WILLIS LEASE FINANCE CORP
Form 10-Q
November 08, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2010

OR

o 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	**68-0070656**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
773 San Marin Drive, Suite 2215, Novato, CA	**94998**
(Address of principal executive offices)	(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 x No o

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 o No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x 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 November 4, 2010**
Common Stock, $0.01 Par Value	9,314,602

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WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

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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)

		September 30, 2010		December 31, 2009
ASSETS				
Cash and cash equivalents	$	2,013	$	2,056
Restricted cash		95,704		59,630
Equipment held for operating lease, less accumulated depreciation of $181,210 and $160,702 at September 30, 2010 and December 31, 2009, respectively		940,638		976,822
Equipment held for sale		7,847		14,263
Operating lease related receivable, net of allowances of $539 and $467 at September 30, 2010 and December 31, 2009, respectively		5,448		5,783
Notes receivable, net of allowances of $79 and $0 at September 30, 2010 and December 31, 2009, respectively		937		943
Investments		10,802		10,701
Assets under derivative instruments				3,689
Property, equipment & furnishings, less accumulated depreciation of $3,802 and $3,305 at September 30, 2010 and December 31, 2009, respectively		7,122		7,296
Equipment purchase deposits		2,683		2,082
Other assets		12,249		14,437
Total assets	$	1,085,443	$	1,097,702
LIABILITIES AND SHAREHOLDERS EQUITY				
Liabilities:				
Accounts payable and accrued expenses	$	11,384	$	14,352
Liabilities under derivative instruments		20,495		11,584
Deferred income taxes		69,883		69,118
Notes payable, net of discount of $2,760 and $3,211 at September 30, 2010 and December 31, 2009, respectively		705,337		726,235
Maintenance reserves		49,099		46,752
Security deposits		5,352		5,481
Unearned lease revenue		2,918		3,387
Total liabilities		864,468		876,909
Shareholders equity:				
Preferred stock ($0.01 par value, 5,000,000 shares authorized; 3,475,000 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively)		31,915		31,915
		94		92

Common stock ($0.01 par value, 20,000,000 shares authorized; 9,366,967 and 9,181,620 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively)				
Paid-in capital in excess of par		61,699		60,671
Retained earnings		142,096		136,402
Accumulated other comprehensive loss, net of income tax benefit of $8,621 and $4,845 at September 30, 2010 and December 31, 2009, respectively		(14,829)		(8,287)
Total shareholders equity		220,975		220,793
Total liabilities and shareholders equity	$	1,085,443	$	1,097,702

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 September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
REVENUE				
Lease rent revenue	$ 25,090	$ 25,806	$ 76,422	$ 76,984
Maintenance reserve revenue	9,739	17,729	23,721	33,063
Gain (Loss) on sale of leased equipment	5,224	(23)	7,533	735
Other income	138	130	992	829
Total revenue	40,191	43,642	108,668	111,611
EXPENSES				
Depreciation expense	13,021	11,994	36,078	32,343
Write-down of equipment	2,659	2,093	2,659	3,021
General and administrative	7,282	7,726	20,334	20,347
Technical expense	2,041	1,896	6,390	4,234
Net finance costs:				
Interest expense	10,362	9,213	31,268	26,330
Interest income	(66)	(42)	(162)	(246)
Gain upon extinguishment of debt				(895)
Total net finance costs	10,296	9,171	31,106	25,189
Total expenses	35,299	32,880	96,567	85,134
Earnings from operations	4,892	10,762	12,101	26,477
Earnings from joint venture	283	235	818	690
Income before income taxes	5,175	10,997	12,919	27,167
Income tax expense	(2,092)	(1,698)	(4,879)	(5,827)
Net income	$ 3,083	$ 9,299	$ 8,040	$ 21,340
Preferred stock dividends paid and declared-Series A	782	782	2,346	2,346
Net income attributable to common shareholders	$ 2,301	$ 8,517	$ 5,694	$ 18,994
Basic earnings per common share:	$ 0.27	$ 1.00	$ 0.66	$ 2.25
Diluted earnings per common share:	$ 0.25	$ 0.93	$ 0.62	$ 2.10
Average common shares outstanding	8,683	8,501	8,691	8,440
Diluted average common shares outstanding	9,080	9,161	9,256	9,027

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

Nine Months Ended September 30, 2010 and 2009

(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, 2008	$ 31,915	9,078	$ 91	$ 57,939	$ (14,901)	$ 117,163	$ 192,207
Net income						21,340	21,340
Unrealized gain from derivative instruments, net of tax expense of $2,045					3,542		3,542
Total comprehensive income							24,882
Preferred stock dividends paid						(2,346)	(2,346)
Shares issued under stock compensation plans		114	1	438			439
Stock-based compensation expense				1,749			1,749
Tax benefit on disqualified dispositions of shares				172			172
Balances at September 30, 2009	$ 31,915	9,192	$ 92	$ 60,298	$ (11,359)	$ 136,157	$ 217,103
Balances at December 31, 2009	$ 31,915	9,182	$ 92	$ 60,671	$ (8,287)	$ 136,402	$ 220,793
Net income						8,040	8,040
Unrealized loss from derivative instruments, net of tax benefit of $3,776					(6,542)		(6,542)
Total comprehensive income							1,498
Preferred stock dividends paid						(2,346)	(2,346)

Shares repurchased		(178)		(1,777)			(1,777)
Shares issued under stock compensation plans		363	2	594			596
Stock-based compensation expense				1,870			1,870
Tax benefit on disqualified dispositions of shares				341			341
Balances at September 30, 2010	$ 31,915	9,367	$ 94	$ 61,699	$ (14,829)	$ 142,096	$ 220,975

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)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income	$ 8,040	$ 21,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	36,078	32,343
Write-down of equipment	2,659	3,021
Amortization of deferred costs	3,976	3,256
Amortization of loan discount	451	517
Amortization of interest rate derivative cost	2,282	
Allowances and provisions	151	351
Stock-based compensation expenses	1,870	1,749
Gain on sale of leased equipment	(7,533)	(735)
Gain on sale of leased equipment deposits		(400)
Gain upon extinguishment of debt		(895)
Earnings from joint venture	(818)	(690)
Changes in assets and liabilities:		
Receivables	265	(716)
Notes receivable	(74)	
Other assets	(1,521)	(2,451)
Accounts payable and accrued expenses	753	6,001
Deferred income taxes	4,542	4,729
Restricted cash	(36,074)	2,755
Maintenance reserves	2,347	2,843
Security deposits	(129)	(34)
Unearned lease revenue	(469)	(2,248)
Net cash provided by operating activities	16,796	70,736
Cash flows from investing activities:		
Proceeds from sale of equipment held for operating lease (net of selling expenses)	62,815	23,512
Proceeds from sale of equipment deposits (net of selling expense)		6,580
Restricted cash for investing activities		(3,047)
Distributions from joint venture	716	575
Purchase of equipment held for operating lease	(55,197)	(141,944)
Purchase of property, equipment and furnishings	(370)	(53)
Net cash used in investing activities	7,964	(114,377)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	117,841	123,019
Debt issuance cost	(268)	
Distributions to preferred stockholders	(2,346)	(2,346)
Proceeds from shares issued under stock compensation plans	596	439
Excess tax benefit from stock-based compensation	341	172
Repurchase of common stock	(1,777)	
Principal payments on notes payable	(139,190)	(50,198)
Net cash (used in) provided by financing activities	(24,803)	71,086
(Decrease)/increase in cash and cash equivalents	(43)	27,445

Cash and cash equivalents at beginning of period		2,056		8,618
Cash and cash equivalents at end of period	$	2,013	$	36,063
Supplemental disclosures of cash flow information:				
Net cash paid for:				
Interest	$	13,214	$	12,174
Income Taxes	$	297	$	259

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, 2009.

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 September 30, 2010, and December 31, 2009, and the results of our operations for the three and nine month periods ended September 30, 2010 and 2009, and our cash flows for the nine months ended September 30, 2010 and 2009. The results of operations and cash flows for the period ended September 30, 2010 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2010.

In the prior years comparative income statement, General and administrative expense and Technical expense were changed to reflect current year presentation, with Technical expense disclosed as a separate expense line item due to its significance.

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

(b) Fair Value Measurements: In January 2010, the Financial Accounting Standards Board (FASB) issued guidance which expanded the required disclosures about fair value measurements. In particular, this guidance requires (i) separate disclosure of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with the reasons for such transfers, (ii) information about purchases, sales, issuances and settlements to be presented separately in the reconciliation for Level 3 fair value measurements, (iii) fair value measurement disclosures for each class of assets and liabilities and (iv) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for fair value measurements that fall in either Level 2 or Level 3. The adoption of this guidance did not have a material effect on our financial condition or results of operations.

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 notional interest rate swaps of $490.0 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 $20.5 million and $7.9 million as of September 30, 2010 and December 31, 2009, respectively. For the nine months ended September 30, 2010 and September 30, 2009, $14.5 million and $11.6 million, respectively, were realized through the income statement as an increase in interest expense.

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The following table shows by level, within the fair value hierarchy, the Company s assets and liabilities measured at fair value on a recurring basis as of September 30, 2010 and December 31, 2009:

	Assets and Liabilities at Fair Value (in thousands)			
	Total	**Level 1**	**Level 2**	**Level 3**
Balance at December 31, 2009				
Derivatives	$ (7,895)	$	$ (7,895)	$
Total	$ (7,895)	$	$ (7,895)	$
	Total	**Level 1**	**Level 2**	**Level 3**
Balance at September 30, 2010				
Derivatives	$ (20,495)	$	$ (20,495)	$
Total	$ (20,495)	$	$ (20,495)	$

During the nine months ended September 30, 2010 and December 31, 2009, all hedges were effective and no change in fair value was recorded in earnings.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

We determine fair value of long-lived assets held and used, such as Equipment held for sale, by reference to independent appraisals, quoted market prices (e.g. an offer to purchase) and other factors. An impairment charge is recorded when the carrying value of the asset exceeds its fair value.

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 September 30, 2010 and 2009, and the gains (losses) recorded during the three and nine months ended September 30, 2010 and 2009 on those assets:

	Assets at Fair Value (in thousands)				Total Losses Three Months Ended September 30, 2010 (in thousands)	Total Losses Nine Months Ended September 30, 2010
	Total	**Level 1**	**Level 2**	**Level 3**		
Balance at September 30, 2010						
Equipment held for sale	$7,847	$	$6,878	$969	$(2,659)	$(2,659)
Total	$7,847	$	$6,878	$969	$(2,659)	$(2,659)

	Total	**Level 1**	**Level 2**	**Level 3**	**Total Losses Three Months Ended September 30, 2009** (in thousands)	**Total Losses Nine Months Ended September 30, 2009**
Balance at September 30, 2009						
Equipment held for sale	$ 18,823	$	$ 18,823	$	$ (2,093)	$ (3,021)
Total	$ 18,823	$	$ 18,823	$	$ (2,093)	$ (3,021)

At September 30, 2010, the Company used Level 2 inputs and, due to a portion of the valuations requiring management judgment due to the absence of quoted market prices, Level 3 inputs to measure the fair value of engines that were held as consignment inventory with third parties. An asset write-down of $2.7 million was recorded in the three and nine months ended September 30, 2010, based upon a comparison of the asset net book values with the revised net proceeds expected from part sales arising from consignment of the engines. At September 30, 2009, the Company used Level 2 inputs to measure the fair value of four engines that were involved in a consignment transaction with third parties. The asset write-down was calculated based upon a comparison of the asset net book values with the net proceeds expected from part sales arising from consignment of the engines. As a result, long-lived assets held and used with a carrying amount of $7.5 million were written down to their fair value of $5.4 million, resulting in an impairment charge of $2.1 million, which was included in earnings for the three months ended September 30, 2009. For the nine months ended September 30, 2009, long-lived assets held and used with a carrying amount of $19.2 million were written down to their fair value of $16.2 million, resulting in an impairment charge of $3.0 million.

(c) Subsequent Events: We have reviewed and evaluated material subsequent events through the date the financial statements were issued.

2. Management Estimates

These consolidated 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 us 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, we evaluate estimates, including those related to residual values, estimated asset lives, bad debts, income taxes, contingencies and litigation. On July 1, 2009 and again on July 1, 2010, we adjusted the depreciation for certain older engine types within the portfolio. It is our policy to review estimates regularly to reflect the cost of equipment over the useful life of these engines. We base our estimate 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.

Long-lived assets and certain identifiable intangibles to be held and used by an entity are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and long-lived assets and certain identifiable intangibles to be disposed of generally are reported at the lower of carrying amount or fair value less cost to sell.

Management believes that the accounting policies on revenue recognition, maintenance reserves and expenditures, useful life of equipment, asset residual values, asset impairment and allowance for doubtful accounts are critical to the results of operations. If the useful lives or residual values are lower than those estimated by us, upon sale of the 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.

3. Commitments, Contingencies, Guarantees and Indemnities

Our principal offices are located in Novato, California. We occupy space in Novato under a lease that expires February 28, 2015. The remaining lease rental commitment is approximately $2.3 million. Equipment leasing, financing, sales and general administrative activities are conducted from the Novato location. We also sub-lease office and warehouse space for our operations in San Diego, California. This lease expires October 31, 2013 and the remaining lease commitment is approximately $561,600. We also lease office space in Shanghai, China. The lease expires December 31, 2010 and the remaining lease commitment is approximately $16,200. We also lease office and living space in London, United Kingdom. The office space lease continues month-to-month and the living space lease expires January 3, 2011; the remaining lease commitments total approximately $56,500.

During the remainder of 2010, we have commitments to purchase five engines and related equipment for a gross purchase price of $43.1 million. As at September 30, 2010, non-refundable deposits paid related to this purchase commitment were $2.1 million. In October 2006, we entered into an agreement with CFM International (CFM) to purchase new spare aircraft engines. The agreement specifies that, subject to availability, we may purchase up to a total of 45 CFM56-7B and CFM56-5B spare engines over a five year period, with options to acquire up to an additional 30 engines. Our 2010 engine deliveries from CFM are included in our commitments to purchase.

4. Investments

In July 1999, we entered into an agreement to participate in a joint venture formed as a limited company Sichuan Snecma Aero-engine Maintenance Co. Ltd. (Sichuan Snecma) for the purpose of providing airlines in the Asia Pacific area with modern maintenance, leased engines and spare parts. Sichuan Snecma focuses on providing maintenance services for CFM56 series engines and is located in Chengdu, China. Our investment of $1.48 million represents a 4.6% interest in the joint venture.

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We hold a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (WOLF). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. The purchase was funded by four term notes with one financial institution totaling $76.8 million, with interest payable at LIBOR plus 1.0% to 2.5% and maturing in 2013. These aircraft are currently on lease to Emirates until 2013. Our investment in the joint venture is $9.3 million as of September 30, 2010.

Nine Months Ended September 30, 2010 (in thousands)

Investment in WOLF A340, LLC as of December 31, 2009	$	9,221
Earnings from joint venture		818
Distribution		(716)
Investment in WOLF A340, LLC as of September 30, 2010	$	9,323

5. Long Term Debt

At September 30, 2010, notes payable consists of loans totaling $705.3 million (net of discount of $2.8 million), payable over periods of three months to twelve years with interest rates varying between approximately 1.5% and 8.0% (excluding the effect of our interest rate derivative instruments). At September 30, 2010, we had revolving and warehouse credit facilities totaling approximately $440.0 million with $89.2 million in funds available to us. Our significant debt instruments are discussed below:

On January 11, 2010, we closed on a new term loan for a four year term totaling $22.0 million. Interest is payable at a fixed rate of 4.5% and principal and interest is paid quarterly. The loan is secured by engines. The funds were used to pay down our revolving credit facility.

At September 30, 2010, we had a $240.0 million revolving credit facility to finance the acquisition of aircraft engines for lease as well as for general working capital purposes. We closed on this facility on November 20, 2009 and it replaced a $289.0 million revolving credit facility for which the revolving period had ended on June 30, 2009 with a final maturity on June 30, 2010. The proceeds from this facility, net of $3.5 million in debt issuance costs, was used to pay off the balance remaining from the previous facility, with any shortfall made up from unrestricted cash balances. As of September 30, 2010, $89.0 million was available under this facility. The revolving facility ends in November 2012. The interest rate on this facility at September 30, 2010 was one-month LIBOR plus 3.50%. Under the revolver facility, all subsidiaries except WEST Engine Funding LLC jointly and severally guarantee payment and performance of the terms of the loan agreement. The maximum guarantee is $240.0 million plus any accrued and unpaid interest, fees or reimbursements but is limited at any given time to the sum of the principal outstanding plus accrued interest and fees. The guarantee would be triggered by a default under the agreement.

At September 30, 2010, we had $308.7 million of WEST term notes outstanding. The term notes are divided into $118.7 million Series 2005-A1 notes, $18.5 million Series 2005-B1 notes and $171.5 million Series 2008-A1 notes. At September 30, 2010, interest on the Series 2005-A1 notes is one-month LIBOR plus a margin of 1.25%. At September 30, 2010, interest on the Series 2005-B1 notes is one-month LIBOR plus a margin of 3.00% and a supplemental margin of 3.00%, for a total margin of 6.00%. At September 30, 2010, interest on the Series 2008-A1 notes is one-month LIBOR plus a margin of 1.50%. The Series 2005-A1 and B1 term notes expected maturity is July 2018 and July 2020, respectively, and the Series 2008-A1 term notes expected maturity is March 2021.

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From March 28, 2008 to June 30, 2008, our investment banker, acting as our agent to sell the notes, was the holder of $20.3 million of the Series 2008-B1 notes. On June 30, 2008, we secured a $20.0 million senior term loan and used the loan proceeds to re-purchase the Series 2008-B1 from our investment banker. The Series 2008-B1 notes were pledged as collateral for the $20.0 million senior term loan. The loan was for a term of two years with maturity on July 1, 2010 and is structured as a bullet loan with no amortization with all amounts due at maturity. On May 3, 2010, the Company extended the maturity date of its $20.0 million senior term loan from July 1, 2010 to December 31, 2010 and amended the covenants for the senior term loan to conform to that of the $240.0 million revolving credit facility. The interest rate for the term loan is one-month LIBOR plus 3.50%. Our investment banker continues to market the Series 2008-B1 notes and in the event the Series 2008-B1 notes are placed with an investor prior to December 31, 2010, the term loan will be repaid with the proceeds from the sale of the Series 2008-B1 notes. We would be required to fund any difference between the amount owing under the $20.0 million senior term loan and the amount of proceeds received from the sale of the Series 2008-B1 notes. Any payment would be funded by the use of unrestricted cash reserves, from cash flows from ongoing operations and additional financing capacity if required. Any amounts received from the sale of the Series 2008-B1 notes at less than par would be recorded as a loan discount and would be amortized over the remaining thirteen year term of the B1 notes. Any amounts received in excess of par would be recorded as a purchase premium and amortized over the remaining thirteen year term. We are also currently discussing a further extension of the term of this loan with our investment banker, which would allow more time for the marketing of the Series 2008-B1 notes.

WEST s ability to make distributions and pay dividends to us is subject to the prior payments of its debt and other obligations and WEST s maintenance of adequate reserves and capital. Under WEST, cash is collected in a restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to us. Additionally, maintenance reserve payments and lease security deposits are accumulated in restricted accounts and are not available for general use. Cash from maintenance reserve payments are held in the restricted cash account and are subject to a minimum balance established annually based on an engine portfolio maintenance reserve study provided by a third party. Any excess maintenance reserve amounts remain within the restricted cash accounts and are utilized for the purchase of new engines.

On December 13, 2007, we closed on a $200.0 million warehouse facility within WEST, consisting of $175.0 million of Series 2007-A2 notes and $25.0 million of Series 2007-B2 notes. At September 30, 2010, $0.2 million was available under these warehouse notes. The 2007 series warehouse notes allow for borrowings during a three-year term, after which it is expected that they will be converted to term notes of WEST. Interest on the Series 2007-A2 notes and B2 notes is one-month LIBOR plus a margin of 1.25% and 2.75%, respectively. The facility has a committed amount of $200.0 million. The Series 2007-A2 notes mature approximately December 2020 and the Series 2007-B2 notes mature approximately December 2022.

The assets of WEST, WEST Engine Funding LLC and any associated Owner Trust are not available to satisfy the obligations of ours or any of our affiliates. WEST is consolidated for financial statement presentation purposes.

The Company and its subsidiaries are required to comply with various financial covenants such as minimum tangible net worth, maximum balance sheet leverage and various interest coverage ratios. The Company also has certain negative financial covenants such as liens, advances, change in business, sales of assets, dividends and stock repurchase. These covenants are tested quarterly and the Company was in full compliance with all covenant requirements at September 30, 2010.

At September 30, 2010 and 2009, one-month LIBOR was 0.26% and 0.25%, respectively.

The following is a summary of the aggregate maturities of notes payable on September 30, 2010 (dollars in thousands):

Year Ending December 31,		
2010 (three months remaining, includes $20.0 million for senior term loan)	$	28,847
2011		59,895
2012 (includes $151.0 million outstanding on revolving credit facility)		205,312
2013		55,812
2014		69,756
2015 and thereafter		288,475
	$	708,097

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6. Derivative Instruments

We hold a number of interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, as all but $22.8 million of our borrowings are at variable rates. As a matter of policy, we do not use derivatives for speculative purposes. In addition, WEST is required under its credit agreement to hedge a portion of its borrowings. At September 30, 2010, we were a party to interest rate swap agreements with notional outstanding amounts of $490.0 million, remaining terms of between one and fifty-four months and fixed rates of between 2.10% and 5.05%. The net fair value of these swaps at September 30, 2010 was negative $20.5 million, representing a net liability for us. This represents the estimated amount we would be required to pay if we terminated the swaps.

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and, as of September 30, 2010, has used creditworthiness inputs that have been corroborated by observable market data regarding the Company s and counterparties risk of non-performance. Valuation of the derivative instruments requires certain assumptions for underlying variables and the use of different assumptions would result in a different valuation. Management believes it has applied assumptions consistently during the period. We apply hedge accounting and account for the change in fair value of our cash flow hedges through other comprehensive income for all derivative instruments.

Fair Values of Derivative Instruments in the Consolidated Balance Sheets

The following table provides information about the fair value of our derivatives, by contract type:

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Derivatives Fair Value September 30, 2010		December 31, 2009	
		(in thousands)			
Interest rate contracts	Assets under derivative instruments	$		$	3,689
Interest rate contracts	Liabilities under derivative instruments	$	20,495	$	11,584

Effect of Derivative Instruments on Cash Flow Hedging

The following tables provide additional information about the financial statement effects related to our cash flow hedges for the three and nine months ended September 30, 2010 and 2009:

Derivatives in Cash Flow	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion)

Three Months Ended September 30,	Location of Loss Reclassified from Accumulated OCI into	Three Months Ended September 30,