

WILLIS LEASE FINANCE CORP

Form 10-Q/A

November 29, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 2

(Mark One)

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

For the Quarterly Period Ended March 31, 2005

OR

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

Commission File Number: 0-28774

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.)

2320 Marinship Way, Suite 300 Sausalito, CA

(Address of principal executive offices)

94965

(Zip Code)

Registrant's telephone number, including area code **(415) 275-5100**

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

Edgar Filing: WILLIS LEASE FINANCE CORP - Form 10-Q/A

to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is an accelerated filer (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 10, 2005
Common Stock, \$0.00 Par Value	9,043,923

EXPLANATORY NOTE

Willis Lease Finance Corporation (the Company) is filing this Amendment No. 2 to its Form 10-Q for the quarter ended March 31, 2005 (the 2005 First Quarter 10-Q), which was originally filed on May 16, 2005, and subsequently amended on August 3, 2005. This Amendment No. 2 addresses the restatement of the consolidated financial statements for the Company's inappropriate application of accounting for derivative related transactions under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133).

The Company enters into derivative instruments (swaps and caps) to hedge its interest rate exposure. Certain deficiencies have been identified in the Company's derivative documentation.

The Company had designated its swap and cap derivatives as cash flow hedges of its interest payments on its variable rate debt. It was determined that the documentation related to these derivative instruments was insufficient to meet the documentation criteria under SFAS 133 and as a result that the Company could not apply hedge accounting to the transactions.

A portion of the Company's interest payments were based on commercial paper rates. The Company erroneously tested the effectiveness of the derivative instruments using one-month LIBOR instead of data that would have included both the interest rate risk and credit risk of the issuer of the commercial paper.

Please refer to Note 2 to the accompanying consolidated financial statements for additional information. The Company's consolidated balance sheets, statements of income, statements of shareholders' equity and statements of cash flows were restated to reflect the change in the fair market value of derivative contracts in the income statement and not in other comprehensive income where the change was previously recorded. The amortization of upfront premium payments on interest rate caps has been reversed and is no longer a component of interest expense. In addition, the realized gain/loss (i.e. cash settlements) on derivative instruments has been reclassified from interest expense to realized and unrealized (gains) and losses on derivative instruments in the statements of income. The restatements contained within this Form 10-Q/A Amendment No. 2 do not affect the economics of the derivative instrument transactions but the change in the accounting presentation significantly increases the volatility in earnings quarter to quarter within a year and between years. The effect on net income, retained earnings and components of shareholders' equity will differ from period to period.

The accounting restatement for derivative instruments had the following effect on the Company's consolidated statements of income, consolidated balance sheets and consolidated cash flow accounts:

	Increase (Decrease)	
	For the three months ended March 31, 2005	2004
Consolidated Statements of Income:		
Interest expense	\$ (262)	\$ (585)
	(1,277)	1,246

Edgar Filing: WILLIS LEASE FINANCE CORP - Form 10-Q/A

Realized and unrealized (gains) and losses on derivative instruments		
Income tax expense	543	(194)
Net income	996	(467)

Consolidated Statements of Cash Flows:

Net income	\$	996	\$	(467)
Amortization of deferred costs		(753)		(638)
Change in fair value of derivative instruments		(1,371)		754
Change in other assets		585		545
Change in deferred income taxes		543		(194)
Cash flows from operating activities				

		March 31, 2005		December 31, 2004
Consolidated Balance Sheets:				
Accumulated other comprehensive income	\$	(1,962)	\$	(966)
Retained earnings		1,962		966
Total shareholders' equity				

Edgar Filing: WILLIS LEASE FINANCE CORP - Form 10-Q/A

Included in this restatement is a reclassification on the statement of cash flows from amortization of deferred costs to changes in other assets to correct for the erroneous inclusion of amortization of prepaid expenses in this line item.

For the convenience of the reader, this Form 10-Q/A Amendment No. 2 sets forth the complete text of the originally filed 2005 First Quarter 10-Q as amended rather than just the amended portions thereof.

This Form 10-Q/A Amendment No. 2 should be read in conjunction with the Company's Form 10-K/A Amendment No. 3 for the year ended December 31, 2004, the Company's Form 10-Q/A Amendment No. 1 for the quarter ended June 30, 2005 and the Company's Form 10-Q for the quarter ended September 30, 2005, which are being filed concurrently. The following items have been amended as a result of the restatements and reclassifications described above:

Part I Item 1 Financial Information

Part I Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

Part I Item 4 Controls and Procedures

Part II Item 6 Exhibits

Exhibit 31.1 Certification Chief Executive Officer

Exhibit 31.2 Certification Chief Financial Officer

Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES**

INDEX

PART I FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheets as of March 31, 2005 and December 31, 2004 (As restated)

Consolidated Statements of Income for the Three months ended March 31, 2005 and 2004 (As restated)

Consolidated Statements of Shareholders' Equity for the Three months ended March 31, 2005 and 2004 (As restated)

Consolidated Statements of Cash Flows for the Three months ended March 31, 2005 and 2004 (As restated)

Notes to Consolidated Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION

Item 6. Exhibits

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data, unaudited)

	March 31, 2005 (As restated)	December 31, 2004 (As restated)
ASSETS		
Cash and cash equivalents	\$ 2,756	\$ 5,540
Restricted cash	38,849	46,324
Equipment held for operating lease, less accumulated depreciation of \$88,733 and \$83,881 at March 31, 2005 and December 31, 2004, respectively	509,799	511,443
Operating lease related receivable, net of allowances of \$415 and \$400 at March 31, 2005 and December 31, 2004, respectively	1,697	1,630
Notes receivable	4,717	436
Investments	1,480	1,480
Assets under derivative instruments	2,769	1,398
Property, equipment & furnishings, less accumulated depreciation of \$1,329 and \$1,259 at March 31, 2005 and December 31, 2004, respectively	7,936	7,537
Other assets	8,960	9,670
Total assets	\$ 578,963	\$ 585,458
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 5,516	\$ 7,280
Deferred income taxes	28,293	27,530
Notes payable	361,722	369,840
Maintenance reserves	57,835	56,871
Security deposits	2,154	2,088
Unearned lease revenue	5,257	5,381
Total liabilities	460,777	468,990
Shareholders' equity:		
Preferred stock (\$0.01 par value, 5,000,000 shares authorized; none outstanding)		
Common stock, (\$0.01 par value, 20,000,000 shares authorized; 9,026,698 and 8,998,365 shares issued and outstanding at March 31, 2005 and December 31, 2004, respectively)	90	90
Paid-in capital in excess of par	62,787	62,631
Retained earnings	55,309	53,747
Total shareholders' equity	118,186	116,468
Total liabilities and shareholders' equity	\$ 578,963	\$ 585,458

See accompanying notes to the unaudited consolidated financial statements

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except share data, unaudited)

	Three Months Ended March 31,	
	2005 (as restated)	2004 (as restated)
REVENUE		
Lease revenue	\$ 15,035	\$ 14,764
Gain on sale of leased equipment	732	148
Other income	101	174
Total revenue	15,868	15,086
EXPENSES		
Depreciation expense	6,040	5,722
General and administrative	3,647	3,691
Net finance costs:		
Interest expense	5,341	3,778
Interest income	(208)	(58)
Realized and unrealized (gains) and losses on derivative instruments	(1,277)	1,246
Total net finance costs	3,856	4,966
Total expenses	13,543	14,379
Income before income taxes	2,325	707
Income tax expense	(763)	(205)
Net income	\$ 1,562	\$ 502
Basic earnings per common share:	\$ 0.17	\$ 0.06
Diluted earnings per common share:	\$ 0.17	\$ 0.05
Average common shares outstanding	9,006	8,856
Diluted average common shares outstanding	9,401	9,161

See accompanying notes to the unaudited consolidated financial statements

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
Three Months Ended March 31, 2005 and 2004

(In thousands, unaudited)

	Issued and Outstanding Shares of Common Stock		Common Stock		Paid-in Capital in Excess of par		Retained Earnings (as restated)		Total Shareholders Equity
Balances at December 31, 2003	8,847	\$	88	\$	61,710	\$	48,264	\$	110,062
Net income (as restated)							502		502
Shares issued under stock compensation plans	40		1		205				206
Balances at March 31, 2004	8,887	\$	89	\$	61,915	\$	48,766	\$	110,770
Balances at December 31, 2004	8,998	\$	90	\$	62,631	\$	53,747	\$	116,468
Net income (as restated)							1,562		1,562
Shares issued under stock compensation plans	29				156				156
Balances at March 31, 2005	9,027	\$	90	\$	62,787	\$	55,309	\$	118,186

See accompanying notes to the unaudited consolidated financial statements

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Three Months ended March 31,	
	2005	2004
	(As restated)	(As restated)
Cash flows from operating activities:		
Net income	\$ 1,562	\$ 502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	6,040	5,722
Amortization of deferred costs	701	574
Amortization of loan discount		130
Allowances and provisions		