

WILLIS LEASE FINANCE CORP

Form 10-Q/A

August 03, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

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

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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. 1 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, to address comments from the staff (the "Staff") of the Securities and Exchange Commission (the "SEC") in connection with the Staff's normal periodic review of the Company's filings. As a result of the review, the Company is restating its consolidated balance sheets for the period ended March 31, 2005 and December 31, 2004 and its consolidated statements of cash flows for the three months ended March 31, 2005 and 2004 and the related disclosures, to separately classify certain cash that is restricted in connection with the Company's borrowings. The restricted cash was previously disclosed in narrative form and included within the description for cash and cash equivalents. The consolidated statements of cash flows for the three months ended March 31, 2005 and 2004 have been restated to reflect the impact of this change. Please refer to Note 2 to the accompanying consolidated financial statements for additional information. This Amendment No. 1 does not result in a change in the Company's previously reported revenues, net income, earnings per share, total assets, total liabilities or total shareholders' equity as shown in all previous filings.

Also as a result of the Staff's review, disclosure was expanded in several areas of the 2005 First Quarter Form 10-Q. For the convenience of the reader, this Form 10-Q/A sets forth the complete text of the originally filed 2005 First Quarter 10-Q rather than just the amended portions thereof.

This Form 10-Q/A should be read in conjunction with the Company's Form 10-K/A for the year ended December 31, 2004 which is also filing today. 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

Part II Item 6 Exhibits

Exhibit 31.1 Certification Chief Executive Officer

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**

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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
Accumulated other comprehensive income/(loss), net of tax expense of \$897 and \$355 at March 31, 2005 and December 31, 2004, respectively	1,962	966
Retained earnings	53,347	52,781
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	2004
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
Net finance costs		
Interest expense	5,603	4,363
Interest income	(208)	(58)
General and administrative	3,647	3,691
Total expenses	15,082	13,718
Income before income taxes	786	1,368
Income tax expense	(220)	(399)
Net income	\$ 566	\$ 969
Basic earnings per common share:	\$ 0.06	\$ 0.11
Diluted earnings per common share:	\$ 0.06	\$ 0.11
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 and Comprehensive Income

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	Accumulated Other Comprehensive Income/(Loss) (net)	Retained Earnings	Total Shareholders Equity
Balances at December 31, 2003	8,847	\$ 88	\$ 61,710	\$ (660)	\$ 48,924	\$ 110,062
Net Income					969	969
Other comprehensive income						
Net loss on cashflow hedging instruments, net of tax of \$192				(467)		(467)
Total comprehensive income						502
Shares issued under stock compensation plans	40	1	205			206
Balances at March 31, 2004	8,887	\$ 89	\$ 61,915	\$ (1,127)	\$ 49,893	\$ 110,770
Balances at December 31, 2004	8,998	\$ 90	\$ 62,631	\$ 966	\$ 52,781	\$ 116,468
Net Income					566	566
Other comprehensive income						
Net gain on cashflow hedging instruments, net of tax of \$542				996		996
Total comprehensive income						1,562
Shares issued under stock compensation plans	29		156			156
Balances at March 31, 2005	9,027	\$ 90	\$ 62,787	\$ 1,962	\$ 53,347	\$ 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	\$ 566	\$ 969
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	6,040	5,722
Amortization	1,454	1,212
Amortization of loan discount		130
Allowances and provisions	15	25
Gain on sale of leased equipment	(732)	(148)
Changes in assets and liabilities:		
Receivables	(82)	(2,079)
Other assets	(530)	431
Accounts payable and accrued expenses	(1,764)	2,605
Deferred income taxes	220	396
Restricted cash	7,475	175
Maintenance reserves	4,169	357
Security deposits	66	(93)
Unearned lease revenue	(124)	(1,184)
Net cash provided by operating activities	16,773	8,518
Cash flows from investing activities:		
Proceeds from sale of equipment held for operating lease (net of selling expenses)	1,529	386
Proceeds from principal payment of notes receivable	69	
Purchase of equipment held for operating lease	(12,692)	(3,466)
Purchase of property, equipment and furnishings	(469)	(70)
Net principal payments received on direct finance lease		298
Net cash (used in)/provided by investing activities	(11,563)	(2,852)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	16,916	5,000
Proceeds from issuance of common stock	124	206
Principal payments on notes payable	(25,034)	(16,823)
Net cash (used in)/provided by financing activities	(7,994)	(11,617)
Decrease in cash and cash equivalents	(2,784)	(5,951)
Cash and cash equivalents at beginning of period	5,540	9,202
Cash and cash equivalents at end of period	\$ 2,756	\$ 3,251
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	\$ 4,867	\$ 3,936
Income Taxes	\$ 18	\$ 24

Supplemental disclosure of non-cash investing activities:

In March 2005, a note receivable of \$4,350 was received in connection with the Company's sale of an engine.

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During the three months ended March 31, 2005, \$3,205 of maintenance reserves were included in the gain on the sale of leased equipment.

See accompanying notes to the unaudited consolidated financial statements.

Notes to Consolidated Financial Statements

1. **Basis of PRESENTATION**

Consolidated Financial Statements

The accompanying unaudited consolidated financial statements of Willis Lease Finance Corporation and its subsidiaries (the Company) 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 footnote 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 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 the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2004.

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 the financial position of the Company as of March 31, 2005, and December 31, 2004, and the results of its operations for the three month periods ended March 31, 2005 and 2004 and its cash flows for the three months ended March 31, 2005 and 2004. The results of operations and cash flows for the period ended March 31, 2005 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2005.

Management considers the operations of the Company to operate in one reportable segment.

2. Restatement

The Company recently reviewed its financial statement presentation and disclosure in response to comments received from the staff of the Securities and Exchange Commission in a normal periodic review of the Company's filings. As a result, the Company is restating the consolidated balance sheets for March 31, 2005 and December 31, 2004, to separately classify cash that is restricted in connection with the Company's borrowings. The restricted cash was previously disclosed in narrative form and included within the description for cash and cash equivalents. The consolidated statements of cash flows for the three months ended March 31, 2005 and 2004 have been restated to reflect the impact of this change.

The changes to the Company's presentation described above do not change the Company's total assets, total liabilities, shareholders' equity, revenue or net income. All such changes have been consistently applied to all periods presented and a comparison of the amounts previously reported to the restated amounts presented in this 2005 First Quarter 10-Q/A (in thousands) are shown as follows:

Consolidated Balance Sheet Information	March 31, 2005		December 31, 2004	
	As Previously Filed	As Restated	As Previously Filed	As Restated
Cash and cash equivalents	\$ 41,605	\$ 2,756	\$ 51,864	\$ 5,540
Restricted cash		38,849		46,324

Consolidated Statements of Cash Flow Information	For the Three Months Ended March 31,			
	2005	2005	2004	2004
	As Previously Filed	As Restated	As Previously Filed	As Restated
Changes in assets and liabilities:				
Restricted cash		7,475		175
Net cash provided by operating activities	9,298	16,773	8,343	8,518
Decrease in cash and cash equivalents	(10,259)	(2,784)	(6,126)	(5,951)
Cash and cash equivalents at beginning of period	51,864	5,540	42,986	9,202
Cash and cash equivalents at end of period:				
Unrestricted cash and cash equivalents	2,756		3,251	
Restricted cash and cash equivalents	38,849		33,609	
Cash and cash equivalents at end of period	\$ 41,605	\$ 2,756	\$ 36,860	\$ 3,251

3. Management Estimates

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

The preparation of consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to residual values, estimated asset lives, bad debts, income taxes, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes that the accounting policies on useful life of equipment, residual values and asset impairment are critical to the results of operations.

If the useful lives or residual values are lower than those estimated by the Company, upon sale of an asset a loss may be realized. Significant management judgment is required in the forecasting of future operating results, which are used in the preparation of projected undiscounted cash-flows and should different conditions prevail, material impairment write-downs may occur.

4. Commitments, Contingencies, Guarantees and Indemnities

The Company has three leases for its office space. The remaining lease commitment for the Sausalito office for 2005 is approximately \$264,000. The lease expires on December 31, 2005, but has two one-year fair market value renewal options. The Company has given notice that it may

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exercise its option to extend the lease for at least one year. The remaining lease commitment for premises in San Diego is approximately \$43,000 plus expenses. The lease expires on October 31, 2005. The Company has plans to renew the lease and is in negotiations with avioserv, the landlord. The lease for premises in Shanghai, China expires in June 2005, and the Company has not yet decided whether to renew its lease in China. The remaining lease commitment is approximately \$13,000.

The Company has a number of guaranties in respect of its credit facilities. Refer to Note 5 for a full description of the nature and terms of these guaranties. Additionally, the Company generally indemnifies the purchaser of its equipment against any taxes arising from the sale of the equipment (except taxes incurred by the purchaser). The amount of the indemnification is not determinable and the Company has not had to make any payments under such indemnifications.

The Company has commitments to purchase, during 2005, engines and other engine-related equipment totaling \$6.4 million.

In July 2004, one of the Company's engines (with a net investment of \$1.9 million) was damaged while on lease to a customer. It is not possible to determine the eventual financial impact of this incident.

5.