Genesis Lease LTD
Form 20-F
March 06, 2009

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

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2008

OR

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

OR

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

Commission file number 1-33200

GENESIS LEASE LIMITED
(Exact name of Registrant as specified in its charter)

Bermuda
(Jurisdiction of incorporation or organization)

4450 Atlantic Avenue
Westpark
Shannon
Co. Clare, Ireland
(Address of principal executive office)

John McMahon, Telephone number: +353 61 233 300, Fax number: +353 61 364 642
(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares	New York Stock Exchange
Common Shares, par value of $0.001 per share	New York Stock Exchange*

* Not for trading, but only in connection with the registration of American Depositary Shares

representing these shares, pursuant to the requirements of the Securities and Exchange Commission.

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

None

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

None

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

34,341,095 Common Shares, par value of $0.001 per share.

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

Yes o No þ

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

Yes o No þ

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

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filero

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

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

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

Item 17 o Item 18 o

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

Yes o No þ

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PRELIMINARY NOTE

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

This Annual Report contains forward-looking statements that involve risks and uncertainties. These statements include forward-looking statements both with respect to us specifically and the aircraft leasing industry generally. Statements that include the words expect, intend, plan, believe, project, anticipate, will, and similar statements of a future or forward-looking nature identify forward-looking statements. The forward-looking statements contained in this Annual Report are based on management s current expectations and are subject to uncertainty and changes in circumstances. There can be no assurance that future developments affecting us will be those that we have anticipated. 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. We believe that these factors include, but are not limited to, those described under Item 3.D. Risk Factors and elsewhere in this Annual Report. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, our actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise.

We acquired our initial portfolio of 41 commercial jet aircraft (the Initial Portfolio) from affiliates of General Electric Company (GE) on December 19, 2006, with the net proceeds of our initial public offering (IPO), a private placement of shares to GE (the private placement) and the issuance of aircraft lease-backed notes in a securitization transaction (the securitization). Since our IPO, we have increased our portfolio from 41 to 54 aircraft through acquisitions from affiliates of GE and from independent airlines in purchase-leaseback transactions.

Unless the context requires otherwise, when used in this Annual Report, (1) the term Company refers only to Genesis Lease Limited, (2) the terms Genesis, we, our and us refer to Genesis Lease Limited and its subsidiaries, including Genesis Funding Limited (Genesis Funding), Genesis Acquisition Limited (Genesis Acquisition) and Genesis Portfolio Funding I Limited (Genesis Portfolio), (3) GECAS refers to GE Commercial Aviation Services Limited, together with its subsidiaries, (4) our predecessor refers to the combination of the 41 aircraft included in our Initial Portfolio from the date that each aircraft was acquired by an affiliate of GE, as such aircraft were owned by affiliates of GE until the completion of our IPO on December 19, 2006, (5) all references to our shares refer to our common shares held in the form of American Depositary Shares, (ADSs), and (6) all percentages and weighted averages of the aircraft in our portfolio have been calculated using the average of half life appraised base values as at December 31, 2008, and percentages may not total due to rounding.

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PART ONE

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following selected financial data is derived from our audited combined and consolidated financial statements, prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), and should be read in conjunction with, and is qualified by reference to, Item 5. Operating and Financial Review and Prospects and our combined and consolidated financial statements and related notes thereto included in Item 18. Financial Statements in this Annual Report.

	Combined	Combined	Combined and Consolidated	Consolidated	Consolidated
	Years Ended December 31,				
	2004	2005	2006	2007	2008
	(USD in thousands, except share and per share data)				
Revenues					
Rental of Flight Equipment	$ 99,414	$ 117,861	$ 153,187	$ 181,333	$ 215,985
Other income				6,771	8,045
Total revenue	99,414	117,861	153,187	188,104	224,030
Expenses					
Depreciation	35,005	42,462	51,398	62,259	78,690
Interest	28,680	34,995	46,026	55,236	70,971
Maintenance expense	1,019	1,989	2,327	1,073	3,344
Selling, general and administrative	2,400	3,144	7,312	20,991	23,884
Other expenses				3,337	
Total operating expenses	67,104	82,590	107,063	142,896	176,889
Income Before Taxes	32,310	35,271	46,124	45,208	47,141
Provision for income taxes	14,892	13,900	17,367	6,053	6,224
Net Income	$ 17,418	$ 21,371	$ 28,757	$ 39,155	$ 40,917

We calculate our earnings per share in accordance with Statement of Financial Accounting Standards (SFAS) 128, *Earnings Per Share*. Basic net earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted net earnings per share reflects the dilution potential that could occur if securities or other contracts to issue common shares were exercised resulting in the issuance of common shares that then shared in our net income.

The shares used in the computation of our basic and diluted net earnings per share are as follows:

	2006	2007	2008
Weighted average number of shares outstanding:			
Basic	1,116,296	35,859,164	35,968,128

Diluted	1,118,050	35,867,105	35,968,128

The following table presents the net income per share calculated for the year ended December 31, 2006, 2007 and 2008:

Net income per share			
Basic	$25.76	$1.09	$1.14
Diluted	$25.72	$1.09	$1.14

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	2004	2005	As at December 31, 2006 (USD in thousands)	2007	2008
Balance Sheet Data:					
Cash and cash equivalents	$	$	$ 26,855	$ 30,101	$ 60,206
Restricted cash			15,471	32,982	33,718
Total assets	936,918	1,082,997	1,316,058	1,675,169	1,757,695
Long-term debt			810,000	1,050,961	1,128,393
Total liabilities	92,115	101,006	839,383	1,132,830	1,282,258
GE net investment	844,803	981,991			
Total shareholders equity			476,675	542,339	475,437
Total liabilities and GE net investment/shareholders equity	$936,918	$1,082,997	$1,316,058	$1,675,169	$1,757,695

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the following risks. These risks could materially and adversely affect our business, prospects, financial condition, results of operations, cash flows and ability to pay dividends and cause the trading price of our shares to decline. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, prospects, financial condition, results of operations, cash flows and ability to pay dividends.

Risks Related to Our Business

Changes in economic conditions could adversely affect our business.

Our business and results of operations are significantly impacted by general economic and industry conditions. The stress experienced by global capital markets that began in the second half of 2007 continued and substantially increased during 2008 and into 2009. In particular, the substantial losses experienced by the global banking industry have led to a dramatic increase in the cost and deterioration in the availability of capital. Many governments have sought to establish programs to support the banking industry in order to encourage lending and to mitigate against a sustained recessionary environment. Nevertheless, continued concerns over the availability and cost of credit, declining business and consumer confidence and increased unemployment, have precipitated an economic recession throughout the world, resulting in expectations for reduced global economic growth.

A continued decline in economic activity and conditions in the United States, Europe and other markets in which we operate could adversely affect our financial condition and results of operations. For example, several airlines across the world filed for bankruptcy in 2008 due to high oil prices in the first half of the year and decreased demand for air travel resulting from the downturn in economic conditions. As a result,

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some of our leases with airlines have been terminated, and we have been required to bear unforeseen maintenance expenses, additional remarketing expenses and lost revenues. The economic downturn and the impairment of credit markets have also resulted in a decline in aircraft values and lease rates. A protracted economic downturn could exacerbate these adverse conditions. Although several governments have taken steps to mitigate the disruption to financial markets, there can be no assurances that government responses will restore consumer confidence for the foreseeable future.

We will need additional capital to finance our growth, and we may not be able to obtain such capital on terms acceptable to us, or at all.

Our liquidity needs include the financing of additional aircraft and other aviation assets that we expect will drive our growth. We plan to finance acquisitions through borrowings under our revolving credit facility or other debt facilities, additional equity and debt offerings, and private placements of equity and debt securities.

Our ability to execute our business strategy to acquire these additional assets depends to a significant degree on our ability to access debt and equity capital markets. During 2008, the capital and credit markets experienced extreme volatility and disruption. As a result, access to capital and credit markets and to other available forms of financing and liquidity has been significantly impaired for us and for many other companies.

Current market conditions have exerted significant downward pressure on the price of our common shares, which could impact our ability to raise capital through the issuance of additional equity related securities, or to obtain shareholder approval (if required) for the issuance of equity securities. If we were to issue equity or equity-related securities, such securities could take various forms, including convertible or hybrid debt, common shares, preferred shares and warrants. Preferred shares would have terms that are more favorable than our common shares. Any issuance of equity securities could dilute the interests of our existing shareholders and adversely affect the trading price of our common shares.

Our access to capital markets also will depend on a number of other factors, such as our historical and expected performance, compliance with the terms of our debt agreements, industry and market trends and the relative attractiveness of alternative investments. During 2008, the turmoil in the financial markets has caused banks and financial institutions to decrease the amount of capital available for lending. If we are unable to raise funds through debt and equity capital markets on terms that are acceptable to us, then we may be unable to implement our growth strategy of making acquisitions of additional aircraft and other aviation assets.

A deterioration in the financial condition of the commercial airline industry would have an adverse impact on our ability to lease our aircraft.

The financial condition of the commercial airline industry is of particular importance to us because we lease most of our aircraft to commercial airline customers. Our ability to achieve our primary business objectives of growing our lease portfolio will depend on the financial condition and growth of the commercial airline industry. The risks affecting our airline customers are generally beyond our control, but because they have a significant impact on our customers they affect us as well. Our ability to succeed depends on the financial strength of our customers and their ability to manage these risks. To the extent that our customers are adversely affected by these risk factors, we may experience:

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a higher incidence of lessee defaults, lease restructurings, repossessions and airline bankruptcies and restructurings, resulting in lower lease margins due to maintenance, legal and other costs associated with the repossession, as well as lost revenue for the time the aircraft are off lease and possibly lower lease rates from the new lessees; and

an inability to lease aircraft on commercially acceptable terms, resulting in lower lease margins due to aircraft not earning revenue and resulting in storage, insurance and maintenance costs.

The aviation industry is inherently cyclical and a significant downturn in the industry would adversely impact our lessees ability to make payments to us, which would adversely affect our financial results and growth prospects.

The aviation industry is inherently cyclical. The years 2001 through 2004 were characterized by falling demand, rising costs and significant financial losses, particularly in the US and Europe. This downturn was exacerbated by the terrorist attacks on September 11, 2001, prolonged military action in Iraq and Afghanistan, rising fuel prices, SARS and avian influenza and saw many airlines, including some of our lessees, file for bankruptcy protection or implement reductions in capacity, service and workforce.

The period from 2005 through 2007 was characterized by rising demand, airline profitability and significant purchases of new aircraft. The period from 2007 through 2008, however, was characterized by a dramatic deterioration in the global financial markets, declining business and consumer confidence and increased unemployment, resulting in expectations for reduced global economic growth going forward. During 2008, the aviation industry also experienced a significant spike in oil prices and given the developing economic downturn, the industry continues to face many challenges including falling traffic demand, reductions in capacity and the financing of substantial commitments for new aircraft in a market where there has been a deterioration in the availability of capital.

A significant downturn may place already financially weakened lessees under further duress and may result in further airline bankruptcies exerting downward pressure on lease rates, aircraft and engine market values and the grounding of significant numbers of aircraft.

The recent changes in demand and supply of aircraft could depress lease rates and the value of our aircraft portfolio.

The economic downturn and the expected slowdown in air travel have contributed to a decrease in the demand for aircraft, while a number of recent airline bankruptcies, as well as financial challenges potentially facing other airlines, may result in an increase in the supply of aircraft. In addition, several large portfolios of leased aircraft may be available for sale. For example, it has been reported that American International Group intends to sell International Lease Finance Corporation (ILFC), its aircraft leasing business, which is the largest aircraft lessor in the world, measured by portfolio value. It has also been reported that Royal Bank of Scotland is considering a sale of its aircraft financing arm, RBS Aviation Capital. Allco Finance Group, another aircraft lessor, has announced the appointment of voluntary administrators under Australian law and may sell its aircraft portfolio. Babcock & Brown has also announced an asset disposal program, including the sale of its aircraft leasing business. This shift in supply/demand dynamics may lead to decreases in aircraft lease rates and values. A decrease in lease rates could adversely affect our lease revenues in future periods as our current leases expire or to the extent that airlines default on their leases. A decrease in aircraft values would adversely affect the value of the aircraft in our portfolio. Furthermore, secondary aircraft trading may be financed through borrowings, and this may exert further pressure on the availability of aircraft financing in the market, which could adversely affect our ability to obtain additional borrowings or refinance our existing debt.

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A decrease in lease rates and the value of our leased assets could have an adverse effect on our financial results, growth prospects and ability to meet our obligations.

The supply and demand for aircraft is affected by various cyclical and non-cyclical factors that are beyond our control, including:

- cancellations of orders for aircraft;
- accuracy of estimates relating to future supply and demand made by manufacturers and lessees;
- operating costs, availability of jet fuel and general economic conditions affecting our lessees operations;
- geopolitical and other events, including war, acts of terrorism, outbreaks of epidemic diseases and natural disasters;
- governmental regulation, including new airworthiness directives and environmental regulations;
- manufacturer production levels, technological innovation and delays in delivery of aircraft;
- retirement and obsolescence of aircraft models;
- manufacturers merging or exiting the industry or ceasing to produce aircraft or engine types;
- reintroduction into service of aircraft or engines previously in storage; and
- airport and air traffic control infrastructure constraints.

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

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

Factors that may affect the value and achievable lease rates of our aircraft and other aviation assets include:

- the particular maintenance and operating history of the airframes and engines;
- the number of operators using that type of aircraft or engine;
- whether an aircraft or other aviation asset is subject to a lease and, if so, whether the lease terms are favorable to the lessor;
- the age of our aircraft and other aviation assets;
- airworthiness directives and service bulletins;
- aircraft noise and emission standards;
- any tax, customs, regulatory and other legal requirements that must be satisfied when an aircraft is purchased, sold or re-leased;
- compatibility of our aircraft configurations or specifications with other aircraft owned by operators of that type; and

decreases in the creditworthiness of our lessees.

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

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

The leasing and remarketing of commercial jet aircraft is highly competitive. As the exclusive servicer of our aircraft, GECAS competes in leasing, re-leasing and selling our aircraft with other aircraft leasing companies, including ILFC, AerCap, Aircastle, Aviation Capital Group, AWAS, Babcock & Brown Aircraft Management, Babcock & Brown Air Limited, BOC Aviation, Boeing Capital, CIT Aerospace, Macquarie Aircraft Leasing and RBS Aviation Capital, among others. We also may encounter competition from other entities that selectively compete with us, including:

- airlines;
- aircraft manufacturers;
- financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices);
- aircraft brokers;
- special purpose vehicles formed for the purpose of acquiring, leasing and selling aircraft; and
- public and private partnerships, investors and funds, including private equity and hedge funds.

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

Competition in the purchase and sale of used aircraft is based principally on the availability of used aircraft, the availability of capital, price, the terms of the lease to which an aircraft is subject and the creditworthiness of the lessee. When we decide to dispose of an aircraft, GECAS, as our servicer, will arrange the disposition pursuant to the terms of the servicing agreements for that used aircraft. In doing so, GECAS may compete with the aircraft leasing companies listed above, as well as with the other types of entities described above and other investors. GECAS is not required to assist us in the purchase of aircraft, and therefore we also may compete with GECAS when seeking to acquire aircraft.

If demand for leased aircraft does not increase, we may not be able to expand our business.

Over the past 20 years, the world s airlines have leased a growing proportion of their aircraft. According to market data, the proportion of the global fleet under operating lease has increased from 17% in 1990 to more than 30% in recent years. Our growth strategy contemplates future acquisitions and leasing of additional commercial aircraft and other aviation assets. If, however, the aggregate demand for leased aircraft does not expand, then we may be unable to implement our growth strategy through aircraft acquisitions.

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Fuel prices affect the profitability of the airline industry, and increases in fuel prices may have an adverse effect on our lessees ability to meet their lease payment obligations to us.

Airlines are significantly impacted by changes in the price and availability of fuel. Governmental policy concerning fuel production, transportation or marketing, changes in fuel production capacity, weather-related events, natural disasters, political disruptions or wars involving oil-producing countries, environmental concerns, currency exchange rates and other unpredictable events may result in fuel supply shortages and fuel price increases. Fuel prices increased in 2008 to new record highs, with the price of crude oil reaching more than $145 per barrel in July 2008 before falling to under $34 per barrel in December 2008. Many airlines entered into hedging arrangements which locked in fuel at relatively high prices. As a consequence, some airlines were not in a position to benefit from a fall in fuel prices during the latter part of 2008, and a number of them will realize significant losses from these hedging positions. Although fuel costs have receded significantly from their highs in 2008, they will continue to have a significant impact on airline profitability. Due to the competitive nature of the airline industry, airlines have limited ability to pass increases in fuel prices to their customers by increasing fares. In addition, airlines may not be able to hedge their exposure to price increases. Increases in fuel prices may:

- lead to further airline bankruptcies, which may lead to cancellations of our leases and the return of our aircraft;
- impair our lessees ability to make rental and other lease payments;
- lead to lease restructurings and aircraft repossessions; and
- increase the costs of servicing and remarketing our aircraft at favorable rates.

Any of these effects could have a material adverse effect on our financial condition, results of operations and prospects.

The effects of terrorist attacks and geopolitical conditions may negatively affect the airline industry. This may cause our lessees to default on their lease payment obligations to us.

As a result of the September 11, 2001 terrorist attacks in the United States and subsequent terrorist attacks in other parts of the world, airports have increased security restrictions, airline costs for aircraft insurance and enhanced security measures have increased and airlines have faced increased difficulties in acquiring war risk and other insurance at reasonable costs. Terrorist attacks and geopolitical conditions have harmed the airline industry, and concerns about geopolitical conditions and further terrorist attacks could harm airlines in the future as a result of various factors, including:

- higher costs to airlines because of increased security measures;
- the inconvenience of additional security measures;
- the price and availability of jet fuel and the cost and
- significantly higher costs of aircraft insurance coverage for claims caused by acts of war, terrorism, sabotage, hijacking and other similar perils, and the extent to which such insurance has been or will continue to be available.

Future terrorist attacks, war or armed hostilities, or the fear of such events, may further increase airline costs, depress air travel demand, cause certain aviation insurance to become available only at significantly increased premiums or not be available at all and could have a further adverse impact on the airline industry and on the financial condition and liquidity of

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our lessees, aircraft values and rental rates, all of which could adversely affect our financial results and growth prospects.

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

The supply of aircraft, which we purchase and lease, is dominated by two airframe manufacturers, Boeing and Airbus, and a limited number of engine manufacturers. We therefore depend on these manufacturers success in remaining financially stable and producing aircraft and related components which meet airlines demands and providing customer support. Further, competition between the manufacturers for market share is escalating and may cause instances of deep discounting for certain aircraft types and may have a negative impact on our competitive pricing when we sell or lease aircraft. Should the manufacturers fail to respond appropriately to changes in the market environment or fail to fulfill their contractual obligations, we may experience:

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

- poor customer support from the manufacturers of aircraft and components resulting in reduced demand for a particular manufacturer s product, creating downward pressure on demand for those aircraft and components in our fleet and reduced market lease rates for those aircraft; and

- reduction in our competitiveness due to deep discounting by the manufacturers, which may lead to reduced market lease rates and may adversely affect the value of our portfolio and our ability to remarket or sell some of the aircraft in our fleet.

Unforeseen difficulties and costs associated with the acquisition, financing and/or management of our aircraft portfolio and other aviation assets could reduce or prevent our future growth and profitability.

Our growth strategy contemplates future acquisitions and leasing of additional commercial aircraft and other aviation assets. Any acquisition of aircraft or other aviation assets may not be profitable to us after the acquisition and may not generate sufficient cash flow to justify our investment. In addition, our acquisition growth strategy exposes us to risks that may harm our business, financial condition, results of operations and cash flows, including risks that we may:

- fail to realize anticipated benefits, such as new customer relationships or cash flow enhancements;

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

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

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

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

Unlike new aircraft, existing aircraft typically do not carry warranties as to their conditions (although certain manufacturer warranties may still be effective and assignable when the aircraft is purchased). Although we may inspect an existing aircraft and its documented maintenance, usage, lease and other records prior to acquisition, such an inspection normally

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would not provide us with as much knowledge of an aircraft s condition as we would have if it had been built for us. In addition, we may not have the opportunity to inspect each aircraft that we acquire. Repairs and maintenance costs for existing aircraft are difficult to predict and generally increase as aircraft age and may have been adversely affected by prior use. These costs could decrease our cash flow and reduce our liquidity.

The terms of our indebtedness may limit our operational flexibility.

The terms of our indebtedness expose us to certain risks and operational restrictions, including:

- our aircraft leases and several of our aircraft serve as collateral for our financings, the terms of which restrict our ability to sell aircraft and require us to use proceeds from sales of aircraft, in part, to repay amounts outstanding under those financings;

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

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

- lessee, geographical and other concentration limits on flexibility in leasing our aircraft;

- requirements to obtain policy provider consents and rating agency confirmations for certain actions (in the case of the notes issued in the securitization); and

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

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

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

We are a holding and a financing company and our principal asset is the equity interests we hold in our subsidiaries that hold our aircraft. As a result, we depend on dividends and other payments from these subsidiaries and from any other subsidiaries through which we may conduct operations in the future, to generate the funds necessary to meet our financial obligations. The subsidiaries that hold our aircraft are legally distinct from us and are often restricted from paying dividends or otherwise making funds available to us pursuant to agreements governing our indebtedness. Any other subsidiaries through which we may conduct operations in the future will also be legally distinct from us and may be similarly restricted from paying dividends or otherwise making funds available to us under certain conditions.

All of our principal debt facilities have financial covenants. If we are unable to comply with these covenants, then the amounts outstanding under these facilities may become immediately due and payable, cash generated by our subsidiaries may be unavailable to us and/or we may be unable to draw additional amounts under these facilities. The Initial Portfolio financed by Genesis Funding s securitization requires that Genesis Funding maintain a debt service coverage ratio from November 2009 through November 2011 above the threshold specified under this financing. If lessees of the aircraft held by Genesis Funding default under their leases, then Genesis Funding may be unable to comply with this

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covenant and all available cashflow from the Initial Portfolio will be applied to the repayment of the securitization notes. Genesis Portfolio s term loan facility requires that Genesis Portfolio maintain a loan-to-value ratio (tested annually) below the threshold specified in the facility. If aircraft values decline, then Genesis Portfolio may be unable to comply with this covenant and would be required to prepay outstanding borrowings to restore compliance with the covenant; otherwise, the amounts outstanding under the term loan facility would become immediately due and payable. Genesis Acquisition s revolving credit facility requires that Genesis Acquisition maintain minimum ratios of earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense and a loan-to-value ratio (tested semi-annually) below the threshold specified in the revolving credit facility in respect of any aircraft financed through the revolving credit facility. As at December 31, 2008 there were no aircraft financed through Genesis Acquisition s revolving credit facility. However, to the extent aircraft are financed in the future and subsequently aircraft values decline and/or if lessees default under their leases, then Genesis Acquisition may be unable to comply with the covenants and could lose the ability to make further borrowings under the revolving credit facility. The events that could cause our subsidiaries not to be in compliance with their financial covenants such as a decline in aircraft values or lessee defaults may be beyond our control, but they nevertheless could have a substantial adverse impact on the amount of our cash flow available to fund working capital, make capital expenditures and satisfy other needs, including payments of dividends to shareholders.

For a description of the operating and financial restrictions in our debt facilities, see Item 5.B. Liquidity and Capital Resources.

We may not be able to refinance the notes issued in the securitization on favorable terms or at all, which may require us to seek more costly or dilutive financing for our investments or to liquidate assets.

We currently intend to refinance the notes that Genesis Funding issued in the securitization through a long-term financing prior to December 2011. After December 2011 if we have not refinanced the notes, we will be required to apply all of the available cash flow from our Initial Portfolio of 41 aircraft to repay the principal on the notes. We bear the risk that we will not be able to refinance our existing indebtedness on favorable terms or at all. The inability to refinance our securitization indebtedness may require us to seek more costly or dilutive financing for our aircraft or to liquidate assets.

Most of our debt obligations are subject to interest rate risk.

The majority of our long-term debt has floating interest rates, which subjects us to the risk of an increase in interest rates and to the risk that our cash flows may be insufficient to make scheduled interest payments if interest rates were to increase. To limit the risks of interest rate fluctuations, we have entered into interest rate swaps. If any counterparty to the interest rate swaps were to default on its obligations, then a mismatch in the floating rate interest obligations and fixed rate lease payments may arise. This could impair our subsidiaries ability to make distributions to us, which could, in turn, adversely affect our ability to meet our financial obligations.

We may not be able to pay or maintain dividends on our shares. The failure to do so would adversely affect the trading price of our shares.

There are a number of factors that could affect our ability to pay dividends, including but not limited to the following:

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lack of availability of cash to pay dividends due to changes in our operating cash flow, capital expenditure requirements, working capital requirements and other cash needs;

our inability to refinance the notes that we have issued in the securitization before December 2011, when we will be required to apply all available cash flow from our Initial Portfolio to repay the principal amount thereof on a monthly basis;

our inability to renew, extend or repay our debt facilities when due, which could prevent our subsidiaries from making any distributions to us;

restrictions imposed by our financing arrangements, including under the notes issued in the securitization, our debt facilities and any indebtedness incurred in the future to refinance our existing debt or to expand our aircraft portfolio;

application of funds to make and finance acquisitions of aircraft and other aviation assets;

reduced levels of demand for, or value of, our aircraft;

increased supply of aircraft;

obsolescence of aircraft;

lower lease rates on new aircraft and re-leased aircraft;

delays in re-leasing our aircraft after the expiration or early termination of existing leases;

impaired financial condition and liquidity of our lessees;

deterioration of economic conditions in the commercial aviation industry generally;

unexpected or increased fees and expenses payable under our agreements with GECAS and its affiliates and other service providers;

poor performance by GECAS and its affiliates and other service providers and our limited rights to terminate them;

unexpected or increased maintenance, operating or other expenses or changes in the timing thereof;

a decision by our board of directors to modify or revoke its policy to distribute a portion of our cash flow available for distribution;

changes in Irish tax law, the tax treaty between the United States and Ireland (the Irish Treaty) or our ability to qualify for the benefits of such treaty;

restrictions under Bermuda law on the amount of dividends that we may pay; and

the other risks discussed under this Item 3.D. Risk Factors.

The failure to maintain or pay dividends may adversely affect the trading price of our shares.

The death, incapacity or departure of senior management could harm our business and financial results.

Our future success depends to a significant extent upon our chief executive officer, John McMahon, our chief financial officer, Alan Jenkins, and our chief commercial officer, Cian Dooley. Mr. McMahon has substantial experience in the aviation industry, and his continued employment is crucial to the development of our business strategy and to the growth and development of our business. Mr. Jenkins and Mr. Dooley also have significant experience in the aviation industry on which we depend. If Mr. McMahon, Mr. Jenkins or Mr. Dooley were to die, become incapacitated for a short or long period, or leave our company, we may not be able to replace each of them, respectively, as the case may be, with another chief executive officer, chief financial officer or chief commercial officer with equivalent talent and experience, and our business, prospects, financial condition, results of operations and cash

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flows may suffer. Because we have a limited staff, the impact of any of Mr. McMahon s, Mr. Jenkins s or Mr. Dooley s departure could be severe on our business.

Risks Relating to Our Aircraft and Leases

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

Of the aircraft in our portfolio, approximately 34.2% are Airbus A320-200 aircraft, approximately 31.9% are Boeing 737-800 aircraft and approximately 33.9% are various other aircraft. If any of these aircraft types (or other types that we acquire in the future) should encounter technical or other difficulties, such affected aircraft types may be subject to grounding or diminution in value and we may be unable to lease such affected aircraft types on favorable terms or at all. The inability to lease the affected aircraft types may reduce our revenues and net income to the extent the affected aircraft types comprise a significant percentage of our aircraft portfolio.

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

Our business strategy entails the need to re-lease aircraft as our current leases expire to generate sufficient revenues to meet our financial obligations and finance our growth and operations. The ability to re-lease aircraft depends on general market and competitive conditions. Some of our competitors may have greater access to financial resources and, as a result of restrictions on us contained in the terms of our indebtedness, may have greater operational flexibility. If we are not able to re-lease an aircraft or to do so on favorable terms, we may attempt to sell the aircraft to provide funds for debt service or operating expenses. Our ability to re-lease or sell aircraft on favorable terms or without significant off-lease time could be adversely affected by depressed conditions in the airline and aircraft industries, airline bankruptcies, the effects of terrorism and war, the sale of other aircraft by financial institutions or other factors.

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

As manufacturers introduce technological innovations and new types of aircraft, including the Boeing 787 Dreamliner and the Airbus A350 XWB (currently scheduled to enter service in 2010 and 2013, respectively) and potential replacement types for the Boeing 737 and Airbus A320 families of aircraft, certain aircraft in our existing aircraft portfolio may become less desirable to potential lessees. In addition, although all of the aircraft in our portfolio are Stage 3 noise-compliant, the imposition of more stringent noise or emissions regulations may make certain of our aircraft less desirable in the marketplace. Any of these risks could adversely affect our ability to lease or sell our aircraft on favorable terms or at all or our ability to charge rental amounts that we would otherwise seek to charge.

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

Our aircraft have finite economic lives, their values depreciate in the ordinary course over time and their ability to generate earnings and cash flow for our business declines over time. If

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depreciated aircraft are not replaced with newer aircraft, our ability to generate earnings will be reduced. We depreciate our aircraft for accounting purposes on a straight-line basis to the aircraft s estimated residual value over its estimated useful life. If we dispose of an aircraft for a price that is less than its depreciated value, then we would be required to recognize a loss that would reduce our net income during the period of the disposition and reduce our total assets.

The aircraft in our portfolio and any other aircraft and other aviation assets that we acquire in the future are expected to be under operating leases that are subject to periodic review for impairment for accounting purposes. We believe the carrying value of the aircraft in our portfolio is currently recoverable through the cash flows expected to result from their use and eventual disposition. However, if these expected cash flows are adversely affected by factors including credit deterioration of a lessee, declines in rental rates, other market conditions and residual values, then we may be required to recognize impairment charges that would reduce our net earnings or increase our net losses. Under U.S. GAAP, once an impairment results in a reduction to the carrying value of an asset, the carrying value of such asset cannot thereafter be increased.

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

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

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

Some of the aircraft in our portfolio have been damaged and subsequently repaired.

Some of the aircraft in our portfolio have been damaged. Even though these aircraft have been repaired, we may not be able to resell or re-lease such aircraft on terms as favorable as those for an aircraft that has not been damaged.

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

Certain aspects of our business are subject to regulation and require the oversight and regulation by state, federal and foreign governmental authorities. Aircraft are subject to regulations imposed by aviation authorities regarding aircraft maintenance and airworthiness. Laws affecting the airworthiness of aircraft generally are designed to ensure that all aircraft

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and related equipment are continuously maintained in proper condition to enable safe operation of the aircraft. Aircraft manufacturers may also issue their own recommendations. Airworthiness directives and similar requirements typically set forth particular special maintenance actions or modifications to certain aircraft types or models that the owners or operators of aircraft must implement.

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

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

Various environmental regulations may cause lessees to default on their lease payment obligations to us.

Governmental regulations regarding aircraft and engine noise and emissions levels apply based on where the relevant aircraft is registered and operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with noise level standards. In addition to the current requirements, the United States and the International Civil Aviation Organization, or ICAO, have introduced new standards for noise levels which apply to newly certified aircraft types on or after January 1, 2006. Currently, there are no regulations that would require any phase-out of aircraft that qualify with the older standards applicable to engines manufactured or certified prior to January 1, 2006, but the European Union has established a framework for the imposition of operating limitations on aircraft that do not comply with the new standards. These regulations could limit the economic life of the aircraft and engines, reduce their value, limit our ability to lease or sell the non-compliant aircraft and engines or, if engine modifications are permitted, require us to make significant additional investments in the aircraft and engines to make them compliant.

In addition to more stringent noise restrictions, the United States and other jurisdictions are beginning to impose more stringent limits on nitrogen oxide, carbon monoxide and carbon dioxide emissions from engines, consistent with current ICAO standards. These limits

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generally apply only to engines manufactured after 1999. Many of the aircraft engines owned by us were manufactured after 1999. Because aircraft engines are replaced from time to time in the usual course, it is likely that the number of such engines may increase over time. Concerns over global warming could result in more stringent limitations on the operation of aircraft powered by older, non-compliant engines.

European countries generally have relatively strict environmental regulations that can restrict operational flexibility and decrease aircraft productivity. The European Parliament has confirmed that aviation is to be included in the European Union s Emissions Trading Scheme starting from 2012. This inclusion could possibly distort the European air transport market leading to higher ticket prices and ultimately a reduction in the number of airline passengers. As an answer to these concerns, European airlines have established the Committee for Environmentally Friendly Aviation to promote the positive environmental performance of airlines. The United Kingdom has doubled its air passenger duties, effective February 1, 2007, in recognition of the environmental costs of air travel. Similar measures may be implemented in other jurisdictions as a result of environmental concerns.

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

It may be difficult or impossible to obtain title to two of the aircraft in our portfolio upon a bankruptcy or default by its owner and manager.

Two of the aircraft in our portfolio (with an aggregate net book value of $100.7 million as of December 31, 2008) are on lease to lessees based in Japan. Under Japanese law, legal title to each aircraft registered in Japan must be held by a Japanese entity. In order to permit the registration of these aircraft in Japan, legal title to the aircraft is held by third-party Japanese corporations owned and managed by one of the major trading companies in Japan. However, beneficial ownership of the aircraft is effectively held by entities in which the beneficial interest is held by us. Title to these aircraft will be transferred under the terms of a conditional sales agreement to such entities upon payment by such entities to the third-party Japanese owners of the remaining installment in the amount of one U.S. dollar on the date the lease of each aircraft expires or any earlier dates elected by such entities provided that (1) there is no continuing default by such entities and certain representations and warranties of such entities remain true and accurate and (2) the third-party Japanese owner is indemnified by the lessees for costs and taxes that arise as a result of the title transfer. Because we have not relinquished control over these aircraft upon transfer of title to the Japanese entities, as evidenced by the one dollar purchase option in the conditional sale agreement which is exercisable at any time, and we have retained all of the risks and rewards of ownership of the aircraft, we have not recognized these transactions as sales for accounting purposes and continue to recognize the aircraft as Flight equipment under operating lease in our financial statements.

While these liabilities are the responsibility of the lessee, if they are not paid, the entities holding the beneficial interest may effectively have to pay such amounts in order for title to be transferred. Under the conditional sale agreements, we effectively hold the beneficial

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ownership interest of the aircraft, including all of the risks and rewards of ownership, and have full control over the leasing of the aircraft to the lessees, but full liability to the Japanese title owners with respect to the aircraft if the lessees do not perform their indemnity or other obligations. The obligations of the third-party Japanese owners to transfer title to such entities are secured by mortgages over the leased aircraft and share pledges over the entire share capital of the third-party Japanese owners, each in favor of such entities. Although the conditional sale agreements provides for title to transfer automatically, a bill of sale may be required to legally effect such transfer of title. There may be tax-related considerations or issues relating to the validity of the method of title transfer depending on the location of the aircraft (and the related engines) at the time of transfer that may need to be considered at the time of transfer and which may affect the decision as to when to transfer title. It is also possible that the Japanese title owners or their manager parent company could breach their obligation to provide a bill of sale to document properly the title transfer to us, which could also result in possible impairment of our ability to obtain such evidence of title to the aircraft in a timely fashion or at all.

In the event of a bankruptcy proceeding involving the Japanese manager of these aircraft, the separateness of the corporate existence of the Japanese owners of the aircraft and the Japanese manager may be disregarded and these aircraft, if the third-party Japanese owners still hold legal title to them, may be consolidated with the assets of the Japanese manager and may become part of the bankruptcy estate, resulting in the possible impairment of our ability to obtain title to these aircraft in a timely fashion or at all.

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

We operate as a supplier to airlines and are indirectly impacted by the risks facing airlines today. Our success depends upon the financial strength of our lessees, our ability to assess the credit risk of our lessees and the ability of lessees to perform their contractual obligations to us. The ability of each lessee to perform its obligations under its lease will depend primarily on the lessee s financial condition and cash flow, which are affected by factors beyond our control. Some of our lessees may experience payment difficulties, particularly if economic conditions deteriorate. In addition, the demand for aircraft generally diminishes as they age, and the creditworthiness of the lessees of older aircraft is generally lower than the creditworthiness of the lessees of newer aircraft.

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

- result in a grounding of the aircraft;
- cause us to incur costs in restoring the aircraft to an acceptable maintenance condition to re-lease the aircraft;
- adversely affect lease terms in the re-lease of the aircraft; and
- adversely affect the value of the aircraft.

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

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

If we are unable to agree upon acceptable terms for a lease restructuring, then we have the right to repossess aircraft and to exercise other remedies upon a lessee default. Repossession, re-registration and flight and export permissions after a lessee default typically result in greater costs than those incurred when an aircraft is returned at the end of a lease. These costs include legal expenses that could be significant, particularly if the lessee is contesting the proceedings or is in bankruptcy. Delays resulting from repossession proceedings would also increase the period of time during which an aircraft or other aviation asset does not generate rental revenue. In addition, we may incur substantial maintenance, refurbishment or repair costs that a defaulting lessee has failed to pay and that are necessary to put the aircraft in a condition suitable for re-lease or sale, and we may need to pay off liens, taxes and governmental charges on the aircraft or other aviation asset to obtain clear possession and to remarket the asset effectively.

If we repossess an aircraft or other aviation asset, we will not necessarily be able to export or deregister and profitably redeploy the asset. Where a lessee or other operator flies only domestic routes in the jurisdiction in which an aircraft is registered, repossession may be more difficult, especially if the jurisdiction permits the lessee or the other operator to resist deregistration. Significant costs may also be incurred in retrieving or recreating aircraft records required for registration of the aircraft and obtaining a certificate of airworthiness for the aircraft or other aviation assets.

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

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

European concentration. Lease rental revenues from lessees based in Europe accounted for 38.4% of total rental revenues for the year ended December 31, 2008. Commercial airlines in Europe face, and can be expected to continue to face, increased competitive pressures, in part as a result of the deregulation of the airline industry by the European Union and the development of low-cost carriers. European countries generally have relatively strict environmental regulations and traffic constraints that can restrict operational flexibility and decrease aircraft productivity, which could significantly increase aircraft operating costs.

Asian concentration. Lease rental revenues from lessees based in Asia (including China and India) accounted for 36.6% of total rental revenues for the year ended December 31, 2008. There are significant obstacles to the development of Chinese and Indian airline industries, including continuing government control and regulation over the industry. In addition, India faces poor aviation infrastructure and continuing losses from operations due to overcapacity. If these difficulties persist or expand, the Chinese and Indian airline industries likely would experience a significant decrease in growth or restrictions on future growth.

North American concentration. Lease rental revenues from lessees based in North America accounted for 13.8% of total rental revenues for the year ended December 31, 2008. During

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the past 15 years a number of North American passenger airlines filed Chapter 11 bankruptcy proceedings and several major U.S. airlines ceased operations altogether. High labor costs, high fuel costs, the strength of labor unions in collective bargaining negotiations, the war and prolonged conflict in Iraq and the September 11, 2001 terrorist attacks in the United States have imposed additional financial burdens on most U.S. airlines.

The geographic classifications and revenue information for the lessees discussed above are based on the financial statements as of and for the year ended December 31, 2008, which are included at Item 18 in this Annual Report.

Because many of our lessees operate in emerging markets, we are indirectly subject to many of the economic and political risks associated with competing in such markets.

Emerging markets are countries which have developing economies that are vulnerable to business and political disturbances, such as significant economic instability, interest and exchange rate fluctuations, civil unrest, government instability and the nationalization or expropriation of private assets. The occurrence of any of these events in markets served by our lessees domiciled in emerging markets and the resulting instability may adversely affect our ownership interest in aircraft or the ability of lessees which operate in these markets to meet their lease obligations and these lessees may be more likely to default than lessees that operate in developed economies.

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

Ten of the leases in our portfolio provide the lessees with early termination rights. We also could enter into leases in the future that provide lessees with early termination rights. If any lease is terminated early at a time when we could not re-lease the aircraft at rates at least as favorable to us as the terminated lease, our results of operations could be adversely affected. See Item 4.D. Property, Plants and Equipment Our Leases Early Termination Rights.

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

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

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

Although we do not expect to control the operation of our leased aircraft, our ownership of the aircraft could give rise, in some jurisdictions, to strict liability for losses resulting from their operation. Our lessees are required to indemnify us for, and insure against, liabilities arising out of the use and operation of the aircraft, including third-party claims for death or injury to persons and damage to property for which we may be deemed liable. Lessees are also required to maintain public liability, property damage and hull all risks and hull war risks insurance on the aircraft at agreed upon levels. However, they are not generally required to maintain political risk insurance. Following the terrorist attacks of September 11, 2001, aviation insurers significantly reduced the amount of insurance coverage available to airlines for liability to persons other than employees or passengers for claims resulting from acts of terrorism, war or similar events. At the same time, they significantly increased the premiums for such third-party war risk and terrorism liability insurance and coverage in general. As a result, the amount of such third-party war risk and terrorism liability insurance that is available at any time may be below the amount required under the initial leases and required by the market in general.

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

Risks Related to Our Relationships with GECAS, Its Affiliates and Other Service Providers

We depend on GECAS to service our portfolio and additional aircraft that we acquire in the future.

We were formed in 2006 and had 21 permanent employees as of December 31, 2008, as well as 2 consultants who work with us on a contract basis. Our business strategy involves outsourcing our servicing and remarketing of aircraft to GECAS. Our initial business operations consisted of owning and leasing a portfolio of aircraft acquired from affiliates of GE. These aircraft assets were previously owned, managed and leased by GE and its affiliates as part of their larger aircraft leasing enterprise. We do not have the same infrastructure as GECAS to support these aircraft assets, and we continue to rely on GECAS for the servicing of our aircraft. Pursuant to our servicing agreements, GECAS provides us with a variety of services, including collecting rents and other payments from the lessees of our aircraft, monitoring maintenance, insurance and other obligations under our leases, enforcing rights against lessees, remarketing aircraft for re-lease or sale and other aircraft-related services. GECAS has a high level of autonomy in its servicing of our aircraft, and our operational success, revenues, aircraft and lease related costs and ability to execute our growth strategy depend significantly on GECAS s satisfactory performance of these services. GECAS s failure to perform these services satisfactorily would significantly impair our ability to maximize our lease or sale income, monitor our lessees compliance with their lease obligations and/or comply with our contractual obligations under our leases. Our rights to terminate the servicing agreements are limited. In particular, we have no right to terminate GECAS as servicer simply because it is performing unsatisfactorily. See Even if we are dissatisfied with GECAS s performance, there are only limited circumstances under which we will be able to terminate the servicing agreements and we may not terminate the servicing agreement for our Initial Portfolio without the prior written consent of the policy provider. Similarly, under certain financing agreements, we may not terminate the servicing agreement without the prior consent of the lenders.

GECAS is not obligated to service all aircraft that we acquire in the future. The servicing agreements provide that GECAS may decline to accept newly acquired aircraft for servicing for a number of specified reasons. See Item 10.C. Additional Information Material

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Contracts Servicing Agreements. For example, GECAS may decline to service an aircraft if a bank lender that finances such aircraft imposes conditions on the servicing of such aircraft to which GECAS does not agree. If GECAS declines to service any aircraft we acquire in the future, we will need to find a replacement servicer for such aircraft. The quality of any replacement services may not be as high or provided on terms as favorable as the terms currently offered by GECAS.

In addition, if any of the servicing agreements were to be terminated, or if their terms were to be altered, we will not be entitled to benefit from certain terms of the leases, such as cross-defaults and various insurance terms, which apply only if GECAS is the servicer, and we may not be able to replace these services promptly. If we are unable to maintain a strong, positive relationship with GECAS, our business, financial condition, results of operations and cash flows could be materially and adversely affected.

GECAS and its affiliates may have conflicts of interest with us, and their limited contractual or other duties may not restrict them from favoring their own business interests to our detriment.

Conflicts of interest may arise between us and GECAS, as the servicer for our aircraft, with respect to our operations and business opportunities. These conflicts may arise because GECAS manages and remarkets for lease or sale aircraft for us, itself, its affiliates and for many other entities. GECAS also has extensive information about our business and operations as a result of the continued servicing of our aircraft, including access to sensitive competitive information such as lease and aircraft pricing, whereas we do not have access to similar information with respect to GECAS. If a conflict of interest arises as to one of our aircraft and other aircraft managed by GECAS, the servicing agreements provide that GECAS must perform the services in good faith, and, to the extent that either two or more of our particular aircraft or one of our aircraft and other aircraft managed by GECAS have substantially similar objectively identifiable characteristics that are relevant for purposes of the particular services to be performed, GECAS has agreed not to discriminate among our aircraft or between any of our aircraft and any other managed aircraft on an unreasonable basis. Nevertheless, despite these contractual undertakings, GECAS may favor its own interests and the interests of other managed entities over our interests.

Conflicts may arise, for example, when our aircraft are leased to entities that also lease other aircraft owned or managed by GECAS and decisions affecting some aircraft may have an adverse impact on others. For example, when a lessee in financial distress seeks to return some of its aircraft, GECAS will be required to decide which aircraft to accept for return and may favor its or another managed entity s interest over ours. Conflicts also may arise when our aircraft are being marketed for re-lease or sale at a time when other aircraft owned or managed by GECAS are being similarly marketed. These conflicts may be especially pronounced when an affiliate of GECAS is providing financing for a lessee or for the marketed aircraft or where GECAS s contractual arrangements with a third party have the effect of requiring preferential treatment for other aircraft.

Under the terms of our servicing agreements with GECAS, we are not entitled to be informed of all conflicts of interest involving GECAS and are limited in our right to replace GECAS because of conflicts of interest. Any replacement servicer may not provide the same quality of service or may not afford us terms as favorable as the terms currently offered by GECAS. Moreover, in certain situations we may incur duplicative servicing fees for services we obtain when there is a conflict of interest. If GECAS, as the servicer, makes a decision that is adverse to our interests, our business, financial condition, results of operations and cash flows could suffer. See Even if we are dissatisfied with GECAS, there are only limited circumstances under which we will be able to terminate the servicing agreements and we may not terminate the servicing agreement for our Initial Portfolio without the prior written consent of the policy provider.

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

Under our servicing agreements with GECAS, in many cases we may not have the right to recover damages from GECAS for unsatisfactory performance. In addition, although GECAS is subject to standards of care and conflicts as provided in the servicing agreements, GECAS is not contractually responsible for:

- the transfer of aircraft, leases or other assets to our company;
- determining the adequacy of the terms of any aircraft lease, including rent payments or security deposits;
- determining the reliability or creditworthiness of any lessee; or
- our compliance with the terms of our agreements with other parties, including the indenture for the securitization and our credit facility.

We have agreed to indemnify GECAS and its affiliates for broad categories of losses arising out of the performance of services for our aircraft and leases, unless they are finally adjudicated to have been caused directly by GECAS s gross negligence or willful misconduct (including willful misconduct that constitutes fraud) in respect of GECAS s obligation to apply its standard of care or conflicts standard in the performance of its services. We have also agreed to indemnify GECAS and its affiliates for losses arising out of the disclosures in this Annual Report (except certain disclosures provided to us by GECAS and losses arising out of our compliance with our obligations to any holders of any securities issued by us or any of our subsidiaries or any governmental authorities).

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

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

We have the right to terminate any servicing agreement with GECAS (except in the case of the servicing agreement for our Initial Portfolio, which also requires the prior written consent of the policy provider and under certain financings which require lender consent) if, among other things,

- GECAS ceases to be at least majority-owned directly or indirectly by General Electric Capital Corporation, or GE Capital, or its ultimate parent, GE;
- GECAS fails in any material respect to perform any material services under the servicing agreements which results in liability of GECAS due to its gross negligence or willful misconduct (including willful misconduct constituting fraud) in respect of its obligation to apply the standard of care or conflicts standard in respect of performance of the services in a manner that is materially adverse to us and our applicable subsidiaries taken as a whole;

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GECAS fails in any material respect to perform any material services under the servicing agreements in accordance with the standard of care or the conflicts standard in a manner that is materially adverse to us and our applicable subsidiaries taken as a whole;

GECAS, GE Capital or GE becomes subject to bankruptcy or insolvency proceedings;

with respect to the master servicing agreement, we have insufficient funds for the payment of certain dividends while a significant portion of our available aircraft remain off-lease for a specified period;

with respect to the servicing agreement for our Initial Portfolio, we have insufficient funds for the payment of interest on the notes for a period of at least 60 days;

with respect to the servicing agreement for our Initial Portfolio, at least 15% of the number of aircraft assets remain off-lease but available for re-lease for a period of at least three months following specified events set forth in the trust indenture; or

with respect to the servicing agreement for our Initial Portfolio, without limiting GECAS s rights under the security trust agreement, GECAS takes any steps for the purpose of processing the appointment of an administrative receiver or the making of any administrative order or for instituting a bankruptcy, reorganization, arrangement, insolvency, winding up, liquidation, composition or any similar proceeding under the laws of any jurisdiction with respect to any person in the Genesis Funding, and any of its subsidiaries, or any of the aircraft assets.

In addition, in the case of the servicing agreement for our Initial Portfolio, the policy provider also has the right to terminate such servicing agreement under the circumstances described above.

In the absence of any of these events, neither we nor the policy provider has a right to terminate any servicing agreement, even if we are or it is dissatisfied with GECAS s performance. In addition, because of our substantial dependence on GECAS, our board of directors may be reluctant to initiate litigation against GECAS to enforce contractual rights under any servicing agreement.

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

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We may compete with GECAS for acquisitions and dispositions of aircraft as well as the re-leasing of our aircraft that are not serviced by GECAS.

We may compete with GECAS in the market for aircraft acquisitions and dispositions and in re-leasing any of our aircraft that GECAS does not service. Currently, GECAS manages a fleet of approximately 1800 aircraft owned by its affiliates and by other entities with 28 offices and over 270 customers in 78 countries and thus has considerably greater scale than we have. GECAS also has extensive information about our business and operations as a result of the continued servicing of our aircraft, including access to sensitive competitive information such as lease and aircraft pricing, whereas we do not have access to similar information with respect to GECAS. In addition, GECAS has significantly greater financial resources than we have. As a result, we are likely to be at a competitive disadvantage to GECAS as we seek to acquire or dispose of aircraft or to re-lease any of our aircraft that GECAS does not service.

The terms of certain agreements with GECAS and other affiliates of GE were negotiated without independent assessment on our behalf, and these terms may be less advantageous to us than if they had been the subject of arm s-length negotiations.

In connection with our IPO, we entered into various agreements with GECAS and other affiliates of GE that effected the transactions relating to our formation, the securitization, the acquisition of our Initial Portfolio and our ongoing operations and business. Although the pricing and other terms of these agreements were reviewed by our management and our board of directors, they were determined by GE-affiliated entities in the overall context of our IPO and the related transactions. As a result, provisions of these agreements may be less favorable to us than they might have been had they been the result of arm s-length transactions among unaffiliated third parties.

Risks Related to Our Financial Information

The historical financial information included in this Annual Report for periods prior to December 19, 2006, the completion of our IPO, does not reflect the financial condition, results of operations or cash flows we would have achieved during the periods presented as a stand-alone company, and therefore may not be a reliable indicator of our future financial performance.

We completed our IPO and commenced independent operations on December 19, 2006. As a result, we have a limited independent operating history, and our prospects must be considered in light of the risks, expenses and difficulties frequently encountered when any new business is formed. The historical financial information included in this Annual Report for periods prior to December 19, 2006 (the date of our IPO) does not reflect the financial condition, results of operations or cash flows that we would have achieved as a stand-alone company during the periods presented or that we will achieve in the future. This is primarily a result of the following factors:

- The historical combined financial information included in this Annual Report for periods prior to our IPO does not reflect our ongoing cost structure, management, financing costs or business operations. Instead, this combined financial information represents the combination of results attributable to some of the aircraft included in our Initial Portfolio of 41 aircraft as owned, managed, financed and operated by GECAS and its affiliates. Following our acquisition of the Initial Portfolio, the cost of financing and operating these aircraft has changed due to:
  - the fact that the historical combined financial information for periods prior to the completion of our IPO reflects allocations of corporate expenses from affiliates of

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GE and GECAS to our Initial Portfolio. These allocations are different from the comparable expenses we incur as a stand-alone public company due to a number of factors, including the likelihood that we are not able to realize economies-of-scale and negotiating leverage achieved by GE and GECAS;

- the need for additional personnel and service providers to perform services previously provided by GECAS and other affiliates of GE;
- legal, accounting, compliance and other costs associated with being a public company with listed equity, including compliance with the Sarbanes-Oxley Act of 2002 and rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, or the NYSE; and
- the fact that the historical combined financial information prior to our IPO reflects only the number of aircraft included in our Initial Portfolio owned by affiliates of GE for the periods or as of the dates specified therein, rather than all of the aircraft currently included in our portfolio.

Our predecessor s working capital requirements were satisfied as part of GE s corporate-wide cash management policies. Although we have access to a credit facility for the acquisition of additional aircraft, we may not be able to obtain financing on terms as favorable as our predecessor obtained from or through GE and our cost of debt will likely be higher.

The depreciation of capitalized major maintenance costs and our maintenance expenses are higher than reflected in the historical combined financial information due to the aging of our aircraft.

Our effective tax rate is lower than our predecessor s as a result of our tax residency in Ireland. Our cash tax payments are also lower as a result of our ability to depreciate aircraft under Irish tax law over eight years, which is a more accelerated rate than our predecessor used to depreciate aircraft under U.S. tax law.

Our subsidiaries in many cases have owned their aircraft prior to our acquisition of them and may have unknown contingent liabilities that we may be required to fund.

There is a risk that our subsidiaries, many of which have owned their aircraft in our portfolio prior to our acquisition of such subsidiaries, could have material contingent liabilities that are unknown to us and that were incurred by third parties from operating and leasing the aircraft in our portfolio or for other reasons.

Affiliates of GE, from which we acquired certain aircraft in our portfolio, have made representations and warranties relating to:

- the existence of a valid and final transfer of the beneficial interests of entities that hold the aircraft or entities that hold the beneficial interests of any such entities and that were sold to us by affiliates of GE;
- the title of our aircraft-owning subsidiaries to the applicable aircraft; and
- the lack of additional liabilities of our aircraft-owning subsidiaries or liens on the aircraft other than disclosed to us or otherwise permitted.

These representations and warranties are subject to time limits. If a liability arises and we are called on to pay it but are not able to recover any amount from the sellers for such liability, our liquidity could decrease significantly.

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Risks Related to the Ownership of Our Shares

Market interest rates may have an effect on the trading value of our shares.

One of the factors that investors may consider in deciding whether to buy or sell our shares is our dividend rate as a percentage of our share price relative to market interest rates. If market interest rates increase, prospective investors may demand a higher dividend yield on our shares or seek alternative investments paying higher dividends or interest. As a result, interest rate fluctuations and capital market conditions can affect the market value of our shares. For instance, if interest rates rise, the market price of our shares may decrease as market rates on interest-bearing securities, such as bonds, increase.

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

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

- provisions that permit us to require any competitor of GECAS that acquires beneficial ownership of more than 10% of our common shares either to tender for all of our remaining common shares for no less than their fair market value, or sell such number of common shares to us or to third parties as would reduce its beneficial ownership to less than 10%, in either case within 90 days of our request to so tender or sell;

- provisions that reduce the vote of each common share held by a competitor of GECAS that beneficially owns 10% or more, but less than 50%, of our common shares to one-fifth of one vote per share on all matters upon which shareholders may vote;

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

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

- no provision for cumulative voting in the election of directors, such that all the directors standing for election may be elected by our shareholders by a plurality of votes cast at a duly convened annual general meeting, the quorum for which is two or more persons present in person or by proxy at the start of the meeting and representing in excess of 50% of all votes attaching to all shares in issue entitling the holder to vote at the meeting.

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

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

We were incorporated under the laws of Bermuda and are managed and controlled in Ireland. Our business is based outside the United States, a majority of our directors and officers, and some of the experts named in this Annual Report, reside outside the United States and a

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

There is doubt as to whether the courts of Bermuda or Ireland would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws, or entertain actions brought in Bermuda or Ireland against us or such persons predicated solely upon U.S. federal securities laws. Further, there is no treaty in effect between the United States and Bermuda or Ireland providing for the enforcement of judgments of U.S. courts in civil and commercial matters, and there are grounds upon which Bermuda or Irish courts may decline to enforce the judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda or Irish courts as contrary to public policy in Bermuda or Ireland. Because judgments of U.S. courts are not automatically enforceable in Bermuda or Ireland, it may be difficult for you to recover against us or our directors and officers based upon such judgments.

Shareholders of our company may have greater difficulties in protecting their interests than shareholders of U.S. corporations.

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

Risks Related to Taxation

We are a passive foreign investment company, or PFIC. Unless U.S. holders of our shares make certain elections under U.S. federal income tax rules, they are subject to certain adverse U.S. federal income tax rules.

Because we are a PFIC, U.S. holders of our shares are subject to certain adverse U.S. federal income tax rules. Under the PFIC rules, a U.S. holder who disposes or is deemed to dispose of

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our shares at a gain, or who receives or is deemed to receive certain distributions with respect to our shares, generally will be required to treat such gain or distributions as ordinary income and pay an interest charge on the tax imposed. Certain elections may be used to reduce or eliminate the adverse impact of the PFIC rules for holders of our shares (QEF elections and mark-to-market elections), but these elections may accelerate the recognition of taxable income and may result in the recognition of ordinary income in excess of amounts distributed to you. In addition, because we are a PFIC, our distributions will not qualify for the reduced rate of U.S. federal income tax that applies to qualified dividends paid to non-corporate U.S. taxpayers. The PFIC rules are extremely complex, and prospective U.S. investors are urged to consult their own tax advisers regarding the potential consequences to them of our being classified as a PFIC. See Item 10.E. Taxation Considerations U.S. Federal Income Tax Considerations Taxation of U.S. Holders of Shares.

We may fail to qualify for tax treaty benefits and U.S. statutory tax exemptions which would reduce our net income and cash flow by the amount of the applicable tax.

Special U.S. tax rules apply to U.S. source transportation income. U.S. source gross rental income that is not connected with a U.S. trade or business may be subject to 30% withholding tax. Alternatively, certain U.S. source rental income could be subject to a 4% tax on gross transportation income. U.S. source transportation income connected with a U.S. trade or business would be taxed on a net basis. In order for us to be exempt from U.S. federal income taxation on all categories of U.S. source rental income, we and our Irish tax resident subsidiaries must qualify for benefits of the Irish Treaty. Qualification for Irish Treaty benefits depends on many factors, including that at least 50% of the vote and value of each of our Irish tax resident subsidiaries continues to be held by us and that our principal class of shares be substantially and regularly traded on one or more recognized stock exchanges. We may not satisfy all the requirements of the Irish Treaty and thereby may not qualify each year for the benefits of the Irish Treaty. Failure to so qualify could result in the income attributable to aircraft used for flights to, from or within the United States being subject to U.S. federal income taxation. The imposition of such taxes would adversely affect our business and would reduce cash available for distribution to our shareholders. See Item 10.E. Taxation Considerations U.S. Federal Income Tax Considerations Taxation of Genesis Lease Limited and Our Subsidiaries . In addition, we cannot assure you that the Double Taxation Agreement between Ireland and the United States would not be re-negotiated in the future and the current tax treaty benefits may no longer be available.

We may become subject to income or other taxes in the jurisdictions in which our aircraft operate, where our lessees are located or where we perform certain services which would adversely affect our business and reduce cash available for distributions to shareholders.

We and our Irish tax resident subsidiaries are subject to the income tax laws of Ireland. In addition, we may be, or become, subject to income or other taxes in other jurisdictions by reason of our activities and operations or those of our service providers, where our aircraft operate or where the lessees of our aircraft (or others in possession of our aircraft) are located. The imposition of such taxes would adversely affect our business and would reduce earnings available for distribution to our shareholders.

In addition, because Ireland does not have tax treaties with all jurisdictions, we may find it necessary to establish subsidiaries in other jurisdictions to lease or sublease aircraft to customers in those jurisdictions. Such subsidiaries may be subject to taxation in the

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jurisdictions in which they are organized, which would reduce our net income and have an adverse impact on our cash flow available for distribution to our shareholders.

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

Because we are managed and controlled in Ireland, we and our Irish resident subsidiaries are subject to Irish corporation tax on our net trading income at the rate of 12.5%. Under Irish tax law, non-trading income is taxed at the rate of 25% and capital gains are taxed at the rate of 22%. Each of us intend to carry on sufficient activity in Ireland, directly and indirectly, through a servicer, so as to be treated as carrying on a trade in Ireland for the purposes of Irish tax law. In calculating our net trading income we deduct tax depreciation on the aircraft. Whether we and our Irish tax-resident subsidiaries are carrying on a trade for the purposes of Irish tax are questions of fact and we cannot assure you that we or they will qualify, and we will depend on the Irish Revenue authorities accepting that we are engaged in an active business in Ireland.

One of the grounds for our Irish tax resident subsidiaries being treated as engaged in an active business in Ireland is that GECAS, as servicer for the Initial Portfolio, is an Irish company, and GECAS performs a major part of its obligations under the servicing agreement for the Initial Portfolio in Ireland. However, the servicing agreement does not require that GECAS perform any of its obligations in Ireland, and GECAS could relocate its operations in the future and not perform any such obligations in Ireland. If that happens, the Irish Revenue Authorities may reexamine the eligibility of our Irish tax resident subsidiaries for the 12.5% tax rate, and, if they were found to be not engaged in an active business in Ireland, all of their net income from leasing would be subject to the higher Irish corporate tax rate of 25%. As a result, our Irish tax resident subsidiaries would be liable earlier and in greater amounts for tax on such income.

If we or any of our Irish tax resident subsidiaries were considered not to be carrying on a trade in Ireland, we or they may be subject to additional Irish tax liabilities. The application of a higher tax rate (25% instead of 12.5%) on taxable income could reduce the cash flow available for distribution to our shareholders. In addition, we cannot assure you that the 12.5% tax rate applicable to trading income, the 22% tax rate applicable to capital gains or the 25% tax rate applicable to non-trading income will not be changed in the future.

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Item 4. Information on the Company

A. History and Development of the Company

We are Genesis Lease Limited, a Bermuda exempted company incorporated on July 17, 2006 under the provisions of Section 14 of the Companies Act 1981 of Bermuda. Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Although we are organized under the laws of Bermuda, we are resident in Ireland for Irish tax purposes and thus are subject to Irish corporation tax on our income in the same way, and to the same extent, as if we were organized under the laws of Ireland. Our principal executive offices are located at 4450 Atlantic Avenue, Westpark, Shannon, Co. Clare, Ireland. Our telephone number at that address is +353 61 233 300.

We were formed at the direction of GECAS to acquire our Initial Portfolio from affiliates of GE and to develop an independent aircraft leasing business. On December 19, 2006, we (1) completed our IPO and issued 27,860,000 shares at a public offering price of $23.00 per share, (2) issued 3,450,000 shares to an affiliate of GE, in a private placement, for a price of $23.00 per share, (3) issued $810.0 million of aircraft lease-backed notes as part of a securitization transaction, and (4) used the net proceeds of the IPO, the private placement and the securitization to finance the acquisition of our Initial Portfolio of 41 commercial aircraft from affiliates of GE.

The purchase price for our Initial Portfolio was $1,459.4 million, which was the sum of the net proceeds of our IPO, our private placement and the securitization, less the portion of such proceeds that was used to fund our formation and offering-related expenses, up-front costs and expenses related to our securitization, and a cash balance of $20.0 million that we retained for general corporate purposes.

On January 16, 2007, we sold 4,179,000 additional shares at a public offering price of $23.00 after the underwriters of our IPO exercised their over-allotment option in full, as well as 517,500 additional shares at a price of $23.00 per share in a private placement to GE.

Since our IPO, we have increased our portfolio by 13 aircraft from 41 to 54 aircraft. Twelve aircraft were purchased during the year ended December 31, 2007, eight from GECAS affiliates and four from two airlines on a sale and leaseback basis. One further aircraft was purchased from a GE affiliate during the year ended December 31, 2008.

B. Business Overview

Our Company

We are an aviation company that acquires and leases commercial jet aircraft and other aviation assets. Our aircraft are leased under long-term contracts to a diverse group of airlines throughout the world. We leverage the worldwide platform of GECAS to service our portfolio of leases, allowing our management to focus on executing our growth strategy. Our strategy is to grow our portfolio through acquisitions of aircraft from third parties, such as airlines and financial investors.

The aircraft in our portfolio are modern, operationally efficient passenger and cargo jet aircraft that have long expected remaining useful lives. As at December 31, 2008, the weighted average age of our aircraft was 6.6 years, and the weighted average remaining lease term on our aircraft was 4.5 years. As at December 31, 2008, four of our aircraft were non-revenue generating and on the ground. Our aircraft are subject to net operating leases under which the lessee is responsible for most operational and insurance costs, and 45 of the 50 leases in our portfolio are subject to fixed rental rates. Others have floating rate rentals based on six-month LIBOR. The terms of our leases provide us with a stable source of revenues and cash flows. Our long-term agreements with GECAS enable our management team to focus primarily on pursuing acquisitions of additional aircraft and other aviation assets. Pursuant to such arrangements, GECAS provides us with most services related to leasing our fleet, including marketing aircraft for lease and re-lease, collecting rents and other payments from the lessees of our aircraft, monitoring maintenance, insurance and other obligations under our leases and enforcing rights against lessees.

We believe we can continue to capitalize on the overall size and growth of the global aircraft market by acquiring and leasing additional aircraft. According to Airline Monitor, between 1998 and 2007, global passenger traffic, measured in revenue passenger miles, increased by 52%, or 4.9% per year. According to data from Ascend, as of December 2008, the current world commercial jet fleet consisted of more than 21,600 aircraft, and Boeing forecasts that the world fleet will reach 35,800 aircraft by 2027. Over the past 20 years, the world s airlines have leased a growing share of their aircraft instead of owning them outright, and, according to market data, the proportion of the global fleet under operating lease has increased from 17% in 1990 to approximately 30% in recent years and may reach 40% over the next ten years. We believe these industry trends provide a large and growing available pool of aircraft and other aviation assets to acquire and lease in the future.

GECAS, the commercial aircraft financing and leasing businesses of GE Capital, is a leading global player in commercial aircraft leasing and financing, with over 1,800 owned and managed aircraft, 28 offices, and over 270 customers in 78 countries. We believe GECAS broad regional presence and industry expertise as the owner and servicer of one of the world s largest portfolios of commercial aircraft enhance our ability to manage our portfolio effectively, to acquire and lease additional aircraft and to remarket our aircraft when leases expire.

Our Acquisition Strategy

We pursue acquisitions of additional aircraft and other aviation assets through our relationships with aircraft operators, manufacturers, financial institutions, private investors and third-party lessors and through our business opportunities agreement with GECAS. We may acquire aircraft for lease directly from manufacturers, in the secondary market or pursuant to sale-leaseback transactions with aircraft operators.

Our management has extensive experience in the aircraft leasing industry and maintains strong relationships with a wide variety of market participants throughout the world. We seek to build a diversified portfolio of aircraft that can be deployed worldwide across a large operator base. Each potential acquisition will be evaluated to determine if it supports our primary objective of growing our distributable cash flow while maintaining desired portfolio characteristics. We expect that key considerations in our decision to purchase an aircraft will include its price, market value, specification/configuration, condition and maintenance history, operating efficiency, lease terms, financial condition and creditworthiness of the lessee, jurisdiction, industry trends, and the potential for future redeployment and conversion into freighter configuration. We believe that careful analysis of these factors will enable us to maintain a diversified portfolio that maximizes our returns and minimizes our risk profile.

As part of our growth strategy, we have entered into a business opportunities agreement with GECAS which we expect will lead to opportunities to purchase aircraft from third-party sources that GECAS encounters in its global operations, as well as certain aircraft offered directly by GECAS. For a description of this agreement, see Item 10.C. Additional Information Material Contracts Business Opportunities Agreement.

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Competition

The leasing and remarketing of commercial jet aircraft is highly competitive. As the exclusive servicer of our aircraft, GECAS competes in leasing, re-leasing and selling our aircraft with other aircraft leasing companies, including ILFC, AerCap, Aircastle, Aviation Capital Group, AWAS, Babcock & Brown Aircraft Management, Babcock & Brown Air Limited, BOC Aviation, Boeing Capital, CIT Aerospace, Macquarie Aircraft Leasing and RBS Aviation Capital, among others. We also may encounter competition from other entities that selectively compete with us, including:

- airlines;
- aircraft manufacturers;
- financial institutions (including those seeking to dispose of repossessed aircraft at distressed prices);
- aircraft brokers;
- special purpose vehicles formed for the purpose of acquiring, leasing and selling aircraft; and
- public and private partnerships, investors and funds, including private equity and hedge funds.

Competition for a leasing transaction is based principally upon lease rates, delivery dates, lease terms, reputation, management expertise, aircraft condition, specifications and configuration and the availability of the types of aircraft necessary to meet the needs of the customer. We believe we compete favorably in leasing our aircraft due to the reputation and experience of our management, our access to market opportunities through our servicing agreements with GECAS and our ability to structure lease rates and other lease terms to respond to market dynamics and customer needs. However, some of our competitors have significantly greater resources than we have. In addition, some competing aircraft lessors have a lower overall cost of capital and may provide financial services, maintenance services or other inducements to potential lessees that we cannot provide. Given the financial condition of the airline industry, many airlines have reduced their capacity by eliminating certain aircraft from their fleets. This has resulted in an increase in available aircraft of these eliminated types, a decrease in rental rates for these aircraft and a decrease in market values of these aircraft.

Competition in the purchase and sale of used aircraft is based principally on the availability of used aircraft, price, the terms of the lease to which an aircraft is subject and the creditworthiness of the lessee. When we decide to dispose of an aircraft, GECAS, as our servicer, will arrange the disposition pursuant to the terms of the servicing agreement for that aircraft. In doing so, GECAS will compete with the aircraft leasing companies listed above, as well as with the other types of entities described above and other investors. GECAS is not required to assist us in the purchase of used aircraft, and therefore, in addition to competing with the entities identified above, we may compete with GECAS when seeking to acquire used aircraft.

Insurance

We require our lessees to carry those types of insurance which are customary in the air transportation industry, including comprehensive liability insurance, aircraft all-risk hull insurance and war-risk insurance covering risks such as hijacking, terrorism (but excluding cover for weapons of mass destruction and nuclear events), confiscation, expropriation, seizure and nationalization. In general, we are named as an additional insured on liability policies carried by our lessees, and we usually are designated as a loss payee in the event of a total loss of the aircraft. The servicer will obtain certificates of insurance from the lessees insurance brokers to evidence the existence of such insurance. These certificates of insurance generally contain a breach of warranty endorsement so that, subject to certain standard exceptions, our interests are not prejudiced by any act or omission of the lessee. Coverage under liability policies generally is not subject to deductibles except those as to baggage and cargo that are standard in the airline industry, and coverage under all-risk aircraft hull insurance policies generally is subject to agreed deductible levels in respect of partial damage to the aircraft. In addition, we maintain contingent liability insurance and contingent hull insurance with respect to our aircraft, which is intended to provide coverage in the event that the insurance

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maintained by any of our lessees should not be available for our benefit as required pursuant to the terms of the contract.

Insurance premiums are generally paid by the lessee, with coverage acknowledged by the broker or carrier. The certificates of insurance contain, among other provisions, a no co-insurance clause and a provision prohibiting cancellation or material change without a reasonable period of advance written notice to the insurance broker, who is obligated to give us prompt notice. War and allied perils insurance policies customarily provide seven days advance written notice for cancellation and may be subject to lesser notice under certain market conditions. Furthermore, the insurance is primary and not contributory, and insurance carriers generally are required to waive rights of subrogation against us.

The stipulated loss value schedule under aircraft hull insurance policies is on an agreed value basis. In all cases, the sum of the stipulated loss value and our own additional coverage in place is at least equal to the appraised value of the aircraft. In cases where the servicer believes that the agreed value stated in the lease is not sufficient, the servicer will purchase additional total loss only coverage for the deficiency. Aircraft hull policies contain standard clauses covering aircraft engines. They also contain deductibles and in various cases and under certain circumstances the lessee has the right to self-insure some or all of the risk (which has the effect of significantly increasing the deductible amounts). The lessee is required to pay all deductibles, and would be responsible for payment of amounts self-insured. Furthermore, the aircraft hull policies contain war-risk endorsements and/or supplemental war-risk policies, including, but not limited to, confiscation, seizure, hijacking and similar forms of retention or terrorist acts (where available).

The comprehensive liability insurance listed on certificates of insurance include provisions for bodily injury, property damage, passenger liability, cargo liability and such other provisions reasonably necessary in commercial passenger and cargo airline operations. As a result of the terrorist attacks on September 11, 2001, the insurance market unilaterally terminated war risk liability coverage for a short period of time. When it became available again, the insurance market imposed a sub limit on each operator s policy for third-party war risk liability, which is currently between $50 million and $150 million on the customary war-risk liability endorsement available in the London market. U.S., Canadian and certain other non-European Community-based airlines have government war-risk insurance programs available in which they currently participate. Although we currently require each lessee to purchase third party war risk liability in amounts greater than such sublimits, or obtain an indemnity from their government, the market or applicable governments may discontinue to make such excess coverage available for premiums that are acceptable to carriers. As a result, it is possible that we may be required to permit lessees to operate with considerably less third-party war risk liability coverage than currently carried, which could have a material adverse effect on the financial condition of our lessees and on us in the event of an uncovered claim. In late 2005, the international aviation insurance market unilaterally introduced exclusions for physical damage to aircraft hulls caused by dirty bombs, bio-hazardous materials, electromagnetic pulsing and similar causes of loss. It is possible that exclusions for the same types of perils may be introduced into liability policies in the future.

We cannot assure you that we have adequately insured against all risks, that lessees will at all times comply with their obligations to maintain insurance, that any particular claim will be paid, or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. Consistent with industry practice, our insurance policies are subject to commercially reasonable deductibles or self-retention amounts.

Government Regulation

The air transportation industry is highly regulated. Because we do not operate aircraft, we generally are not directly subject to most of these laws. However, our lessees are subject to extensive regulation under the laws of the jurisdiction in which they are registered or under which they operate. These laws govern, among other things, the registration, operation, maintenance and condition of our aircraft.

Most of our aircraft are registered in the jurisdictions in which the lessees of our aircraft are certified as air operators. As a result, our aircraft are subject to the airworthiness and other standards imposed by these jurisdictions. Laws affecting the airworthiness of aircraft generally are designed to ensure that all aircraft and related equipment are continuously maintained in proper condition to enable safe operation of the aircraft. Aircraft manufacturers may also issue their own recommendations in regards to reliability and product improvements.

Each lessee generally is responsible for complying with all applicable airworthiness directives with respect to its aircraft and is required to maintain the aircraft s airworthiness. Under certain leases, we have agreed to share with our lessees the cost of implementing certain airworthiness directives (or similar requirements).In addition, if an aircraft is not subject to a lease, we may be forced to bear (or, to induce a prospective lessee to take the aircraft on lease, may have to agree to pay) the cost of compliance with airworthiness directives.

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

C. Organizational Structure

We own our aircraft through five subsidiaries: Genesis Funding, Genesis Acquisition, Genesis Portfolio, Genesis Lease Atlantic Alpha and Westpark 1 Aircraft Leasing. A charitable trust holds interests in Genesis Funding and Genesis Acquisition, with limited voting rights and less than 0.001% of the economic interest in these subsidiaries. Each of these subsidiaries is organized under the laws of Bermuda and is tax resident in Ireland.

As at December 31, 2008, 41 of our aircraft were held in Genesis Funding, 11 in Genesis Portfolio, one in Genesis Lease Atlantic Alpha Limited and one in Westpark 1 Aircraft Leasing Limited.

D. Property, Plants and Equipment

Our Aircraft Portfolio

Our portfolio consists of 54 aircraft. As at December 31, 2008, 50 of those aircraft are in operation with 34 airlines located in 19 countries. The remaining four aircraft are non-revenue-generating but are subject to contracted lease agreements with two new customers for delivery in the second quarter of 2009. However, one of the customers may not be in a position to take delivery of two of these aircraft. Forty-five of the fifty leases in operation in our portfolio are subject to fixed rental rates. The weighted average remaining lease term of our total portfolio of aircraft is 4.5 years. Our portfolio includes 46 narrow-body aircraft (Boeing 737-400, 500, 700 and 800, Airbus A319-100 and A320-200), four cargo aircraft (Boeing 747-400SF and 767-200PC), two regional jets (ERJ170-100) and two wide-body passenger aircraft (Airbus A330-200 and Boeing 767-300ER). These aircraft are typically compliant with noise (Stage 3) and other environmental standards, relatively fuel efficient and technologically advanced.

In this annual report, all percentages and weighted averages of the aircraft in our portfolio have been calculated using the average of half life appraised values as at December 31, 2008. The average value of those appraised base values of the aircraft in our portfolio (assuming that each aircraft is in half-life condition) is $1.62 billion. The following table presents the aircraft in our portfolio:

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Our Portfolio

Lessee	Equipment Type	Airframe Type	Engine Type[1]	Build Date	Percent
ABX Air	767-200PC	Cargo[2]	CF6-80A	November 1984	0.20%
ABX Air	767-200PC	Cargo[3]	CF6-80A	February 1985	0.20%
Air Baltic	737-500	Narrow-body	CFM56-3C1	October 1991	0.50%
Air Berlin	737-700	Narrow-body	CFM56-7B26	November 2001	1.70%
Air Berlin	737-700	Narrow-body	CFM56-7B26	October 2001	1.70%
Air Canada	A319-100	Narrow-body	CFM56-5B6/P	March 2003	1.60%
Air China Cargo	747-400SF	Cargo[4]	PW 4056-3	January 1991	3.50%
Air China Cargo	747-400SF	Cargo[5]	PW 4056-3	August 1991	3.50%
Air Europa	737-800	Narrow-body	CFM56 7B26	November 2005	2.30%
American	737-800	Narrow-body	CFM56-7B27	September 2001	1.90%
American	737-800	Narrow-body	CFM56-7B27	September 2001	1.90%
China Southern	737-800	Narrow-body	CFM56-7B26	November 2005	2.30%
China Southern	737-800	Narrow-body	CFM56-7B26	September 2005	2.30%
El Al	737-800	Narrow-body	CFM56-7B26	February 1999	1.60%
EVA Airways	A330-200	Wide-body	CF6-80E1A3	February 2005	4.50%
Garuda	737-400	Narrow-body	CFM56-3C1	July 1998	0.90%
Germanwings	A319-100	Narrow-body	CFM56-5B6/P	November 1999	1.30%
Germanwings	A319-100	Narrow-body	CFM56-5B6/P	December 1999	1.30%
GOL	737-800	Narrow-body	CFM56-7B27	August 2006	2.40%
GOL	737-800	Narrow-body	CFM56-7B27	August 2006	2.50%
Iberworld	A320-200	Narrow-body	CFM56-5B4/P	March 2002	1.70%
IndiGo	A320-200	Narrow-body	V2527-A5	July 2007	2.50%
IndiGo	A320-200	Narrow-body	V2527-A5	September 2007	2.50%
JAL	B767-300ER	Widebody			

Land Lease

On April 26, 1993, one of the Company's foreign subsidiaries entered into a 99 year lease, expiring in 2092, for approximately four acres of land in the Dominican Republic at an annual cost of $288,000, on which the Company's principal production facility is located.

Litigation

In the normal course of business, the Company is a party to claims and/or litigation. Management believes that the settlement of such claims and/or litigation, considered in the aggregate, will not have a material adverse effect on the Company's financial position and results of operations.

Employment Agreements

As of September 30, 2018, the Company was obligated under three employment agreements and one severance agreement. The employment agreements are with the Company’s CEO, Senior Vice President of Sales and Marketing (“the SVP of Sales”) and the Senior Vice President of Engineering (“the SVP of Engineering”). The employment agreement with the CEO provides for an annual salary of $752,000, as adjusted for inflation; incentive compensation as may be approved by the Board of Directors from time to time and a termination payment in an amount up to 299% of the average of the prior five calendar year's compensation, subject to certain limitations, as defined in the agreement. The employment agreement renews annually in August unless either party gives the other notice of non-renewal at least six months prior to the end of the applicable term. The employment agreement with the SVP of Sales expires in October 2020 and provides for an annual salary of $334,000, a bonus arrangement for fiscal 2018 and, if terminated by the Company without cause, severance of nine months’ salary and continued company-sponsored health insurance for six months from the date of termination. The employment agreement with the SVP of Engineering expires in August 2020 and provides for an annual salary of $302,000, a bonus arrangement for fiscal 2018 and, if terminated by the Company without cause, severance of nine month’s salary and continued company-sponsored health insurance for six months from the date of termination. The severance agreement is with the Senior Vice President of Operations and Finance and provides for, if terminated by the Company without cause or within three months of a change in corporate control of the Registrant, severance of nine month’s salary, continued company-sponsored health insurance for six months from the date of termination and certain non-compete and other restrictive provisions.

Note 12 – Geographical Data

The Company is engaged in one major line of business: the development, manufacture, and distribution of security products, encompassing access control systems, door security products, intrusion and fire alarm systems, alarm communication services, and video surveillance products for commercial and residential use. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America.

Financial Information Relating to Domestic and Foreign Operations (in thousands)

	Three months ended September 30,	
	2018	2017
Sales to external customers(1):		
Domestic	$ 22,873	$ 20,652
Foreign	503	522
Total Net Sales	$ 23,376	$ 21,174

	September 30, 2018	June 30, 2018
Identifiable assets:		
United States	$ 54,244	$ 52,928
Dominican Republic (2)	23,004	20,341
Total Identifiable Assets	$ 77,248	$ 73,269

(1) All of the Company's sales originate in the United States and are shipped primarily from the Company's facilities in the United States. There were no sales into any one foreign country in excess of 10% of total Net Sales.

(2) Consists primarily of inventories (September 30, 2018 = $19,427, June 30, 2018 = $16,592) and long-lived assets (September 30, 2018 = $3,399, June 30, 2018 = $3,462) located at the Company's principal manufacturing facility in the Dominican Republic.

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report on Form 10-Q and the information incorporated by reference may include "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. The Company intends the Forward-Looking Statements to be covered by the Safe Harbor Provisions for Forward-Looking Statements. All statements regarding the Company's expected financial position and operating results, its business strategy, its financing plans and the outcome of any contingencies are Forward-Looking Statements. The Forward-Looking Statements are based on current estimates and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of such words and similar expressions are intended to identify such Forward-Looking Statements. The Forward-Looking Statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by any Forward-Looking Statements. For example, the Company is highly dependent on its Chief Executive Officer for strategic planning. If he is unable to perform his services for any significant period of time, the Company's ability to grow could be adversely affected. In addition, factors that could cause actual results to differ materially from the Forward-Looking Statements include, but are not limited to, uncertain economic, military and political conditions in the world, our ability to maintain and develop competitive products, adverse tax consequences of offshore operations, the ability to maintain adequate financing and significant fluctuations in the exchange rate between the Dominican Peso and the U.S. Dollar. The Company’s Risk Factors are discussed in more detail in Item 1A in the Company’s 2018 Annual Report on Form 10-K.

Overview

The Company is a diversified manufacturer of security products, encompassing access control systems, door security products, intrusion and fire alarm systems, alarm communication services, and video surveillance products for commercial and residential use. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. International sales accounted for approximately 2% of our revenues for each of the three months ended September, 2018 and 2017.

The Company owns and operates manufacturing facilities in Amityville, New York and the Dominican Republic. A significant portion of our operating costs are fixed, and do not fluctuate with changes in production levels or utilization of our manufacturing capacity. As production levels rise and factory utilization increases, the fixed costs are spread over increased output, which may contribute to increasing profit margins. Conversely, when production levels decline our fixed costs are spread over reduced levels, which may contribute to decreasing margins.

The security products market is characterized by constant incremental innovation in product design and manufacturing technologies. Generally, the Company typically devotes 6-8% of revenues to research and development (“R&D”) on an annual basis. The Company does not expect products resulting from our R&D investments in fiscal 2019 to contribute materially to revenue during fiscal 2019, but may benefit the Company over future years. In general, the new products introduced by the Company are initially shipped in limited quantities, and increase over time. Prices and manufacturing costs tend to decline over time as products and technologies mature.

Economic and Other Factors

We are subject to the effects of general economic and market conditions. In the event that the U.S. or international economic conditions deteriorate, our revenue, profit and cash-flow levels could be materially adversely affected in future periods. In the event of such deterioration, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. If such events do occur, they may result in our expenses being too high in relation to our revenues and cash flows.

Seasonality

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of the Company’s products want to install its products prior to the summer; therefore sales of its products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand is affected by the housing and construction markets. Deterioration of the current economic conditions may also affect this trend.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are fully described in Note 1 to the Company's consolidated financial statements included in its 2018 Annual Report on Form 10-K. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Principles of Consolidation

The unaudited condensed consolidated financial statements of the Company, including these notes, have been prepared by the Company in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and pursuant to the rules and regulations promulgated by the U.S. Securities and Exchange Commission (the “SEC”). Accordingly, certain information and disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended June 30, 2018 and the notes thereto included in the Company’s Annual Report on Form 10-K filed with the SEC on September 13, 2018. Results of consolidated operations for the interim periods are not necessarily indicative of a full year’s operating results. The unaudited condensed consolidated financial statements include the accounts of Napco Security Technologies, Inc. and all of its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Reclassification

Amounts previously recorded in cost of sales totaling $1,607,000 for the period ending September 30, 2017 have been reclassified to research and development from cost of sales to conform with the current period presentation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates include management's judgments associated with reserves for sales returns and allowances, concentration of credit risk, inventory reserves, intangible assets and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were: Current Assets and Current Liabilities - The carrying amount of cash and cash equivalents, certificates of deposits, current receivables and payables and certain other short-term financial instruments approximate their fair value as of September 30, 2018 due to their short-term maturities.

Cash and Cash Equivalents

Cash and cash equivalents include approximately $460,000 of short-term time deposits at September 30, 2018 and June 30, 2018. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company has cash balances in banks in excess of the maximum amount insured by the FDIC and other international agencies as of September 30, 2018 and June 30, 2018. The Company has historically not experienced any credit losses with balances in excess of FDIC limits.

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Accounts Receivable

Accounts receivable is stated net of the reserves for doubtful accounts of $189,000 and $195,000 as of September 30, 2018 and June 30, 2018, respectively. Our reserves for doubtful accounts are subjective critical estimates that have a direct impact on reported net earnings. These reserves are based upon the evaluation of our accounts receivable aging, specific exposures, sales levels and historical trends.

Inventories

Inventories are valued at the lower of cost or net realizable value, with cost being determined on the first-in, first-out (FIFO) method. The reported net value of inventory includes finished saleable products, work-in-process and raw materials that will be sold or used in future periods. Inventory costs include raw materials, direct labor and overhead. The Company's overhead expenses are applied based, in part, upon estimates of the proportion of those expenses that are related to procuring and storing raw materials as compared to the manufacture and assembly of finished products. These proportions, the method of their application, and the resulting overhead included in ending inventory, are based in part on subjective estimates and actual results could differ from those estimates.

In addition, the Company records an inventory obsolescence reserve, which represents any excess of the cost of the inventory over its estimated market value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends, requirements to support forecasted sales, and the ability to find alternate applications of its raw materials and to convert finished product into alternate versions of the same product to better match customer demand. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events. There is inherent professional judgment and subjectivity made by both production and engineering members of management in determining the estimated obsolescence percentage.

The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred; costs of major renewals and improvements are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the asset and accumulated depreciation accounts and the profit or loss on such disposition is reflected in income.

Depreciation is recorded over the estimated service lives of the related assets using primarily the straight-line method. Amortization of leasehold improvements is calculated by using the straight-line method over the estimated useful life of the asset or lease term, whichever is shorter.

Intangible Assets

Intangible assets determined to have indefinite lives are not amortized but are tested for impairment at least annually. Intangible assets with definite lives are amortized over their useful lives. Infinite-lived intangible assets are reviewed for impairment at least annually at the Company's fiscal year end of June 30 or more often whenever there is an indication that the carrying amount may not be recovered.

The Company's acquisition of substantially all of the assets and certain liabilities of G. Marks Hardware, Inc. ("Marks") in August 2008 included intangible assets recorded at fair value on the date of acquisition. The customer relationships are amortized over their estimated useful lives of twenty years. The Marks trade name was deemed to have an indefinite life.

Changes in intangible assets are as follows (in thousands):

	September 30, 2018			June 30, 2018		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Customer relationships	$9,800	$ (8,233)	$ 1,567	$9,800	$ (8,155)	$ 1,645
Trade name	5,900	—	5,900	5,900	—	5,900
	$15,700	$ (8,233)	$ 7,467	$15,700	$ (8,155)	$ 7,545

Amortization expense for intangible assets subject to amortization was approximately $78,000 and $93,000 for the three months ended September 30, 2018 and 2017, respectively. Amortization expense for each of the next five fiscal years is estimated to be as follows: 2019 - $313,000; 2020 -$264,000; 2021 - $223,000; 2022 - $188,000; and 2023 - $159,000. The weighted average amortization period for intangible assets was 9.9 years and 10.9 years at September 30, 2018 and 2017, respectively.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets in question may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification (“ASC”), Topic 606, Revenue from Contracts with Customers, which the Company adopted effective July 1, 2018. Accordingly, the Company recognizes revenue when its customers obtain control of its products or services, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods and services. See Note 2 – Revenue Recognition for additional accounting policies and transition disclosures.

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of income and are expensed as incurred. Advertising expense for the three months ended September 30, 2018 and 2017 was $650,000 and $641,000, respectively.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense as incurred and are included in "Operating expenses" in the consolidated statements of operations. Company-sponsored research and development expense for the three months ended September 30, 2018 and 2017 was $1,745,000 and $1,607,000, respectively. These amounts, previously recorded in cost of sales have been reclassified to research and development to conform with the current period presentation.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company measures and recognizes the tax implications of positions taken or expected to be taken in its tax returns on an ongoing basis.

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Net Income Per Share

Basic net income per common share (Basic EPS) is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per common share (Diluted EPS) is computed by dividing net income by the weighted average number of common shares and dilutive common share equivalents and convertible securities then outstanding.

The following provides a reconciliation of information used in calculating the per share amounts for the three months ended September 30 (in thousands, except per share data):

	Net Income		Weighted Average Shares		Net Income per Share	
	2018	2017	2018	2017	2018	2017
Basic EPS	$1,504	$890	18,726	18,846	$ 0.08	$ 0.05
Effect of Dilutive Securities:						
Stock Options	—	—	50	33	—	—
Diluted EPS	$1,504	$890	18,776	18,879	$ 0.08	$ 0.05

No options to purchase shares of common stock were excluded for the three months ended September 30, 2018 and 2017.

Stock-Based Compensation

The Company has established two share incentive programs as discussed in Note 8.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of share-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Stock-based compensation costs of $5,000 and $33,000 were recognized for the three months ended September 30, 2018 and 2017, respectively. The effect on both Basic and Diluted Earnings per share was $0.00 for each of the three months ended September 30, 2018 and 2017.

Foreign Currency

The Company has determined the functional currency of all foreign subsidiaries is the U.S Dollar. All foreign operations are considered a direct and integral part or extension of the Company's operations. The day-to-day operations of all foreign subsidiaries are dependent on the economic environment of the U.S Dollar. Therefore, no realized and unrealized gains and losses associated with foreign currency translation is recorded for the three months ended September 30, 2018 or 2017.

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Comprehensive Income

For the three months ended September 30, 2018 and 2017, the Company's operations did not give rise to material items includable in comprehensive income, which were not already included in net income. Accordingly, the Company's comprehensive income approximates its net income for all periods presented.

Segment Reporting

The Company’s reportable operating segments are determined based on the Company's management approach. The management approach is based on the way that the chief operating decision maker organizes the segments within an enterprise for making operating decisions and assessing performance. The Company's results of operations are reviewed by the chief operating decision maker on a consolidated basis and the Company operates in only one segment. The Company has presented required geographical data in Note 11.

Shipping and Handling Revenues and Costs

The Company records the amount billed to customers for shipping and handling in net sales ($101,000 and $122,000 in the three months ended September 30, 2018 and 2017, respectively); and classifies the costs associated with these revenues in cost of sales ($282,000 and $207,000 in the three months ended September 30, 2018 and 2017, respectively).

Results of Operations

	Three months ended September 30, (dollars in thousands)					
	2018		2017		% Increase/ (decrease)	
Net sales	$ 23,376		$ 21,174		10.4	%
Gross profit	9,559		8,486		12.6	%
Gross profit as a % of net sales	40.9	%	40.1	%	2.0	%
Research and development	1,745		1,607		8.6	%
Selling, general and administrative	6,055		5,820		4.0	%

Selling, general and administrative as a percentage of net sales	25.9	%	27.5	%	(5.8	)%
Operating income	1,759		1,059		66.1	%
Interest expense, net	7		26		(73.1	)%
Provision for income taxes	248		143		73.4	%
Net income	1,504		890		69.0	%

Sales for the three months ended September 30, 2018 increased by $2,202,000 to $23,376,000 as compared to $21,174,000 for the same period a year ago. The increase in sales for the three months ended September 30, 2018 was due primarily to increased communication service revenues ($1,219,000), sales of intrusion and access products ($581,000) and door-locking products ($402,000).

Gross profit for the three months ended September 30, 2018 increased to $9,559,000 or 40.9% of sales as compared to $8,486,000 or 40.1% of sales for the same period a year ago. The increase in gross profit for the three months was primarily due to the increase in sales as described above.

Research and development expenses for the three months ended September 30, 2018 increased by $138,000 to $1,745,000 as compared to $1,607,000 for the same period a year ago. The increase was due primarily to increased salaries and additional personnel.

Selling, general and administrative expenses for the three months ended September 30, 2018 increased by $235,000 to $6,055,000 from $5,820,000 for the same period a year ago. Selling, general and administrative expenses as a percentage of net sales decreased to 25.9% for the three months ended September 30, 2018 as compared to 27.5% for the same period a year ago. The increase in dollars was due primarily to higher executive incentive compensation. The decrease as a percentage of sales was due primarily to the increase in net sales as partially offset by higher executive compensation.

Interest expense, net for the three months ended September 30, 2018 decreased by $19,000 to $7,000 as compared to $26,000 for the same period a year ago. The decrease in interest expense for the three months ended September 30, 2018 resulted from reduced outstanding debt.

The Company's provision for income taxes for the three months ended September 30, 2018 increased by $105,000 to $248,000 as compared to $143,000 for the same period a year ago. The increase in the provision for income taxes for the three months was caused primarily by an increase in Income before Provision for Income Taxes. As a result, the Company's effective rate for income tax was 14% for each of the three months ended September 30, 2018 and 2017.

Net income increased by $614,000 to $1,504,000 or $0.08 per diluted share for the three months ended September 30, 2018 as compared to $890,000 or $0.05 per diluted share for the same period a year ago. The change in net income for the three months ended September 30, 2018 was primarily due to the items described above.

Liquidity and Capital Resources

During the three months ended September 30, 2018 the Company utilized a portion of its cash generated from operations ($973,000 of $3,119,000) to purchase property, plant and equipment ($424,000), and repurchase Company common stock ($549,000). The Company believes its current working capital, cash flows from operations and its revolving credit agreement will be sufficient to fund the Company's operations through the next twelve months.

Accounts receivable at September 30, 2018 decreased by $2,399,000 as compared to June 30, 2018. This decrease is primarily the result of the lower sales volume during the quarter ended September 30, 2018 as compared to the quarter ended June 30, 2018, which is typically the Company's highest.

Inventories at September 30, 2018 increased by $1,665,000 as compared to June 30, 2018. This increase is primarily the result of the Company increasing inventory on certain new devices relating to its service revenues as well as the Company's level-loading its production output throughout the year, whereas the Company's sales are typically highest in the fourth quarter.

Accounts payable and accrued expenses other than accrued income taxes increased by $495,000 as of September 30, 2018 as compared to June 30, 2018. This increase was due primarily to the increase in inventory discussed above.

As of September 30, 2018, long-term debt consisted of a revolving credit facility of $11,000,000 which expires in June 2021. As of September 30, 2018, the Company had no outstanding borrowings and $11,000,000 in availability under the Agreement. The Company's long-term debt is described more fully in Note 7 to the condensed consolidated financial statements. The Agreement contains various restrictions and covenants including, among others, restrictions on borrowings and compliance with certain financial ratios, as defined in the restated agreement.

As of September 30, 2018 the Company had no material commitments for capital expenditures or inventory purchases other than purchase orders issued in the normal course of business.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

All foreign sales transactions by the Company are denominated in U.S. dollars. As such, the Company has shifted foreign currency exposure onto its foreign customers. As a result, if exchange rates move against foreign customers, the Company could experience difficulty collecting unsecured accounts receivable, the cancellation of existing orders or the loss of future orders. The foregoing could materially adversely affect the Company's business, financial condition and results of operations. We are also exposed to foreign currency risk relative to expenses incurred in Dominican Pesos ("RD$"), the local currency of the Company's production facility in the Dominican Republic. The result of a 10% strengthening or weakening in the U.S. dollar to the RD$ would result in an annual increase or decrease in income from operations of approximately $630,000.

ITEM 4: Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

At the conclusion of the period ended September 30, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. The Company determined that it did not have effective disclosure controls and procedures as of September 30, 2018. As disclosed in our Annual Report on Form 10-K for the year ended June 30, 2018, we did not have effective disclosure controls and procedures as of June 30, 2018.

Management's review over its internal controls at the conclusion of fiscal 2018 identified conditions which they deemed to be a material weakness, (as defined by standards established by the SEC and the Public Company Accounting Oversight Board): A lack of supervision and review to ensure proper internal control over financial reporting. Management is currently designing additional controls and procedures to remediate these items and expects to complete these actions during fiscal 2019.

During the three months ended September 30, 2018, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. The Company does not have effective disclosure controls and procedures as of September 30, 2018.

PART II: OTHER INFORMATION

Item 1A. Risk Factors

Information regarding the Company’s Risk Factors are set forth in the Company’s Annual Report on Form 10-K for the year ended June 30, 2018. There has been no material change in the risk factors previously disclosed in the Company’s Form 10-K for the year ended June 30, 2018 during the three months ended September 30, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Period	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publically Announced Plans or**	**Maximum Number of Shares that May Yet Be Purchased Under Plans or**

			Programs	Programs
September 1, 2018 – September 30, 2018	39,163	$ 14.02	39,163	169,627
Total for the Quarter ended September 30, 2018	39,163	$ 14.02	39,163	169,627

On September 16, 2014 the Company's board of directors authorized the repurchase of up to 1 million of the approximately 19.4 million shares of the Company's common stock then outstanding. The repurchase will be made from time to time in the open market or in privately negotiated transactions subject to market conditions and the market price of the common stock.

Item 6. Exhibits

31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Richard L. Soloway, Chairman of the Board and President
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Kevin S. Buchel, Senior Vice President of Operations and Finance
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 9, 2018

NAPCO SECURITY TECHNOLOGIES, INC.

(Registrant)

By: /s/ RICHARD L. SOLOWAY
Richard L. Soloway
Chairman of the Board of Directors, President and Secretary
(Chief Executive Officer)

By: /s/ KEVIN S. BUCHEL
Kevin S. Buchel
Senior Vice President of Operations and Finance and Treasurer
(Principal Financial and Accounting Officer)