

WILLIS LEASE FINANCE CORP

Form 10-Q

May 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

March 31, 2012 For the Quarterly Period Ended March 31, 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)

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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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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	Outstanding at May 4, 2012
Common Stock, \$0.01 par value per share	9,290,663

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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)**

	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$ 5,601	\$ 6,440
Restricted cash	86,067	76,252
Equipment held for operating lease, less accumulated depreciation of \$229,347 and \$228,708 at March 31, 2012 and December 31, 2011, respectively	974,335	981,505
Equipment held for sale	8,824	20,648
Operating lease related receivable, net of allowances of \$459 and \$477 at March 31, 2012 and December 31, 2011, respectively	7,079	8,434
Notes receivable	542	542
Investments	17,365	15,239
Property, equipment & furnishings, less accumulated depreciation of \$5,485 and \$4,957 at March 31, 2012 and December 31, 2011, respectively	7,339	6,901
Equipment purchase deposits	1,369	1,369
Other assets	18,026	15,875
Total assets	\$ 1,126,547	\$ 1,133,205
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 16,179	\$ 16,833
Liabilities under derivative instruments	12,139	12,341
Deferred income taxes	86,550	84,706
Notes payable, net of discount of \$1,961 and \$2,085 at March 31, 2012 and December 31, 2011, respectively	704,992	718,134
Maintenance reserves	57,636	54,509
Security deposits	6,523	6,278
Unearned lease revenue	4,036	3,743
Total liabilities	888,055	896,544
Shareholders' equity:		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized; 3,475,000 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	31,915	31,915
Common stock (\$0.01 par value, 20,000,000 shares authorized; 9,206,542 and 9,109,663 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively)	92	91
Paid-in capital in excess of par	56,071	56,842
Retained earnings	159,211	156,704
	(8,797)	(8,891)

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Accumulated other comprehensive loss, net of income tax benefit of \$5,195 and \$5,249 at March 31, 2012 and December 31, 2011, respectively

Total shareholders' equity	238,492	236,661
Total liabilities and shareholders' equity	\$ 1,126,547	\$ 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 March 31,	
	2012	2011
REVENUE		
Lease rent revenue	\$ 24,085	\$ 27,306
Maintenance reserve revenue	8,578	8,226
Gain on sale of leased equipment	2,608	5,060
Other income	468	220
Total revenue	35,739	40,812
EXPENSES		
Depreciation expense	12,506	13,189
Write-down of equipment	282	
General and administrative	8,737	8,211
Technical expense	1,319	2,307
Net finance costs:		
Interest expense	7,947	9,244
Interest income	(30)	(43)
Total net finance costs	7,917	9,201
Total expenses	30,761	32,908
Earnings from operations	4,978	7,904
Earnings from joint ventures	397	306
Income before income taxes	5,375	8,210
Income tax expense	(2,086)	(3,147)
Net income	\$ 3,289	\$ 5,063
Preferred stock dividends paid and declared-Series A	782	782
Net income attributable to common shareholders	\$ 2,507	\$ 4,281
Basic earnings per common share:	\$ 0.30	\$ 0.50
Diluted earnings per common share:	\$ 0.29	\$ 0.47

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Average common shares outstanding	8,404	8,552
Diluted average common shares outstanding	8,756	9,048
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 March 31,	
	2012	2011
Net income	\$ 3,289	\$ 5,063
Other comprehensive income:		
Derivative instruments		
Unrealized losses on derivative instruments	(2,300)	(341)
Reclassification adjustment for losses included in net income	2,448	3,366
Net gain recognized in other comprehensive income	148	3,025
Tax expense related to items of other comprehensive income	(54)	(1,107)
Other comprehensive income	94	1,918
Total comprehensive income	\$ 3,383	\$ 6,981

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

Three Months Ended March 31, 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						5,063	5,063
Unrealized gain from derivative instruments, net of tax expense of \$1,107					1,918		1,918
Total comprehensive income							6,981
Preferred stock dividends paid						(782)	(782)
Shares repurchased		(403)	(4)	(5,292)			(5,296)
Cash settlement of stock options		23		(175)			(175)
Shares issued under stock compensation plans		34		330			330
Cancellation of restricted stock units in satisfaction of withholding tax		(18)		(245)			(245)
Stock-based compensation, net of forfeitures				712			712
Excess tax benefit from stock-based compensation				245			245
Balances at March 31, 2011	\$ 31,915	8,817	\$ 88	\$ 55,683	\$ (8,551)	\$ 149,605	228,740
Balances at December 31, 2011	\$ 31,915	9,110	\$ 91	\$ 56,842	\$ (8,891)	\$ 156,704	\$ 236,661
Net income						3,289	3,289
Unrealized gain from derivative instruments, net of tax expense of \$54					94		94
Total comprehensive income							3,383
Preferred stock dividends paid						(782)	(782)
Shares repurchased		(141)	(2)	(1,791)			(1,793)
Shares issued under stock compensation plans		256	3	288			291
Cancellation of restricted stock units in satisfaction of withholding tax		(18)		(232)			(232)
Stock-based compensation, net of forfeitures				751			751
Excess tax benefit from stock-based compensation				213			213
Balances at March 31, 2012	\$ 31,915	9,207	\$ 92	\$ 56,071	\$ (8,797)	\$ 159,211	\$ 238,492

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 3,289	\$ 5,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	12,506	13,189
Write-down of equipment	282	
Stock-based compensation expenses	751	712
Amortization of deferred costs	967	1,129
Amortization of loan discount	124	139
Amortization of interest rate derivative cost	(55)	437
Allowances and provisions	(18)	(34)
Gain on sale of leased equipment	(2,608)	(5,060)
Income from joint venture, net of distributions	(258)	(306)
Deferred income taxes	2,086	2,899
Changes in assets and liabilities:		
Receivables	1,373	2,647
Notes receivable		54
Other assets	(2,973)	(3,294)
Accounts payable and accrued expenses	(1,377)	(2,703)
Restricted cash	(9,847)	(17,791)
Maintenance reserves	3,128	1,294
Security deposits	245	91
Unearned lease revenue	293	642
Net cash provided by (used in) operating activities	7,908	(892)
Cash flows from investing activities:		
Proceeds from sale of equipment held for operating lease (net of selling expenses)	24,075	29,533
Restricted cash for investing activities	31	(689)
Investment in joint venture	(1,868)	
Purchase of equipment held for operating lease	(14,307)	(35,990)
Purchase of property, equipment and furnishings	(966)	(168)
Net cash provided by (used in) investing activities	6,965	(7,314)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	20,000	45,409
Debt issuance cost	(144)	(357)
Preferred stock dividends	(782)	(782)
Proceeds from shares issued under stock compensation plans	291	330
Cancellation of restricted stock units in satisfaction of withholding tax	(232)	(245)
Excess tax benefit from stock-based compensation	213	245
Repurchase of common stock	(1,793)	(5,296)

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Cash settlement of stock options		(175)
Principal payments on notes payable	(33,265)	(30,394)
Net cash (used in) provided by financing activities	(15,712)	8,735
Increase/(Decrease) in cash and cash equivalents	(839)	529
Cash and cash equivalents at beginning of period	6,440	2,225
Cash and cash equivalents at end of period	\$ 5,601	\$ 2,754
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	\$ 4,713	\$ 4,871
Income Taxes	\$ 17	\$ 38

Supplemental disclosures of non-cash investing activities:

During the three months ended March 31, 2012 and 2011, engines and equipment totalling \$4,429 and \$0, 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 condensed or omitted. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, together with Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly our financial position as of March 31, 2012 and December 31, 2011, and the results of our operations for the three months ended March 31, 2012 and 2011, and our cash flows for the three months ended March 31, 2012 and 2011. The results of operations and cash flows for the period ended March 31, 2012 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2012.

Management considers the continuing operations of our company to operate in one reportable segment.

(b) Fair Value Measurements:

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

We measure the fair value of our interest rate swaps of \$315.0 million (notional amount) based on Level 2 inputs, due to the usage of inputs that can be corroborated by observable market data. We estimate the fair value of derivative instruments using a discounted cash flow technique. Fair value may depend on the credit rating and risk of the counterparties of the derivative contracts. We have interest rate swap agreements which have a cumulative net liability fair value of \$12.1 million and \$12.3 million as of March 31, 2012 and December 31, 2011, respectively. For the three months ended March 31, 2012 and March 31, 2011, \$2.4 million and \$3.4 million, respectively, was realized as interest expense on the Consolidated Statements of Income.

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The following table shows by level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of March 31, 2012 and December 31, 2011:

	Assets and (Liabilities) at Fair Value							
	March 31, 2012			December 31, 2011				
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities under derivative instruments	\$ (12,139)	\$	\$ (12,139)	\$	\$ (12,341)	\$	\$ (12,341)	\$
Total	\$ (12,139)	\$	\$ (12,139)	\$	\$ (12,341)	\$	\$ (12,341)	\$

During the three months ended March 31, 2012 and December 31, 2011, all hedges were effective and no ineffectiveness was recorded in earnings.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

We determine the fair value of long-lived assets held and used, such as Equipment held for operating lease and Equipment held for sale, by reference to independent appraisals, quoted market prices (e.g. an offer to purchase) and other factors.

The following table shows by level, within the fair value hierarchy, the Company's assets measured at fair value on a nonrecurring basis as of March 31, 2012 and 2011, and the gains (losses) recorded during the three months ended March 31, 2012 and 2011 on those assets:

	Assets at Fair Value (in thousands)				Total Losses Three Months Ended	
	Total	Level 1	Level 2	Level 3	March 31, 2012 (in thousands)	
Balance at March 31, 2012						
Equipment held for sale	\$ 8,824	\$	\$ 8,580	\$ 244	\$	(282)
Total	\$ 8,824	\$	\$ 8,580	\$ 244	\$	(282)

Assets at Fair Value (in thousands)				Total Losses Three Months Ended	
Total	Level 1	Level 2	Level 3	Ended	