would have recognized \$15.5 million of additional operating lease revenue had these lessees not been placed on non-accrual status. During the six months ended June 30, 2021, we recognized \$12.5 million of operating lease revenue from these lessees, and would have recognized \$29.7 million of additional operating lease revenue had these lessees not been placed on non-accrual status.

At June 30, 2020, we had five lessees, leasing a total of seven aircraft, on non-accrual status. During the three and six months ended June 30, 2020, we recognized \$2.4 million and \$6.8 million of operating lease revenue from these lessees.

As of June 30, 2021, we had 34 agreements in place with 12 lessees to defer their rent payment obligations for 27 aircraft and seven engines totaling \$62.4 million due to us over the life of the leases. These deferrals are for an average of 12 months with approximately 40% of the deferrals to be repaid by the end of 2021. We have also agreed to lease restructurings with certain of our lessees.

Presented below are the rent deferrals granted and scheduled deferral repayments for deferral agreements in place as of June 30, 2021. There can be no assurance that our lessees will make their payments in accordance with the deferral terms during the expected repayment periods or at all.

	<u>Rent Deferrals Granted</u>	<u>Scheduled Deferral Repayments</u>
	<u>(Dollars in thousands)</u>	
2020	\$ 51,636	\$ 278
2021	10,762	24,888
2022	—	15,949
Thereafter	—	21,283
Total	\$ 62,398	\$ 62,398

We may grant additional payment deferrals and extend the periods of repayment, and if the financial conditions of our airline customers do not improve, we may agree to further restructurings with some of our lessees.

Rental income from aircraft and aircraft equipment is recognized on a straight-line basis over the initial term of the respective lease. Changes to the timing of cash rent receipts, such as under rent deferral arrangements, do not generally affect the total amount of consideration to be received under the lease and therefore do not typically impact revenue recognition, provided that we determine collection of rents is probable.

Management's discussion and analysis of operating results presented below pertain to the consolidated statements of income (loss) of Fly for the three and six months ended June 30, 2021 and 2020.

Consolidated Statements of Income (Loss) for the three months ended June 30, 2021 and 2020

	<u>Three months ended</u>	
	<u>June 30, 2021</u>	<u>June 30, 2020</u>
	<u>(Dollars in thousands)</u>	
Revenues		
Operating lease revenue	\$ 53,145	\$ 79,117
Finance lease revenue	126	141
Gain on sale of aircraft	234	—
Interest and other income	630	704
Total revenues	54,135	79,962
Expenses		
Depreciation	29,575	31,977
Interest expense	21,703	25,284
Selling, general and administrative	7,840	7,093
Provision for uncollectible operating lease receivables	2,000	2,000
Loss on derivatives	603	65
Fair value loss on marketable securities	274	1,083
Maintenance and other costs	1,347	1,032
Total expenses	63,342	68,534
Net income (loss) before provision for income taxes	(9,207)	11,428
Provision for income taxes	905	1,822
Net income (loss)	\$ (10,112)	\$ 9,606

	<u>Three months ended</u>		<u>Increase/ (Decrease)</u>
	<u>June 30, 2021</u>	<u>June 30, 2020</u>	
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	\$ 53,719	\$ 79,843	\$ (26,124)
End of lease income	604	227	377
Amortization of lease incentives	(1,160)	(703)	(457)
Amortization of lease premium, discounts and other	(18)	(250)	232
Total operating lease revenue	<u>\$ 53,145</u>	<u>\$ 79,117</u>	<u>\$ (25,972)</u>

For the three months ended June 30, 2021, operating lease revenue totaled \$53.1 million, a decrease of \$26.0 million compared to the three months ended June 30, 2020. The decrease was primarily due to (i) a decrease of \$15.5 million as a result of lessees on non-accrual status, (ii) a decrease of \$8.0 million as a result of lower lease rates on lease extensions, lease restructurings and remarketings, (iii) a decrease of \$1.8 million in lease revenue as a result of aircraft sold in 2021 and 2020, (iv) a decrease of \$0.6 million in lease revenue related to leases with floating rate rents and (v) an increase of \$0.5 million in amortization of lease incentives. The decrease was partially offset by an increase of \$0.4 million from end of lease income recognized.

During the three months ended June 30, 2021, we sold four aircraft for an aggregate gain on sale of aircraft of \$0.2 million. We did not sell any aircraft during the three months ended June 30, 2020.

Depreciation expense was \$29.6 million for the three months ended June 30, 2021, a decrease of \$2.4 million compared to the three months ended June 30, 2020. The decrease was primarily due to a reduction in depreciation as a result of aircraft sold in 2021 and 2020. This decrease was partially offset by depreciation on aircraft acquired in 2020.

Interest expense totaled \$21.7 million for the three months ended June 30, 2021, a decrease of \$3.6 million compared to the three months ended June 30, 2020. The decrease was primarily due to a reduction in interest resulting from (i) a \$5.2 million decrease due to the repurchase and redemption of the 2021 Notes and (ii) debt repayments associated with aircraft sales. The decrease was offset by (i) \$3.1 million of interest expense on the 2020 Term Loan and (ii) \$1.1 million of interest capitalized to Portfolio B in 2020.

Selling, general and administrative expenses were \$7.8 million for the three months ended June 30, 2021, an increase of \$0.7 million compared to the three months ended June 30, 2020. The increase was primarily due to \$1.7 million of transaction costs associated with the Merger Agreement with Carlyle Aviation, partially offset by a decrease of \$1.2 million in servicing and management fees paid to BBAM due to a decrease in rental revenue.

For the three months ended June 30, 2021, we recognized an unrealized fair value loss on marketable securities of \$0.3 million related to the write down of our equity certificates to estimated fair value. After the write-down, the carrying value of our investment in equity certificates was \$4.6 million as of June 30, 2021. For the three months ended June 30, 2020, we recognized an unrealized fair value loss on marketable securities of \$1.1 million related to the write down of our equity certificates to estimated fair value. We expect the fair value of our investment in equity certificates to remain volatile while the COVID-19 pandemic continues to affect the market for such securities.

Provision for income taxes was \$0.9 million and \$1.8 million for the three months ended June 30, 2021 and 2020, respectively. We are tax resident in Ireland and expect to pay the corporation tax rate of 12.5% on trading income and 25.0% on non-trading income. Our effective tax rates were (9.8)% and 15.9% for the three months ended June 30, 2021 and 2020, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances and the amount of income earned by us in different tax jurisdictions. In addition, during the three months ended June 30, 2021, we incurred certain merger related expenses that are not expected to be tax deductible.

Consolidated Statements of Income (Loss) for the six months ended June 30, 2021 and 2020

	Six months ended	
	June 30, 2021	June 30, 2020
	(Dollars in thousands)	
Revenues		
Operating lease revenue	\$ 132,989	\$ 166,557
Finance lease revenue	255	286
Gain on sale of aircraft	234	31,717
Interest and other income	1,514	2,957
Total revenues	134,992	201,517
Expenses		
Depreciation	59,542	63,608
Flight equipment impairment	22,546	—
Interest expense	43,769	52,439
Selling, general and administrative	20,340	14,757
Provision for uncollectible operating lease receivables	3,000	2,000
(Gain) loss on derivatives	(2,121)	572
Fair value (gain) loss on marketable securities	(1,565)	10,495
Loss on extinguishment of debt	—	850
Maintenance and other costs	2,451	2,216
Total expenses	147,962	146,937
Net income (loss) before provision for income taxes	(12,970)	54,580
Provision for income taxes	535	6,902
Net income (loss)	\$ (13,505)	\$ 47,678

	Six months ended		Increase/ (Decrease)
	June 30, 2021	June 30, 2020	
	(Dollars in thousands)		
Operating lease revenue:			
Operating lease rental revenue	\$ 109,095	\$ 165,378	\$ (56,283)
End of lease income	26,415	2,654	23,761
Amortization of lease incentives	(2,242)	(1,317)	(925)
Amortization of lease premium, discounts and other	(279)	(158)	(121)
Total operating lease revenue	\$ 132,989	\$ 166,557	\$ (33,568)

For the six months ended June 30, 2021, operating lease revenue totaled \$133.0 million, a decrease of \$33.6 million compared to the six months ended June 30, 2020. The decrease was primarily due to (i) a decrease of \$29.7 million as a result of lessees on non-accrual status, (ii) a decrease of \$19.6 million as a result of lower lease rates on lease extensions, lease restructurings and remarketings, (iii) a decrease of \$5.3 million in lease revenue as a result of aircraft sold in 2021 and 2020, (iv) an increase of \$1.7 million in amortization of lease incentives, lease premium and other and (v) a decrease of \$1.6 million in lease revenue related to leases with floating rate rents. The decrease was partially offset by (i) an increase of \$23.8 million from end of lease income recognized and (ii) an increase in lease revenue of \$0.5 million from aircraft purchased in 2020.

During the six months ended June 30, 2021, we sold four aircraft for an aggregate gain on sale of aircraft of \$0.2 million. During the six months ended June 30, 2020, we sold six aircraft and two part out engines for an aggregate gain on sale of aircraft of \$31.7 million.

Interest and other income totaled \$1.5 million for the six months ended June 30, 2021, a decrease of \$1.4 million compared to the six months ended June 30, 2020. The decrease was primarily due to lower cash balances resulting in lower interest earned on deposits in bank accounts. In addition, we recognized \$0.4 million of income from equity certificates in 2020.

Depreciation expense was \$59.5 million for the six months ended June 30, 2021, a decrease of \$4.1 million compared to the six months ended June 30, 2020. The decrease was primarily due to a reduction in depreciation on aircraft sold in 2021 and 2020. This decrease was partially offset by depreciation on aircraft acquired in 2020.

During the six months ended June 30, 2021, we recognized flight equipment impairment of \$22.5 million related to two off-lease aircraft that have been classified as flight equipment held for sale. We entered into consignment agreements related to these aircraft and wrote down the aircraft to their estimated net sales proceeds to be received from the consignment sales. During the six months ended June 30, 2020, we did not recognize any flight equipment impairment.

Interest expense totaled \$43.8 million for the six months ended June 30, 2021, a decrease of \$8.7 million compared to the six months ended June 30, 2020. The decrease was primarily due to a reduction in interest resulting from (i) a \$10.4 million decrease due to the repurchase and redemption of the 2021 Notes and (ii) debt repayments associated with aircraft sales. The decrease was offset by (i) \$6.2 million of interest expense on the 2020 Term Loan, (ii) \$2.2 million of interest capitalized to Portfolio B in 2020 and (iii) a \$1.2 million increase in swap interest expense.

Selling, general and administrative expenses were \$20.3 million for the six months ended June 30, 2021, an increase of \$5.6 million compared to the six months ended June 30, 2020. The increase was primarily due to \$8.2 million of transaction costs associated with the Merger Agreement with Carlyle Aviation, partially offset by a decrease of \$2.4 million in servicing and management fees paid to BBAM due to a decrease in rental revenue.

During the six months ended June 30, 2021 and 2020, we recorded a provision for uncollectible operating lease receivables of \$3.0 million and \$2.0 million, respectively.

During the six months ended June 30, 2021, we recognized a gain on derivatives of \$2.1 million primarily associated with the mark-to-market of de-designated interest rate and cross currency swaps.

For the six months ended June 30, 2021, we recognized an unrealized fair value gain on marketable securities of \$1.6 million related to the mark-up of our equity certificates to estimated fair value. After the mark-up, the carrying value of our investment in equity certificates was \$4.6 million as of June 30, 2021. For the six months ended June 30, 2020, we recognized an unrealized fair value loss on marketable securities of \$10.5 million related to the write down of our equity certificates to estimated fair value. We expect the fair value of our investment in equity certificates to remain volatile while the COVID-19 pandemic continues to affect the market for such securities.

During the six months ended June 30, 2020, we incurred debt extinguishment costs totaling \$0.9 million due to debt repayments associated with aircraft sales. We did not incur any debt extinguishment costs during the six months ended June 30, 2021.

Provision for income taxes was \$0.5 million and \$6.9 million for the six months ended June 30, 2021 and 2020, respectively. We are tax resident in Ireland and expect to pay the corporation tax rate of 12.5% on trading income and 25.0% on non-trading income. Our effective tax rates were (4.1)% and 12.6% for the six months ended June 30, 2021 and 2020, respectively. The difference between the statutory and effective tax rate in each period is primarily attributable to changes in valuation allowances and the amount of income earned by us in different tax jurisdictions. In addition, during the six months ended June 30, 2021, we incurred certain merger related expenses that are not expected to be tax deductible.

Liquidity and Capital Resources

Overview

Our business is very capital intensive, requiring significant investment to maintain and expand our fleet. We have pursued a strategy of disciplined fleet growth. During the year ended December 31, 2020, we acquired three aircraft, which we had agreed to acquire before the start of the COVID-19 pandemic. Largely due to the pandemic and the deterioration in the aviation industry, we did not acquire any additional aircraft after the onset of the pandemic.

We also have pursued opportunistic aircraft sales to rejuvenate our fleet. In 2020, we sold eight aircraft. During the six months ended June 30, 2021, we sold four aircraft that had been classified as flight equipment held for sale.

We finance our business with unrestricted cash, cash generated from flight equipment leases, aircraft sales and debt financings. At June 30, 2021, we had \$108.1 million of unrestricted cash. We also had seven unencumbered aircraft with an aggregate book value of \$102.3 million.

In recent years, our debt financing strategy has been to diversify our lending sources and to utilize both secured and unsecured debt financing. Unsecured borrowings provide us with greater operational flexibility. Secured, recourse debt financing enables us to take advantage of favorable pricing and other terms compared to secured non-recourse debt, which we also continue to utilize.

Our sources of operating cash flows are principally distributions and interest payments made to us by our subsidiaries. These payments by our subsidiaries may be restricted by applicable local laws and debt covenants.

We expect that, even with current market conditions and after giving effect to the Merger, our liquidity is more than sufficient to satisfy our anticipated operational and other business needs over the next 12 months; however, we cannot assure you that operating cash flow will not be lower than we expect due to, for example, higher than expected deferral arrangements or payment defaults, or that we will continue to meet the financial covenants in certain of our debt facilities. As a consequence of entering into deferral agreements with our lessees, the rent collections under certain secured borrowings have been insufficient to cover the related debt service payments. As a result, we have made and expect that we will continue to make such payments from operating cash to cover any shortfall amounts.

Our liquidity plans are subject to a number of risks and uncertainties, including those described under Item 3 “Key Information — Risk Factors” of our 2020 Annual Report.

Cash Flows for the six months ended June 30, 2021 and 2020

We generated cash from operations of \$54.5 million and \$54.9 million for the six months ended June 30, 2021 and 2020, respectively, a period-over-period decrease of \$0.4 million.

Cash provided by investing activities was \$23.2 million and \$72.0 million for the six months ended June 30, 2021 and 2020, respectively. During the six months ended June 30, 2021, we sold four aircraft for net cash proceeds of \$29.4 million. During the six months ended June 30, 2020, we used \$74.1 million of cash to purchase flight equipment. During the six months ended June 30, 2020, we sold six aircraft and two part out engines for net cash proceeds of \$160.3 million. Payments for aircraft improvement totaled \$4.7 million and \$12.9 million for the six months ended June 30, 2021 and 2020, respectively.

Cash used in financing activities for the six months ended June 30, 2021 and 2020 totaled \$82.0 million and \$155.9 million, respectively. During the six months ended June 30, 2021, we made repayments on our secured borrowings totaling \$87.3 million. These payments were partially offset by (i) net security deposit receipts from our lessees of \$3.5 million and (ii) net maintenance reserve receipts of \$2.2 million. During the six months ended June 30, 2020, we (i) made repayments on our secured borrowings totaling \$154.6 million, largely in connection with aircraft sales and (ii) used \$6.5 million to repurchase 417,341 shares. These payments were partially offset by security deposit receipts from our lessees of \$3.3 million and (iii) net maintenance reserve receipts of \$1.9 million.

Maintenance Cash Flows

Under our leases, the lessee is generally responsible for maintenance and repairs, airframe and engine overhauls, and compliance with return conditions of aircraft on lease. In connection with the lease of a used aircraft we may agree to contribute 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. We are not obligated to pay maintenance claims submitted by lessees who are in default under their lease agreement.

We generally expect that the aggregate maintenance reserve and lease end adjustment payments we receive from lessees will meet the aggregate maintenance contributions and lease end adjustment payments that we will be required to make. During the six months ended June 30, 2021, we received \$9.6 million of maintenance payments from lessees and made maintenance payment disbursements of \$7.4 million.

Share Repurchases

During the six months ended June 30, 2020, Fly repurchased 417,341 shares at an average price of \$15.57 per share, or \$6.5 million, before commissions and fees. Fly did not repurchase any shares during the six months ended June 30, 2021. Our share repurchase program expired in September 2020.

Capital Expenditures

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. In general, the costs of operating an aircraft, including capital expenditures,

increase with the age of the aircraft. As of June 30, 2021, the weighted average age of our portfolio (excluding aircraft held for sale) was 8.7 years.

On February 28, 2018, we agreed to acquire 21 Airbus A320neo family aircraft to be leased to AirAsia and its affiliated airlines as the aircraft deliver from the manufacturer (“Portfolio B”). The first of these aircraft delivered in the fourth quarter of 2019. We also acquired options to purchase up to 20 Airbus A320neo family aircraft, not subject to lease (“Portfolio C”). We did not exercise our options with respect to any of the Portfolio C aircraft delivering in 2019. In August 2019, we exercised options with respect to eight Portfolio C aircraft to be delivered in 2020 and 2021. The Portfolio C aircraft slated for delivery in 2020 were not delivered, and we do not expect the Portfolio C aircraft slated for delivery in 2021 to deliver in the next 12 months. Assuming the eight options exercised but not delivered are re-exercised at a future date, we have options remaining to purchase up to 17 Portfolio C aircraft delivering between 2021 and 2025.

As noted above, concurrently with the execution of the Merger Agreement, we, BBAM LP and certain of our respective affiliates entered into an assignment and assumption of contracts, pursuant to which, subject to the closing of the Merger, we will assign to an affiliate of BBAM LP, and such affiliate will assume, all of our rights and obligations under the Portfolio B and Portfolio C agreements, on the terms and conditions set forth therein.

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.

Risk Factors

For a discussion of risk factors that could affect our business see our 2020 Annual Report filed with the SEC on March 2021 and the Offering Memoranda for the New Notes, including the Additional Notes.