

WILLIS LEASE FINANCE CORP

Form 10-Q

August 07, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2012

OR

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

Commission File Number: 001-15369

WILLIS LEASE FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

68-0070656
(IRS Employer Identification No.)

773 San Marin Drive, Suite 2215, Novato, CA
(Address of principal executive offices)

94998
(Zip Code)

Registrant's telephone number, including area code **(415) 408-4700**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Title of Each Class
Common Stock, \$0.01 par value per share

Outstanding at August 3, 2012
9,354,260

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**WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES**

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements (Unaudited)****WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES****Consolidated Balance Sheets****(In thousands, except share data, unaudited)**

	June 30, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 4,574	\$ 6,440
Restricted cash	84,878	76,252
Equipment held for operating lease, less accumulated depreciation of \$241,330 and \$228,708 at June 30, 2012 and December 31, 2011, respectively	970,003	981,505
Equipment held for sale	7,639	20,648
Operating lease related receivable, net of allowances of \$454 and \$477 at June 30, 2012 and December 31, 2011, respectively	8,555	8,434
Notes receivable	5	542
Investments	18,427	15,239
Property, equipment & furnishings, less accumulated depreciation of \$6,014 and \$4,957 at June 30, 2012 and December 31, 2011, respectively	6,874	6,901
Equipment purchase deposits	1,369	1,369
Other assets	14,437	15,875
Total assets	\$ 1,116,761	\$ 1,133,205
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 15,873	\$ 16,833
Liabilities under derivative instruments	11,067	12,341
Deferred income taxes	88,138	84,706
Notes payable, net of discount of \$1,842 and \$2,085 at June 30, 2012 and December 31, 2011, respectively	685,975	718,134
Maintenance reserves	61,762	54,509
Security deposits	6,572	6,278
Unearned lease revenue	3,903	3,743
Total liabilities	873,290	896,544
Shareholders' equity:		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized; 3,475,000 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively)	31,915	31,915
Common stock (\$0.01 par value, 20,000,000 shares authorized; 9,351,213 and 9,109,663 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively)	93	91
Paid-in capital in excess of par	57,959	56,842

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Retained earnings	161,658	156,704
Accumulated other comprehensive loss, net of income tax benefit of \$4,824 and \$5,249 at June 30, 2012 and December 31, 2011, respectively	(8,154)	(8,891)
Total shareholders' equity	243,471	236,661
Total liabilities and shareholders' equity	\$ 1,116,761	\$ 1,133,205

See accompanying notes to the unaudited consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except share data, unaudited)

	Three Months Ended		Six Months Ended	
	2012	June 30, 2011	2012	June 30, 2011
REVENUE				
Lease rent revenue	\$ 23,810	\$ 25,655	\$ 47,895	\$ 52,961
Maintenance reserve revenue	9,437	10,131	18,015	18,357
Gain on sale of leased equipment	1,388	2,534	3,996	7,594
Other income	518	372	986	592
Total revenue	35,153	38,692	70,892	79,504
EXPENSES				
Depreciation expense	12,490	13,071	24,996	26,260
Write-down of equipment			282	
General and administrative	9,304	9,213	18,041	17,424
Technical expense	1,435	2,160	2,754	4,467
Net finance costs:				
Interest expense	7,119	8,788	15,066	18,032
Interest income	(30)	(42)	(60)	(85)
Total net finance costs	7,089	8,746	15,006	17,947
Total expenses	30,318	33,190	61,079	66,098
Earnings from operations	4,835	5,502	9,813	13,406
Earnings from joint ventures	199	320	596	626
Income before income taxes	5,034	5,822	10,409	14,032
Income tax expense	(1,805)	(2,340)	(3,891)	(5,487)
Net income	\$ 3,229	\$ 3,482	\$ 6,518	\$ 8,545
Preferred stock dividends paid and declared-Series A	782	782	1,564	1,564
Net income attributable to common shareholders	\$ 2,447	\$ 2,700	\$ 4,954	\$ 6,981
Basic earnings per common share:	\$ 0.29	\$ 0.32	\$ 0.58	\$ 0.83
Diluted earnings per common share:	\$ 0.28	\$ 0.31	\$ 0.56	\$ 0.78
Average common shares outstanding	8,585	8,322	8,495	8,436
Diluted average common shares outstanding	8,848	8,796	8,804	8,929

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents**WILLIS LEASE FINANCE CORPORATION****AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income****(In thousands, unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net income	\$ 3,229	\$ 3,482	\$ 6,518	\$ 8,545
Other comprehensive income:				
Derivative instruments				
Unrealized losses on derivative instruments	(755)	(4,831)	(3,053)	(5,171)
Reclassification adjustment for losses included in net income	1,768	2,818	4,215	6,184
Net gain (loss) recognized in other comprehensive income	1,013	(2,013)	1,162	1,013
Tax benefit/(expense) related to items of other comprehensive income	(371)	737	(425)	(371)
Other comprehensive income (loss)	642	(1,276)	737	642
Total comprehensive income	\$ 3,871	\$ 2,206	\$ 7,255	\$ 9,187

See accompanying notes to the unaudited consolidated financial statements.

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**WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Shareholders' Equity and Comprehensive Income

Six Months Ended June 30, 2012 and 2011

(In thousands, unaudited)

	Preferred Stock	Issued and Outstanding Shares of Common Stock	Common Stock	Paid-in Capital in Excess of par	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders' Equity
Balances at December 31, 2010	\$ 31,915	9,181	\$ 92	\$ 60,108	\$ (10,469)	\$ 145,324	\$ 226,970
Net income						8,545	8,545
Unrealized gain from derivative instruments, net of tax expense of \$371					642		642
Total comprehensive income							9,187
Preferred stock dividends paid						(1,564)	(1,564)
Shares repurchased		(403)	(4)	(5,292)			(5,296)
Cash settlement of stock options		23		(175)			(175)
Shares issued under stock compensation plans		191	2	536			538
Cancellation of restricted stock units in satisfaction of withholding tax		(35)		(468)			(468)
Stock-based compensation, net of forfeitures				1,477			1,477
Excess tax benefit from stock-based compensation				425			425
Balances at June 30, 2011	\$ 31,915	8,957	\$ 90	\$ 56,611	\$ (9,827)	\$ 152,305	\$ 231,094
Balances at December 31, 2011	\$ 31,915	9,110	\$ 91	\$ 56,842	\$ (8,891)	\$ 156,704	\$ 236,661
Net income						6,518	6,518
Unrealized gain from derivative instruments, net of tax expense of \$425					737		737
Total comprehensive income							7,255
Preferred stock dividends paid						(1,564)	(1,564)

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Shares repurchased	(141)	(2)	(1,791)	(1,793)			
Shares issued under stock compensation plans	430	4	1,223	1,227			
Cancellation of restricted stock units in satisfaction of withholding tax	(47)		(603)	(603)			
Stock-based compensation, net of forfeitures			1,603	1,603			
Excess tax benefit from stock-based compensation			685	685			
Balances at June 30, 2012	\$ 31,915	9,352 \$	93 \$	57,959 \$	(8,154) \$	161,658 \$	243,471

See accompanying notes to the unaudited consolidated financial statements.

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**WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 6,518	\$ 8,545
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	24,996	26,260
Write-down of equipment	282	
Stock-based compensation expenses	1,603	1,477
Amortization of deferred costs	1,888	2,304
Amortization of loan discount	243	274
Amortization of interest rate derivative cost	(111)	460
Allowances and provisions	(23)	(94)
Other non-cash items		(212)
Gain on sale of leased equipment	(3,996)	(7,594)
Income from joint venture, net of distributions	(320)	(261)
Deferred income taxes	3,891	5,487
Changes in assets and liabilities:		
Receivables	(98)	1,231
Notes receivable	537	104
Other assets	105	(908)
Accounts payable and accrued expenses	(1,698)	(2,792)
Restricted cash	(7,658)	(12,455)
Maintenance reserves	7,253	4,047
Security deposits	294	142
Unearned lease revenue	160	(280)
Net cash provided by operating activities	33,866	25,735
Cash flows from investing activities:		
Proceeds from sale of equipment held for operating lease (net of selling expenses)	29,051	31,836
Restricted cash for investing activities	(969)	(17,246)
Investment in joint venture	(2,868)	(7,995)
Purchase of equipment held for operating lease	(24,913)	(70,690)
Purchase of property, equipment and furnishings	(1,030)	(581)
Net cash used in investing activities	(729)	(64,676)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	20,000	65,409
Proceeds from other debt		69,957
Debt issuance cost	(553)	(443)
Preferred stock dividends	(1,564)	(1,564)
Proceeds from shares issued under stock compensation plans	1,227	538
Cancellation of restricted stock units in satisfaction of withholding tax	(603)	(468)
Excess tax benefit from stock-based compensation	685	425
Repurchase of common stock	(1,793)	(5,296)
Cash settlement of stock options		(175)
Principal payments on notes payable	(52,402)	(83,415)
Net cash (used in) provided by financing activities	(35,003)	44,968

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Increase/(Decrease) in cash and cash equivalents	(1,866)	6,027
Cash and cash equivalents at beginning of period	6,440	2,225
Cash and cash equivalents at end of period	\$ 4,574	\$ 8,252
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	\$ 9,376	\$ 9,901
Income Taxes	\$ 65	\$ 55

Supplemental disclosures of non-cash investing activities:

During the six months ended June 30, 2012 and 2011, engines and equipment totalling \$3,208 and \$328, respectively, were transferred from Held for Operating Lease to Held for Sale.

See accompanying notes to the unaudited consolidated financial statements.

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Notes to Unaudited Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation: Our unaudited consolidated financial statements include the accounts of Willis Lease Finance Corporation and its subsidiaries (we or the Company) and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Pursuant to such rules and regulations, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been conden