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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**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 September 30, 2013

OR

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

Commission File Number: 001-15369

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**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**

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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	Outstanding at November 5, 2013
Common Stock, \$0.01 par value per share	8,429,993

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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, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,028	\$ 5,379
Restricted cash	38,003	24,591
Equipment held for operating lease, less accumulated depreciation of \$250,938 and \$242,529 at September 30, 2013 and December 31, 2012, respectively	1,015,588	961,459
Equipment held for sale	31,506	23,607
Operating lease related receivable, net of allowances of \$427 and \$980 at September 30, 2013 and December 31, 2012, respectively	5,082	12,916
Investments	18,072	21,831
Property, equipment & furnishings, less accumulated depreciation of \$8,523 and \$7,087 at September 30, 2013 and December 31, 2012, respectively	4,994	5,989
Equipment purchase deposits	1,369	1,369
Other assets	20,779	21,574
<b>Total assets</b>	<b><u>\$ 1,139,421</u></b>	<b><u>\$ 1,078,715</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 12,877	\$ 15,374
Liabilities under derivative instruments	301	1,690
Deferred income taxes	82,608	90,248
Notes payable	744,300	696,988
Maintenance reserves	76,579	63,313
Security deposits	12,535	6,956
Unearned lease revenue	3,740	4,593
<b>Total liabilities</b>	<b><u>932,940</u></b>	<b><u>879,162</u></b>
Shareholders' equity:		
Common stock (\$0.01 par value, 20,000,000 shares authorized; 8,492,948 and 8,715,580 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively)	85	87
Paid-in capital in excess of par	44,950	47,785
Retained earnings	161,984	152,911
Accumulated other comprehensive loss, net of income tax benefit of \$251 and \$651 at September 30, 2013 and December 31, 2012, respectively	(538)	(1,230)
<b>Total shareholders' equity</b>	<b><u>206,481</u></b>	<b><u>199,553</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 1,139,421</u></b>	<b><u>\$ 1,078,715</u></b>

See accompanying notes to the unaudited consolidated financial statements.

**WILLIS LEASE FINANCE CORPORATION  
AND SUBSIDIARIES**  
**Consolidated Statements of Income (Loss)**  
**(In thousands, except share data, unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>REVENUE</b>				
Lease rent revenue	\$ 25,779	\$ 23,022	\$ 75,016	\$ 70,917
Maintenance reserve revenue	8,891	10,653	29,908	28,668
Gain on sale of leased equipment	2,022	561	3,556	4,557
Other revenue	1,260	3,270	2,729	4,256
Total revenue	<u>37,952</u>	<u>37,506</u>	<u>111,209</u>	<u>108,398</u>
<b>EXPENSES</b>				
Depreciation expense	15,762	13,885	43,563	38,881
Write-down of equipment	4,283	2,474	6,268	2,756
General and administrative	6,792	7,298	24,265	25,339
Technical expense	4,533	1,961	10,423	4,715
Net finance costs:				
Interest expense	9,905	7,529	28,984	22,595
Interest income	—	(21)	—	(81)
Loss on debt extinguishment and derivatives termination	—	15,412	—	15,412
Total net finance costs	<u>9,905</u>	<u>22,920</u>	<u>28,984</u>	<u>37,926</u>
Total expenses	<u>41,275</u>	<u>48,538</u>	<u>113,503</u>	<u>109,617</u>
Loss from operations	(3,323)	(11,032)	(2,294)	(1,219)
Earnings (loss) from joint ventures	(289)	352	3,186	948
Income (loss) before income taxes	(3,612)	(10,680)	892	(271)
Income tax benefit (expense)	1,383	3,486	8,181	(405)
Net income (loss)	\$ (2,229)	\$ (7,194)	\$ 9,073	\$ (676)
Preferred stock dividends	—	782	—	2,346
Net income (loss) attributable to common shareholders	<u>\$ (2,229)</u>	<u>\$ (7,976)</u>	<u>\$ 9,073</u>	<u>\$ (3,022)</u>
Basic earnings (loss) per common share:	<u>\$ (0.27)</u>	<u>\$ (0.92)</u>	<u>\$ 1.12</u>	<u>\$ (0.35)</u>
Diluted earnings (loss) per common share:	<u>\$ (0.27)</u>	<u>\$ (0.90)</u>	<u>\$ 1.09</u>	<u>\$ (0.34)</u>
Average common shares outstanding	8,126	8,667	8,091	8,553
Diluted average common shares outstanding	8,329	8,889	8,332	8,846

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ (2,229)	\$ (7,194)	\$ 9,073	\$ (676)
Other comprehensive income (loss):				
Derivative instruments				
Unrealized loss on derivative instruments	(8)	(1,213)	(56)	(4,266)
Reclassification adjustment for losses included in termination of derivative instruments	—	10,143	—	10,143
Reclassification adjustment for losses included in net income	390	1,810	1,149	6,026
Net gain recognized in other comprehensive income	382	10,740	1,093	11,903
Tax expense related to items of other comprehensive income (loss)	(140)	(3,952)	(401)	(4,377)
Other comprehensive income	242	6,788	692	7,526
Total comprehensive income (loss)	\$ (1,987)	\$ (406)	\$ 9,765	\$ 6,850

See accompanying notes to the unaudited consolidated financial statements.

**WILLIS LEASE FINANCE CORPORATION  
AND SUBSIDIARIES**  
**Consolidated Statements of Shareholders' Equity**  
**Nine Months Ended September 30, 2013 and 2012**  
**(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, 2011	\$31,915	9,110	\$ 91	\$ 56,842	\$ (8,891)	\$156,704	\$ 236,661
Net loss	—	—	—	—	—	(676)	(676)
Unrealized gain from derivative instruments, net of tax expense of \$644	—	—	—	—	1,116	—	1,116
Reclassification adjustment for losses included in net income, net of tax expense of \$3,733	—	—	—	—	6,410	—	6,410
Preferred stock dividends paid	—	—	—	—	—	(2,346)	(2,346)
Shares repurchased	—	(156)	(2)	(1,974)	—	—	(1,976)
Shares issued under stock compensation plans	—	440	4	1,308	—	—	1,312
Cancellation of restricted stock units in satisfaction of withholding tax	—	(71)	—	(884)	—	—	(884)
Stock-based compensation, net of forfeitures	—	—	—	2,346	—	—	2,346
Excess tax benefit from stock-based compensation	—	—	—	607	—	—	607
Balances at September 30, 2012	<u>\$31,915</u>	<u>9,323</u>	<u>\$ 93</u>	<u>\$ 58,245</u>	<u>\$ (1,365)</u>	<u>\$153,682</u>	<u>242,570</u>
Balances at December 31, 2012	\$ —	8,716	\$ 87	\$ 47,785	\$ (1,230)	\$152,911	\$ 199,553
Net income	—	—	—	—	—	9,073	9,073
Unrealized gain from derivative instruments, net of tax expense of \$401	—	—	—	—	692	—	692
Shares repurchased	—	(354)	(3)	(5,255)	—	—	(5,258)
Shares issued under stock compensation plans	—	182	2	584	—	—	586
Cancellation of restricted stock units in satisfaction of withholding tax	—	(51)	(1)	(737)	—	—	(738)
Stock-based compensation, net of forfeitures	—	—	—	2,573	—	—	2,573
Balances at September 30, 2013	<u>\$ —</u>	<u>8,493</u>	<u>\$ 85</u>	<u>\$ 44,950</u>	<u>\$ (538)</u>	<u>\$161,984</u>	<u>\$ 206,481</u>

See accompanying notes to the unaudited consolidated financial statements.

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

	<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 9,073	\$ (676)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	43,563	38,881
Write-down of equipment	6,268	2,756
Stock-based compensation expenses	2,573	2,346
Amortization of deferred costs	3,068	2,874
Amortization of loan discount	—	341
Amortization of interest rate derivative cost	(297)	(167)
Allowances and provisions	(553)	(154)
Gain on sale of leased equipment	(3,556)	(4,557)
Gain on non-monetary exchange	—	(1,961)
Income from joint ventures, net of distributions	(3,186)	(471)
Gain on insurance settlement	(351)	(173)
Non cash portion of loss of debt extinguishment and derivatives termination	—	7,114
Deferred income taxes	(8,181)	405
Changes in assets and liabilities:		
Receivables	8,620	(289)
Notes receivable	—	542
Other assets	(1,517)	912
Accounts payable and accrued expenses	(1,225)	(5,651)
Restricted cash	(7,127)	2,064
Maintenance reserves	13,266	8,588
Security deposits	(492)	815
Unearned lease revenue	(874)	359
Net cash provided by operating activities	<u>59,072</u>	<u>53,898</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of equipment (net of selling expenses)	28,482	31,971
Restricted cash for investing activities	(6,285)	1,754
Capital contribution to joint ventures	(6,145)	(3,830)
Investment in joint venture, net of cash acquired	2,020	—
Purchase of equipment held for operating lease and for sale	(93,936)	(46,941)
Purchase of property, equipment and furnishings	(441)	(1,196)
Net cash used in investing activities	<u>(76,305)</u>	<u>(18,242)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of notes payable	72,000	537,693
Debt issuance cost	(591)	(9,660)
Interest bearing security deposits	6,071	—
Preferred stock dividends	—	(2,346)
Proceeds from shares issued under stock compensation plans	586	1,312
Cancellation of restricted stock units in satisfaction of withholding tax	(738)	(884)
Excess tax benefit from stock-based compensation	—	607
Decrease in restricted cash	—	18,208
Repurchase of common stock	(5,258)	(1,976)
Principal payments on notes payable	(56,188)	(567,871)
Net cash provided by (used in) financing activities	<u>15,882</u>	<u>(24,917)</u>
Increase (decrease) in cash and cash equivalents	(1,351)	10,739
Cash and cash equivalents at beginning of period	5,379	6,440
Cash and cash equivalents at end of period	<u>\$ 4,028</u>	<u>\$ 17,179</u>
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	<u>25,607</u>	<u>14,552</u>
Income Taxes	<u>\$ 16</u>	<u>\$ 101</u>

Supplemental disclosures of non-cash investing activities:  
During the nine months ended September 30, 2013 and 2012, engines and equipment totalling \$9,493 and \$4,900, respectively, were transferred from Held for Operating Lease to Held for Sale but not settled.

See accompanying notes to the unaudited consolidated financial statements.

## 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/A for the fiscal year ended December 31, 2012.

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, 2013 and December 31, 2012, and the results of our operations for the three and nine months ended September 30, 2013 and 2012, and our cash flows for the nine months ended September 30, 2013 and 2012. The results of operations and cash flows for the period ended September 30, 2013 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2013.

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 hold interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with \$343.5 million and \$282.0 million of our borrowings at September 30, 2013 and December 31, 2012, respectively, at variable rates. We measure the fair value of our interest rate swaps of \$100.0 million (notional amount) based on Level 2 inputs, due to the usage of inputs that can be corroborated by observable market data. The Company estimates the fair value of derivative instruments using a discounted cash flow technique and, at September 30, 2013, has used creditworthiness inputs that corroborate observable market data evaluating the Company’s and counterparties’ risk of non-performance. We have interest rate swap agreements which have a net liability fair value of \$0.3 million and \$1.7 million as of September 30, 2013 and December 31, 2012, respectively. For the nine months ended September 30, 2013 and September 30, 2012, \$1.1 million and \$6.0 million, respectively, were 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 September 30, 2013 and December 31, 2012:

	Assets and (Liabilities) at Fair Value							
	September 30, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(in thousands)							
Liabilities under derivative instruments	\$ (301)	\$ —	\$ (301)	\$ —	\$ (1,690)	\$ —	\$ (1,690)	\$ —
Total	\$ (301)	\$ —	\$ (301)	\$ —	\$ (1,690)	\$ —	\$ (1,690)	\$ —

During the nine months ended September 30, 2013 and December 31, 2012, 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. industry market data) 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, 2013 and December 31, 2012, and the gains (losses) recorded during the nine months ended September 30, 2013 and twelve months ended December 31, 2012 on those assets:

	Assets at Fair Value (in thousands)				Total Losses
	Total	Level 1	Level 2	Level 3	Nine Months Ended September 30, 2013 (in thousands)
Balance at September 30, 2013					
Equipment held for sale	\$ 31,506	\$ —	\$ 29,839	\$ 1,667	\$ (6,268)
Total	\$ 31,506	\$ —	\$ 29,839	\$ 1,667	\$ (6,268)

	Assets at Fair Value (in thousands)				Total Losses
	Total	Level 1	Level 2	Level 3	Twelve Months Ended December 31, 2012 (in thousands)
Balance at December 31, 2012					
Equipment held for sale	\$ 23,607	\$ —	\$ 23,384	\$ 223	\$ (5,874)
Total	\$ 23,607	\$ —	\$ 23,384	\$ 223	\$ (5,874)

At September 30, 2013, 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 certain engines that were held as inventory not consigned to third parties. The fair values of the assets held for sale categorized as Level 3 were based on management's estimate considering projected future sales proceeds at September 30, 2013 and December 31, 2012. An impairment charge is recorded when the carrying value of the asset exceeds its fair value. An asset write-down of \$3.5 million was recorded in the nine months ended September 30, 2013 based on a comparison of the asset net book values with the proceeds expected from the sale of engines. A further asset write-down of \$2.8 million was recorded in the nine months ended September 30, 2013, 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. An asset write-down of \$4.7 million was recorded in the twelve months ended December 31, 2012 based on a comparison of the asset net book values with the proceeds expected from the sale of engines. A further asset write-down of \$1.2 million was recorded in the twelve months ended December 31, 2012, 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.

## **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 our estimates, including those related to residual values, estimated asset lives, impairments and bad debts. We base our 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 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 covers approximately 20,534 square feet of office space and expires September 30, 2018. The remaining lease rental commitment is approximately \$2.7 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 at San Diego, California. This lease expires October 31, 2013 and the remaining lease commitment is approximately \$12,000. We also lease office and warehouse space in Shanghai, China. The office lease expires December 31, 2013 and the warehouse lease expires July 31, 2017 and the remaining lease commitments are approximately \$16,200 and \$27,300, respectively. We also lease office space in London, United Kingdom. The lease expires December 21, 2015 and the remaining lease commitment is approximately \$0.2 million. We also lease office space in Blagnac, France. The lease expires December 31, 2013 and the remaining lease commitment is approximately \$4,400. We lease office space in Dublin, Ireland. The lease expires May 15, 2017 and the remaining lease commitment is approximately \$0.2 million.

We have made purchase commitments to secure the purchase of four engines and related equipment for a gross purchase price of \$39.3 million, for delivery in 2013 to 2015. As of September 30, 2013, non-refundable deposits paid related to these purchase commitments were \$1.4 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 outstanding purchase orders with CFM for three engines represent deferral of engine deliveries originally scheduled for 2009 and are included in our commitments to purchase in 2013 to 2015.

## **4. Investments**

On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company, Willis Mitsui & Company Engine Support Limited (“WMES”) for the purpose of acquiring and leasing jet engines. Each partner holds a fifty percent interest in the joint venture. The initial capital contribution by the Company for its investment in WMES was \$8.0 million. The Company provided the initial lease portfolio by transferring 7 engines to the joint venture in June 2011. In addition, the Company made \$1.0 million, \$5.6 million and \$6.1 million capital contributions to WMES in the years ended December 31, 2011, 2012 and the nine months ended September 30, 2013, respectively, for the purchase of 16 engines from third parties, increasing the number of engines in the lease portfolio to 23. Mitsui & Co., Ltd. contributed equally the capital contribution to support all of these purchases. The \$20.7 million of capital contributions has been partially offset by \$3.6 million, resulting in a net investment of \$17.1 million, which has increased to \$18.1 million as a result of the Company’s share of WMES reported earnings to date. The \$3.6 million reduction in investment represents 50% of the \$7.2 million gain related to the sale by the Company of the 7 engines to WMES.

WMES has a loan agreement with JA Mitsui Leasing, Ltd. which provides a credit facility of up to \$180.0 million to support the funding of future engine acquisitions. Funds available under the loan agreement have been extended through March 31, 2014. WMES also established a separate credit facility for \$8.0 million to fund the purchase of an engine, which is repayable over the 7 year term of the facility. Our investment in the joint venture is \$18.1 million and \$11.8 million as of September 30, 2013 and December 31, 2012, respectively.

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Prior to September 18, 2013, we held 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 one-month LIBOR plus 1.0% to 2.5% and matured in May 2013. Two of the term notes were paid off in May 2013 and the remaining two term notes totaling \$36.0 million were amended and extended, with a maturity date of May 2017 and interest payable at one-month LIBOR plus 4.0%. At June 30, 2013, the return of both aircraft from the prior lessee, Emirates, had been completed. As part of the lease return process, upon termination of the aircraft leases, Emirates made maintenance reserve payments totaling \$9.0 million, which was recorded by WOLF as maintenance reserve revenue in the period ended June 30, 2013. The airframes are being disassembled and parted out and the eight engines are being marketed for lease separately to airline customers.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF for a purchase price of \$1.0 million, with the purchase price representing a \$12.7 million discount from the JV partner’s equity interest. The transaction is being accounted for as an asset acquisition. We recorded the assets at the cost basis, which represents the allocation of our prior investment basis plus the cash paid to the third party investor.

The purchase price was allocated to the eight aircraft engines and two airframes. The fair value of the net assets acquired from this transaction is estimated to be \$12.6 million, which comprised of \$27.0 million of equipment, \$1.6 million of cash and receivables, offset by \$16.0 million of debt and other liabilities. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF balance sheet and the results of operations related to the WOLF assets have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013.

<u>Nine Months Ended September 30, 2013 (in thousands)</u>	<u>WOLF</u>	<u>WMES</u>	<u>Total</u>
Investment in joint ventures as of December 31, 2012	\$ 10,065	\$ 11,766	\$ 21,831
Capital contribution	—	6,145	6,145
Earnings from joint ventures	3,025	161	3,186
Distribution	—	—	—
Transfer to consolidated subsidiary	(13,090)	—	(13,090)
Investment in joint ventures as of September 30, 2013	<u>\$ —</u>	<u>\$ 18,072</u>	<u>\$ 18,072</u>

## 5. Long Term Debt

At September 30, 2013, notes payable consists of loans totaling \$744.3 million, payable over periods of approximately four months to nine years with interest rates varying between approximately 3.2% and 5.5% (excluding the effect of our interest rate derivative instruments).

Our significant debt instruments are discussed below:

At September 30, 2013, we had a \$450.0 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 18, 2011 and the proceeds of the facility, net of \$3.3 million in debt issuance costs, was used to pay off the balance remaining from our prior revolving facility. On June 18, 2013, we increased this revolving credit facility to \$450.0 million from \$430.0 million. As of September 30, 2013 and December 31, 2012, \$138.0 million and \$148.0 million was available under this facility, respectively. The revolving credit facility ends in November 2016. Based on the Company’s debt to equity ratio of 3.80, as calculated under the terms of the revolving credit facility at June 30, 2013, the interest rate on this facility is LIBOR plus 3.00% as of September 30, 2013. Under the revolving credit facility, all subsidiaries except WEST II and WOLF jointly and severally guarantee payment and performance of the terms of the loan agreement. The guarantee would be triggered by a default under the agreement.

On September 17, 2012, we closed an asset-backed securitization (“ABS”) through a newly-created, bankruptcy-remote, Delaware statutory trust, Willis Engine Securitization Trust II, or “WEST II”, of which the Company is the sole beneficiary. WEST II issued and sold \$390 million aggregate principal amount of Class 2012-A Term Notes (the “Notes”) and received \$384.9 million in net proceeds. We used these funds, net of transaction expenses and swap termination costs, in combination with our revolving credit facility, to pay off the prior WEST notes totaling \$435.9 million. At closing, 22 engines were pledged as collateral from WEST to the Company’s revolving credit facility, which provided the remaining funds to pay off the WEST notes.

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The assets and liabilities of WEST II will remain on the Company's balance sheet. A portfolio of 79 commercial jet aircraft engines and leases thereof secures the obligations of WEST II under the ABS. The Notes have no fixed amortization and are payable solely from revenue received by WEST II from the engines and the engine leases, after payment of certain expenses of WEST II. The Notes bear interest at a fixed rate of 5.50% per annum. The Notes may be accelerated upon the occurrence of certain events, including the failure to pay interest for five business days after the due date thereof. The Notes are expected to be paid 10 years from the issuance date by September 17, 2022. The legal final maturity of the Notes is September 15, 2037.

In connection with the transactions described above, effective September 17, 2012, the Servicing Agreement and Administrative Agency Agreement previously filed by the Company as exhibits to, and described in, its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 relating to WEST were terminated. The Company entered into a Servicing Agreement and Administrative Agency Agreement with WEST II to provide certain engine, lease management and reporting functions for WEST II in return for fees based on a percentage of collected lease revenues and asset sales. Because WEST II is consolidated for financial statement reporting purposes, all fees eliminate upon consolidation.

At September 30, 2013 and December 31, 2012, \$375.0 million and \$386.7 million of WEST II term notes were outstanding, respectively. The assets of WEST II are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II's ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II's maintenance of adequate reserves and capital. Under WEST II, 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 the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of \$9.0 million.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF, with the transaction being accounted for as an asset acquisition. With this acquisition, WOLF is consolidated for financial statement presentation purposes. Two term notes with an original principal amount of \$36.0 million, with a current balance outstanding of \$31.5 million as of September 30, 2013, are included in Notes payable. The two term notes are non-recourse to the Company, have a maturity date of May 2017 and interest is payable at one-month LIBOR plus 4.0%.

The assets of WOLF are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WOLF. WOLF's ability to make distributions to the Company is subject to the prior payments of all of its debt and other obligations. Under WOLF, cash related to parts sale and leasing of engine assets is collected in a restricted account and used to pay certain operating expenses, service the debt, and upon full debt repayment are distributed to the Company.

On September 28, 2012, we closed on a loan for a five year term totaling \$8.7 million. Interest is payable monthly at a fixed rate of 5.50% and principal is paid quarterly. The loan is secured by one engine. The funds were used to purchase the engine secured under the loan. The balance outstanding on this loan is \$8.3 million and \$8.6 million as of September 30, 2013 and December 31, 2012, respectively.

On September 30, 2011, we closed on a loan for a three year term totaling \$4.0 million. Interest is payable at a fixed rate of 3.94% and principal and interest is paid monthly. The loan is secured by our corporate aircraft. The funds were used to refinance the loan for our corporate aircraft. The balance outstanding on this loan is \$1.3 million and \$2.3 million as of September 30, 2013 and December 31, 2012, respectively.

On January 11, 2010, we closed on a loan for a four year term totaling \$22.0 million, the proceeds of which were used to pay down our revolving credit facility. Interest is payable at a fixed rate of 4.50% and principal and interest is paid quarterly. The loan is secured by three engines. The balance outstanding on this loan is \$16.2 million and \$17.3 million as of September 30, 2013 and December 31, 2012, respectively.

Virtually all of the debt instruments above have covenant requirements 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, 2013.

At September 30, 2013, we are in compliance with the covenants specified in the revolving credit facility Credit Agreement, including the Interest Coverage Ratio requirement of at least 2.50 to 1.00, and the Total Leverage Ratio requirement to remain below 4.75 to 1.00. At September 30, 2013, the Company's calculated Minimum Consolidated Tangible Net Worth exceeded the minimum required amount of \$191.1 million. As defined in the revolving credit facility Credit Agreement, the Interest Coverage Ratio is the ratio of Earnings before Interest, Taxes, Depreciation and Amortization and other one-time charges (EBITDA) to Consolidated Interest Expense and the Total Leverage Ratio is the ratio of Total Indebtedness to Tangible Net Worth. At September 30, 2013, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

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At September 30, 2013 and 2012, one-month LIBOR was 0.18% and 0.21%, respectively.

The following is a summary of the aggregate maturities of notes payable at September 30, 2013:

Year	(in thousands)
2013	\$ 11,186
2014	42,023
2015	32,934
2016 (includes \$312.0 million outstanding on revolving credit facility)	338,215
2017	32,873
Thereafter	287,069
	<u>\$ 744,300</u>

**6. Derivative Instruments**

We hold interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with \$343.5 million and \$282.0 million of our borrowings at September 30, 2013 and December 31, 2012, respectively, at variable rates. As a matter of policy, we do not use derivatives for speculative purposes. At September 30, 2013 and December 31, 2012, under our revolving credit facility, we were a party to one interest rate swap agreement with a notional outstanding amount of \$100.0 million with a fixed rate of 2.10% and a remaining term of two months as of September 30, 2013. The net fair value of the swap at September 30, 2013 and December 31, 2012 was negative \$0.3 million and negative \$1.7 million, respectively, representing a net liability for us. The amount represents the estimated amount we would be required to pay if we terminated the swap.

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and, as of September 30, 2013, has used creditworthiness inputs that can be corroborated by observable market data evaluating 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.

Based on the implied forward rate for LIBOR at September 30, 2013, we anticipate that net finance costs will be increased by approximately \$0.3 million for the 12 months ending September 30, 2014 due to the interest rate derivative contract currently in place.

**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, 2013	December 31, 2012
		(in thousands)	
Interest rate contracts	Liabilities under derivative instruments	\$ 301	\$ 1,690

**Earnings Effects of Derivative Instruments on the Consolidated Statements of Income**

The following table provides information about the income effects of our cash flow hedging relationships for the three and nine months ended September 30, 2013 and 2012:

Derivatives in Cash Flow Hedging Relationships	Location of Loss Recognized on Derivatives in the Statements of Income	Amount of Loss Recognized on Derivatives in the Statements of Income	
		Three Months Ended September 30,	
		2013	2012
		(in thousands)	
Interest rate contracts	Interest expense	\$ 390	\$ 1,810
Reclassification adjustment for losses included in termination of derivative instruments	Loss on debt extinguishment and derivative termination	\$ —	\$ 10,143
<b>Total</b>		<b>\$ 390</b>	<b>\$ 11,953</b>

Derivatives in Cash Flow Hedging Relationships	Location of Loss Recognized on Derivatives in the Statements of Income	Amount of Loss Recognized on Derivatives in the Statements of Income	
		Nine Months Ended September 30,	
		2013	2012
		(in thousands)	
Interest rate contracts	Interest expense	\$ 1,149	\$ 6,026
Reclassification adjustment for losses included in termination of derivative instruments	Loss on debt extinguishment and derivative termination	\$ —	\$ 10,143
<b>Total</b>		<b>\$ 1,149</b>	<b>\$ 16,169</b>

Our derivatives are designated in a cash flow hedging relationship with the effective portion of the change in fair value of the derivative reported in the cash flow hedges subaccount of accumulated other comprehensive income.

**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, 2013 and 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion) Three Months Ended September 30,		Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended September 30,	
	2013	2012		2013	2012
	(in thousands)			(in thousands)	
Interest rate contracts*	\$ (480)	\$ (1,191)	Interest expense	\$ (390)	\$ (1,810)
Total	\$ (480)	\$ (1,191)	Total	\$ (390)	\$ (1,810)

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion) Nine Months Ended September 30,		Location of Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss Reclassified from Accumulated OCI into Income (Effective Portion) Nine Months Ended September 30,	
	2013	2012		2013	2012
	(in thousands)			(in thousands)	
Interest rate contracts**	\$ (1,389)	\$ 83	Interest expense	\$ (1,149)	\$ (6,026)
Total	\$ (1,389)	\$ 83	Total	\$ (1,149)	\$ (6,026)

\* These amounts are shown net of \$0.5 million and \$1.9 million of other comprehensive income reclassified to the income statement during the three months ended September 30, 2013 and 2012, respectively.

\*\* These amounts are shown net of \$1.4 million and \$6.2 million of other comprehensive income reclassified to the income statement during the nine months ended September 30, 2013 and 2012, respectively.

The effective portion of the change in fair value on a derivative instrument designated as a cash flow hedge is reported as a component of accumulated other comprehensive income and is reclassified into earnings in the period during which the transaction being hedged affects earnings or it is probable that the forecasted transaction will not occur. The ineffective portion of the hedges is recorded in earnings in the current period. However, these are highly effective hedges and no significant ineffectiveness occurred in either period presented.

**Counterparty Credit Risk**

The Company evaluates the creditworthiness of the counterparties under its hedging agreements. The swap counterparty for the interest rate swap in place at September 30, 2013 is a large financial institution in the United States that possesses an investment grade credit rating. Based on this rating, the Company believes that the counterparty is currently creditworthy and that their continuing performance under the hedging agreement is probable, and has not required the counterparty to provide collateral or other security to the Company.

## 7. Stock-Based Compensation Plans

Our 2007 Stock Incentive Plan (the 2007 Plan) was adopted on May 24, 2007. Under this 2007 Plan, a total of 2,000,000 shares are authorized for stock based compensation in the form of either restricted stock or stock options. There have been 1,781,858 shares of restricted stock awarded to date, net of cancellations. The fair value of the restricted stock awards equaled the stock price at the date of grants. The following table summarizes restricted stock activity during the years ended December 31, 2011, December 31, 2012 and the nine months ended September 30, 2013:

	<u>Shares</u>
Restricted stock at December 31, 2010	575,791
Granted in 2011 (vesting over 4 years)	324,924
Granted in 2011 (vesting on first anniversary from date of issuance)	22,100
Cancelled in 2011	(27,477)
Vested in 2011	<u>(244,044)</u>
Restricted stock at December 31, 2011	651,294
Granted in 2012 (vesting over 4 years)	283,000
Granted in 2012 (vesting on first anniversary from date of issuance)	28,040
Cancelled in 2012	(8,988)
Vested in 2012	<u>(270,692)</u>
Restricted stock at December 31, 2012	682,654
Granted in 2013 (vesting over 4 years)	130,000
Granted in 2013 (vesting on first anniversary from date of issuance)	21,408
Cancelled in 2013	(28,198)
Vested in 2013	<u>(179,616)</u>
Restricted Stock at September 30, 2013	<u><u>626,248</u></u>

All cancelled shares have reverted to the share reserve and are available for issuance at a later date, in accordance with the 2007 Plan.

Our accounting policy is to recognize the associated expense of such awards on a straight-line basis over the vesting period. Approximately \$2.5 million and \$2.3 million in stock compensation expense were recorded in the nine months ended September 30, 2013 and September 30, 2012, respectively. The stock compensation expense related to the restricted stock awards will be recognized over the average remaining vesting period of 2.25 years and totals \$6.7 million at September 30, 2013 compared to 2.3 years and totaling \$6.5 million at September 30, 2012. At September 30, 2013, the intrinsic value of unvested restricted stock awards issued through September 30, 2013 is \$9.9 million. At September 30, 2012, the intrinsic value of unvested restricted stock awards issued through September 30, 2012 was \$7.8 million. The 2007 Plan terminates on May 24, 2017.

In the nine months ended September 30, 2013, 44,991 options under the 1996 Stock Options/Stock Issuance Plan (the 1996 Plan) were exercised and 6,500 options were canceled. As of September 30, 2013, there are 85,437 stock options remaining under the 1996 Plan which have an intrinsic value of \$0.5 million. In the nine months ended September 30, 2012, 232,314 options under the 1996 Plan were exercised. As of September 30, 2012, there were 211,267 stock options remaining under the 1996 Plan having an intrinsic value of \$0.9 million.

## 8. Income Taxes

Income tax expense (benefit) for the nine months ended September 30, 2013 and 2012 was (\$8.2 million) and \$0.4 million, respectively. The effective tax rate for the nine months ended September 30, 2013 and 2012 was 43.6% and 149.4%, respectively. The effective rate for the nine months ended September 30, 2013 differs from the U.S. federal statutory rate primarily due to an income tax benefit of \$8.6 million related to an extraterritorial income ("ETI") adjustment recorded in the second quarter period for certain of our engines. We recognized this income tax benefit in the current period resulting from adjustments made to the tax basis of certain of our engines due to a decision in a recent court case on behalf of another company in which our circumstances are similar. The Company records tax expense or benefit for unusual or infrequent items discretely in the period in which they occur. The effective tax rate for the nine months ended September 30, 2012 differs from the U.S. federal statutory rate primarily due to our loss on debt extinguishment and derivatives termination resulted in a \$5.3 million tax benefit in the period, significantly reducing our effective tax rate in the third quarter a year ago. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California, the amount of executive compensation exceeding \$1.0 million as defined in IRS code 162(m) and numerous other factors, including changes in tax law.

## 9. Related Party and Similar Transactions

**J.T. Power:** The Company entered into two Consignment Agreements dated January 22, 2008 and November 17, 2008, with J.T. Power, LLC ("J.T. Power"), an entity whose sole shareholder, Austin Willis, is the son of our Chief Executive Officer, and directly and indirectly, a shareholder and a Director of the Company. According to the terms of the Consignment Agreement, J.T. Power was responsible to market and sell parts from the teardown of four engines with a book value of \$5.2 million. During the nine months ended September 30, 2013 and September 30, 2012, sales of consigned parts were \$19,900 and \$14,700, respectively. Under these agreements, J.T. Power provided a minimum guarantee of net consignment proceeds of \$4.0 million as of February 22, 2012. Based on current consignment proceeds, J.T. Power was obligated to pay \$1.3 million under the guarantee in February 2012. On March 7, 2012, this guarantee was restructured as follows - quarterly payments of \$45,000 over five years at an interest rate of 6% with a balloon payment at the end of this five year term. The Agreement provides an option to skip one quarterly payment and apply it to the balloon payment at an interest rate of 12%. As of September 30, 2013, J.T. Power is current and the principal amount owing under the note is \$1.1 million.



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On July 31, 2009, the Company entered into Consignment Agreements with J.T. Power, without guaranties of consignment proceeds, in which they are responsible to market and sell parts from the teardown of one engine with a book value of \$23,000. During the nine months ended September 30, 2013 and September 30, 2012, sales of consigned parts were \$1,700 and \$54,200, respectively.

On July 27, 2006, the Company entered into an Aircraft Engine Agency Agreement with J.T. Power, in which the Company will, on a non-exclusive basis, provide engine lease opportunities with respect to available spare engines at J.T. Power. J.T. Power will pay the Company a fee based on a percentage of the rent collected by J.T. Power for the duration of the lease including renewals thereof. The Company earned no revenue during the nine months ended September 30, 2013 and September 30, 2012 under this program.

On November 6, 2013, the Company entered into an Asset Purchase Agreement for the purchase of certain assets of J.T. Power for \$5.9 million. A net cash payment of \$4.5 million was made to fund the transaction, after deducting amounts owed to the Company, including \$1.1 million related to the minimum guarantee related to an existing consignment program. Of the \$4.5 million cash payment, \$1.2 million was paid to various creditors and \$3.3 million was paid to the shareholders of J.T. Power.

### **10. Fair Value of Financial Instruments**

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, operating lease related receivable and accounts payable approximates fair value because of the immediate or short-term maturity of these financial instruments.

The carrying amount of the Company's outstanding balance on its Notes Payable as of September 30, 2013 and December 31, 2012 was estimated to have a fair value of approximately \$761.0 million and \$697.3 million, respectively, based on the fair value of estimated future payments calculated using the prevailing interest rates at each period end. There have been no changes in our valuation technique during the nine months ended September 30, 2013. The fair value of the Company's notes payable at September 30, 2013 would be categorized as Level 3 of the fair value hierarchy. The carrying value of the Company's outstanding balance on its notes payable was \$744.3 million as of September 30, 2013 and \$697.0 million as of December 31, 2012.

### **11. Subsequent Events**

Management has reviewed and evaluated subsequent events through the date that the financial statements were issued. On November 6, 2013, the Company entered into an Asset Purchase Agreement for the purchase of certain assets of J.T. Power for \$5.9 million. A net cash payment of \$4.5 million was made to fund the transaction, after deducting amounts owed to the Company, including \$1.1 million related to the minimum guarantee related to an existing consignment program. Of the \$4.5 million cash payment, \$1.2 million was paid to various creditors and \$3.3 million was paid to the shareholders of J.T. Power.

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

### **Overview**

Our core business is acquiring and leasing, primarily pursuant to operating leases, commercial aircraft engines and related aircraft equipment; and the selective purchase and sale of commercial aircraft engines (collectively "equipment").

### **Critical Accounting Policies and Estimates**

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates included in our 2012 Form 10-K/A.

### **Results of Operations**

#### ***Three months ended September 30, 2013, compared to the three months ended September 30, 2012:***

*Lease Rent Revenue.* Lease rent revenue for the three months ended September 30, 2013 increased 12.0% to \$25.8 million from \$23.0 million for the comparable period in 2012. This increase primarily reflects an increase in the size of the lease portfolio, which translated into a higher amount of equipment on lease. The aggregate of net book value of lease equipment at September 30, 2013 and 2012 was \$1,015.6 million and \$976.6 million, respectively, an increase of 4.0%. The average utilization for the three months ended September 30, 2013 and 2012 was 84% and 82%, respectively. At September 30, 2013 and 2012, respectively, approximately 85% and 83% of equipment held for lease by book value was on-lease.

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During the three months ended September 30, 2013, we added \$39.0 million of equipment and capitalized costs to the lease portfolio. During the three months ended September 30, 2012, we added \$25.0 million of equipment and capitalized costs to the lease portfolio.

*Maintenance Reserve Revenue.* Our maintenance reserve revenue for the three months ended September 30, 2013 decreased 16.5% to \$8.9 million from \$10.7 million for the comparable period in 2012. The decrease was due to lower maintenance reserve revenues recognized related to the termination of long term leases in the three months ended September 30, 2013 than in the year ago period.

*Gain on Sale of Leased Equipment.* During the three months ended September 30, 2013, we sold eight engines, three aircraft and other related equipment generating a net gain of \$2.0 million. Included in the sales activity for the current period is the sale of 3 aircraft and 4 engines to Hawaii Island Air. Prior to the sale, 2 aircraft and 4 engines were leased to Hawaii Island Air under a finance lease. The third aircraft was leased to Hawaii Island Air under an operating lease. Net proceeds of \$4.9 million were received for the assets, which had an aggregate net book value of \$3.4 million. The \$4.9 million proceeds were included in revenue as follows: Gain on Sale \$0.8 million (net of the asset's \$3.4 million net book value), Maintenance Reserve Revenue \$0.4 million and Other Revenue \$0.3 million. In addition, as a result of the sale of assets to Hawaii Island Air, Lease Rent Revenue of \$0.4 million was recorded in the current period that was previously deferred. During the three months ended September 30, 2012, we sold three engines, an airframe and other related equipment generating a net gain of \$0.6 million.

*Other Revenue.* Our other revenue generally consists of management fee income and lease administration fees. Other revenue decreased to \$1.3 million from \$3.3 million for the comparable period in 2012 due to the recording in the year ago quarter of a gain of \$2.0 million related to the receipt of an engine in exchange for an engine that was damaged while under lease.

*Depreciation Expense.* Depreciation expense increased 13.5% to \$15.8 million for the three months ended September 30, 2013 from \$13.9 million in the comparable period in 2012, due to growth in the lease portfolio and changes in estimates of useful lives and residual values on certain older engine types. As of July 1, 2013, we adjusted the depreciation for certain older engine types in our lease portfolio. It is our policy to review estimates regularly to reflect the cost of equipment over the useful life of these engines. The 2013 change in depreciation estimate resulted in a \$2.0 million increase in depreciation for the three months ended September 30, 2013. The net effect of the 2013 change in depreciation estimate is a reduction in net income of \$1.3 million or \$0.15 in diluted earnings per share for the three months ended September 30, 2013 over what net income would have otherwise been had the change in depreciation estimate not been made.

*Write-down of Equipment.* Write-down of equipment to its estimated fair value totaled \$4.3 million and \$2.5 million in the three months ended September 30, 2013 and 2012, respectively. A write-down of \$2.6 million was recorded in the three months ended September 30, 2013 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed. A further write-down of \$1.7 million was recorded in the three months ended September 30, 2013 due to a management decision to consign two engines for part out and sale. A write-down of \$1.2 million was recorded in the three months ended September 30, 2012 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed. A further write-down of \$1.3 million was recorded in the three months ended September 30, 2012 due to a management decision to consign three engines for part out and sale.

*General and Administrative Expenses.* General and administrative expenses decreased 6.9% to \$6.8 million for the three months ended September 30, 2013, from \$7.3 million in the comparable period in 2012, due primarily to a decrease in employee bonus related to the Company's financial results.

*Technical Expense.* Technical expenses consist of the cost of engine repairs, engine thrust rental fees, outsourced technical support services, engine storage and freight costs. These expenses increased to \$4.5 million for the three months ended September 30, 2013, from \$2.0 million in the comparable period in 2012 due primarily to a \$2.8 million increase in engine maintenance costs related to higher repair activity in the current period.

*Net Finance Costs.* Net finance costs include interest expense and interest income. Interest expense increased 31.6% to \$9.9 million for the three months ended September 30, 2013, from \$7.5 million in the comparable period in 2012, due primarily to an increase in the average debt outstanding and an increase in the cost of WEST II debt. Notes payable balance at September 30, 2013 and 2012, was \$744.3 million and \$690.0 million, respectively, an increase of 7.9%. As of September 30, 2013, \$343.5 million of our debt is tied to one-month U.S. dollar LIBOR which decreased from an average of 0.23% for the three months ended September 30, 2012 to an average of 0.18% for the three months ended September 30, 2013 (average of month-end rates). As of September 30, 2013 and 2012, one-month LIBOR was 0.18% and 0.21%, respectively.

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To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of September 30, 2013, such swap agreements had notional outstanding amounts of \$100.0 million with a remaining term of two months and a fixed rate of 2.10%. As of September 30, 2012, such swap agreements had notional outstanding amounts of \$100.0 million, with a remaining term of fourteen months and a fixed rate of 2.10%. In the three months ended September 30, 2013 and 2012, \$0.4 million and \$1.8 million was realized on the statement of income as an increase in interest expense, respectively, as a result of these swaps.

Interest income for the three months ended September 30, 2013, decreased to \$0 from \$0.02 million for the three months ended September 30, 2012, due to a decrease in deposit balances and a drop in the rate of interest earned on deposit balances.

*Income Tax Expense.* Income tax expense (benefit) for the three months ended September 30, 2013 and 2012 was (\$1.4 million) and (\$3.5 million), respectively. The effective tax rate for the three months ended September 30, 2013 and 2012 was 38.3% and 32.6%, respectively. The Company records tax expense or benefit for unusual or infrequent items discretely in the period in which they occur. Our loss on debt extinguishment and derivatives termination recorded in the three months ended September 30, 2012 resulted in a \$5.3 million tax benefit, significantly reducing the effective tax rate in the period. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California, the amount of executive compensation exceeding \$1.0 million as defined in IRS code 162(m) and numerous other factors, including changes in tax law.

### ***Nine months ended September 30, 2013, compared to the nine months ended September 30, 2012:***

*Lease Rent Revenue.* Lease rent revenue for the nine months ended September 30, 2013 increased 5.8% to \$75.0 million from \$70.9 million for the comparable period in 2012. This increase primarily reflects an increase in the size of the lease portfolio, which translated into a higher amount of equipment on lease. The aggregate net book value of lease equipment at September 30, 2013 and 2012 was \$1,015.6 million and \$976.6 million, respectively, an increase of 4.0%. The average utilization for the nine month periods ended September 30, 2013 and 2012 was 83% and 82%, respectively. At September 30, 2013 and 2012, approximately 85% and 83%, respectively, of equipment held for lease by book value was on-lease.

During the nine months ended September 30, 2013, we added \$131.2 million of equipment and capitalized costs to the lease portfolio. During the nine months ended September 30, 2012, we added \$49.4 million of equipment and capitalized costs to the lease portfolio.

*Maintenance Reserve Revenue.* Our maintenance reserve revenue for the nine months ended September 30, 2013 increased 4.3% to \$29.9 million from \$28.7 million for the comparable period in 2012, primarily as a result of higher maintenance reserve revenues recognized related to the termination of long term leases in the current period compared to the year ago period.

*Gain on Sale of Leased Equipment.* During the nine months ended September 30, 2013, we sold sixteen engines, three aircraft and other related equipment generating a net gain of \$3.6 million. During the nine months ended September 30, 2012, we sold twelve engines, one aircraft, one airframe and other related equipment generating a net gain of \$4.6 million.

*Other Revenue.* Our other revenue consists primarily of management fee income and lease administration fees. Other revenue decreased to \$2.7 million from \$4.3 million for the comparable period in 2012 primarily due to the recording in the year ago quarter of a gain of \$2.0 million related to the receipt of an engine in exchange for an engine that was damaged while under lease. This was partially offset by an increase in fees earned related to engines managed on behalf of third parties, which increased in number from the year ago period.

*Depreciation Expense.* Depreciation expense increased 12.0% to \$43.6 million for the nine months ended September 30, 2013 from the comparable period in 2012, due to growth in the lease portfolio and changes in estimates of useful lives and residual values on certain older engine types.

*Write-down of Equipment.* Write-down of equipment to its estimated fair value totaled \$6.3 million and \$2.8 million in the nine months ended September 30, 2013 and 2012, respectively. A write-down of \$3.5 million was recorded in the nine months ended September 30, 2013 due to a management decision to consign three engines for part out and sale, in which the assets net book value exceeds the estimated proceeds from part-out. A further write-down of \$2.8 million was recorded in the nine months ended September 30, 2013 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed. A write-down of \$0.3 million was recorded in the nine months ended September 30, 2012 related to the sale of two engines for which the net book value exceeded the proceeds from sale. A write-down of \$1.3 million was recorded in the nine months ended September 30, 2012 due to a management decision to consign three engines for part out and sale in which the asset net book value exceeds the expected proceeds from consignment. A further write-down of \$1.2 million was recorded in the nine months ended September 30, 2012 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed.

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*General and Administrative Expenses.* General and administrative expenses decreased 4.2% to \$24.3 million for the nine months ended September 30, 2013, from the comparable period in 2012, due mainly to decreases in third party servicer fees (\$0.6 million), consulting fees (\$0.3 million), marketing representative fees (\$0.3 million) and corporate aircraft expenses (\$0.2 million), which was partially offset by increases in accounting and legal fees (\$0.5 million).

*Technical Expense.* Technical expenses consist of the cost of engine repairs, engine thrust rental fees, outsourced technical support services, sublease engine rental expense, engine storage and freight costs. These expenses increased by \$5.7 million to \$10.4 million for the nine months ended September 30, 2013, from \$4.7 million in the comparable period in 2012 due to increases in engine maintenance costs due to higher engine repair activity (\$5.0 million), third party technical service fees (\$0.3 million) and engine thrust rental fees due to an increase in the number of engines being operated at higher thrust levels under the CFM thrust rental program (\$0.3 million).

*Net Finance Costs.* Net finance costs include interest expense and interest income. Interest expense increased 28.3% to \$29.0 million for the nine months ended September 30, 2013, from the comparable period in 2012, due primarily to an increase in the average debt outstanding and an increase in the cost of WEST II debt. Notes payable balance at September 30, 2013 and 2012, was \$744.3 million and \$690.0 million, respectively, an increase of 7.9%. As of September 30, 2013, \$343.5 million of our debt is tied to one-month U.S. dollar LIBOR which decreased from an average of 0.24% for the nine months ended September 30, 2012 to an average of 0.19% for the nine months ended September 30, 2013 (average of month-end rates). At September 30, 2013 and 2012, one-month LIBOR was 0.18% and 0.21%, respectively.

To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of September 30, 2013, such swap agreements had notional outstanding amounts of \$100.0 million with a remaining term of two months and a fixed rate of 2.10%. As of September 30, 2012, such swap agreements had notional outstanding amounts of \$100.0 million, with a remaining term of fourteen months and a fixed rate of 2.10%. In the nine months ended September 30, 2013 and 2012, \$1.1 million and \$6.0 million was realized through the income statement as an increase in interest expense, respectively, as a result of these swaps.

Interest income for the nine months ended September 30, 2013, decreased to \$0 million from \$0.08 million for the nine months ended September 30, 2012, due to a decrease in deposit balances and a drop in the rate of interest earned on deposit balances.

*Income Tax Expense.* Income tax expense (benefit) for the nine months ended September 30, 2013 and 2012 was (\$8.2 million) and \$0.4 million, respectively. The effective tax rate for the nine months ended September 30, 2013 and 2012 was 43.6% and 149.4%, respectively. The effective rate for the nine months ended September 30, 2013 differs from the U.S. federal statutory rate primarily due to an income tax benefit of \$8.6 million related to an extraterritorial income (“ETI”) adjustment recorded in the period for certain of our engines. We recognized this income tax benefit in the current period resulting from adjustments made to the tax basis of certain of our engines due to a decision in a recent court case on behalf of another company in which our circumstances are similar. The effective tax rate for the nine months ended September 30, 2012 differs from the U.S. federal statutory rate primarily due to our loss on debt extinguishment and derivatives termination resulted in a \$5.3 million tax benefit in the period, significantly reducing our effective tax rate in the third quarter a year ago. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California, the amount of executive compensation exceeding \$1.0 million as defined in IRS code 162(m) and numerous other factors, including changes in tax law.

### **Recent Accounting Pronouncements**

In February 2013, the FASB issued Accounting Standards Update (“ASU”) 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements.

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In July 2013, the FASB issued Accounting Standards Update (“ASU”) 2013-11, “Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” which is part of Accounting Standards Codification (“ASC”) 740: Income Taxes. The new guidance requires an entity to present an unrecognized tax benefit and an NOL carryforward, a similar tax loss, or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. We are currently evaluating the impact of the January 1, 2014 adoption of this guidance on our financial statements.

### **Liquidity and Capital Resources**

We finance our growth through borrowings secured by our equipment lease portfolio. Cash of approximately \$72.0 million and \$537.7 million, in the nine-month periods ended September 30, 2013 and 2012, respectively, was derived from this activity. In these same time periods, \$56.2 million and \$567.9 million, respectively, was used to pay down related debt. Cash flow from operating activities was \$59.1 million and \$53.9 million in the nine-month periods ended September 30, 2013 and 2012, respectively.

At September 30, 2013, \$1.3 million in cash and cash equivalents and restricted cash were held in foreign subsidiaries. We do not intend to repatriate the funds held in foreign subsidiaries to the United States. In the event that we decide to repatriate these funds to the United States, we would be required to accrue and pay taxes upon the repatriation.

Our primary use of funds is for the purchase of equipment for lease. Purchases of equipment (including capitalized costs) totaled \$93.9 million and \$46.9 million for the nine-month periods ended September 30, 2013 and 2012, respectively.

On February 27, 2013, we entered into a transaction to purchase and lease back a total of 19 aircraft engines with SAS Group subsidiary Scandinavian Airlines (“SAS”) for \$119.5 million. We purchased 11 of the engines for \$63.0 million and our joint venture, Willis Mitsui & Company Engine Support Limited (“WMES”) purchased the remaining 8 engines for \$54.5 million. We funded our portion of this transaction with available funds from our revolving credit facility. As part of this transaction, we made a \$5.5 million capital contribution to WMES to support its purchase of the 8 SAS engines.

Cash flows from operations are driven significantly by payments received under our lease agreements, which comprise lease rent revenue, security deposits and maintenance reserves, and are offset by general and administrative expenses and interest expense. Note that cash received from maintenance reserve arrangements for some of our engines on lease are restricted per our WEST II debt agreement. Cash from WEST II engine maintenance reserve payments, that can be used to fund future maintenance events, are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of \$9.0 million. The lease rent revenue stream, in the short-term, is at fixed rates while part of our debt is at variable rates. If interest rates increase, it is unlikely we could increase lease rates in the short term and this would cause a reduction in our earnings. Lease rent revenue and maintenance reserves are also affected by the amount of equipment off lease. Approximately 85%, by book value, of our assets were on-lease at September 30, 2013 compared to 83% at September 30, 2012. The average utilization rate was 83% for the nine month period ended September 30, 2013 and 82% for the nine month period ended September 30, 2012. If there is any increase in off-lease rates or deterioration in lease rates that are not offset by reductions in interest rates, there will be a negative impact on earnings and cash flows from operations.

At September 30, 2013, Notes Payable consists of loans totaling \$744.3 million, payable over periods of approximately four months to nine years with interest rates varying between approximately 3.2% and 5.5% (excluding the effect of our interest rate derivative instruments).

Our significant debt instruments are discussed below:

At September 30, 2013, we had a \$450.0 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 18, 2011 and the proceeds of the new facility, net of \$3.3 million in debt issuance costs, was used to pay off the balance remaining from our prior revolving facility. On June 18, 2013, we increased this revolving credit facility to \$450.0 million from \$430.0 million. As of September 30, 2013 and December 31, 2012, \$138.0 million and \$148.0 million was available under this facility, respectively. The revolving credit facility ends in November 2016. Based on the Company’s debt to equity ratio of 3.80 as calculated under the terms of the revolving credit facility at June 30, 2013, the interest rate on this facility is LIBOR plus 3.00% as of September 30, 2013. Under the revolving credit facility, all subsidiaries except WEST II and WOLF jointly and severally guarantee payment and performance of the terms of the loan agreement. The guarantee would be triggered by a default under the agreement.

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On September 17, 2012, we closed an asset-backed securitization (“ABS”) through a newly-created, bankruptcy-remote, Delaware statutory trust, Willis Engine Securitization Trust II, or “WEST II”, of which the Company is the sole beneficiary. WEST II issued and sold \$390 million aggregate principal amount of Class 2012-A Term Notes (the “Notes”) and received \$384.9 million in net proceeds. We used these funds, net of transaction expenses and swap termination costs, in combination with our revolving credit facility, to pay off the prior WEST notes totaling \$435.9 million. At closing, 22 engines were pledged as collateral from WEST to the Company’s revolving credit facility, which provided the remaining funds to pay off the WEST notes.

The assets and liabilities of WEST II will remain on the Company’s balance sheet. A portfolio of 79 commercial jet aircraft engines and leases thereof secures the obligations of WEST II under the ABS. The Notes have no fixed amortization and are payable solely from revenue received by WEST II from the engines and the engine leases, after payment of certain expenses of WEST II. The Notes bear interest at a fixed rate of 5.50% per annum. The Notes may be accelerated upon the occurrence of certain events, including the failure to pay interest for five business days after the due date thereof. The Notes are expected to be paid 10 years from the issuance date by September 17, 2022. The legal final maturity of the Notes is September 15, 2037.

In connection with the transactions described above, effective September 17, 2012, the Servicing Agreement and Administrative Agency Agreement previously filed by the Company as exhibits to, and described in, its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 relating to WEST were terminated. The Company entered into a Servicing Agreement and Administrative Agency Agreement with WEST II to provide certain engine, lease management and reporting functions for WEST II in return for fees based on a percentage of collected lease revenues and asset sales. Because WEST II is consolidated for financial statement reporting purposes, all fees eliminate upon consolidation.

At September 30, 2013 and December 31, 2012, \$375.0 million and \$386.7 million of WEST II term notes were outstanding, respectively. The assets of WEST II are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II’s ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II’s maintenance of adequate reserves and capital. Under WEST II, 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 the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of \$9.0 million.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF, with the transaction being accounted for as an asset acquisition. With this acquisition, WOLF is consolidated for financial statement presentation purposes. Two term notes with an original principal amount of \$36.0 million, with a current balance outstanding of \$31.5 million as of September 30, 2013, are included in Notes payable. The two term notes are non-recourse, have a maturity date of May 2017 and interest is payable at one-month LIBOR plus 4.0%.

The assets of WOLF are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WOLF. WOLF’s ability to make distributions to the Company is subject to the prior payments of all of its debt and other obligations. Under WOLF, cash related to parts sales and leasing of engine assets is collected in a restricted account and used to pay certain operating expenses, service the debt, and upon full debt repayment are distributed to the Company.

We recorded the assets at the cost basis, which represents the allocation of our prior investment basis plus the cash paid to the third party investor. The purchase price was allocated to the eight aircraft engines and two airframes. The fair value of the net assets acquired from this transaction is estimated to be \$12.6 million, which comprised of \$27.4 million of equipment, \$1.6 million of cash and receivables, offset by \$16.0 million of debt and other liabilities. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF balance sheet and the results of operations related to the WOLF assets have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013.

On September 28, 2012, we closed on a loan for a five year term totaling \$8.7 million. Interest is payable monthly at a fixed rate of 5.50% and principal is paid quarterly. The loan is secured by one engine. The funds were used to purchase the engine secured under the loan. The balance outstanding on this loan is \$8.3 million and \$8.6 million as of September 30, 2013 and December 31, 2012, respectively.

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On September 30, 2011, we closed on a loan for a three year term totaling \$4.0 million. Interest is payable at a fixed rate of 3.94% and principal and interest is paid monthly. The loan is secured by our corporate aircraft. The funds were used to refinance the loan for our corporate aircraft. The balance outstanding on this loan is \$1.3 million and \$2.3 million as of September 30, 2013 and December 31, 2012, respectively.

On January 11, 2010, we closed on a loan for a four year term totaling \$22.0 million, the proceeds of which were used to pay down our revolving credit facility. Interest is payable at a fixed rate of 4.50% and principal and interest is paid quarterly. The loan is secured by three engines. The balance outstanding on this facility is \$16.2 million and \$17.3 million as of September 30, 2013 and December 31, 2012, respectively.

At September 30, 2013 and December 31, 2012, we had revolving credit facilities totaling \$450.0 million and \$430.0 million, respectively. At September 30, 2013, and December 31, 2012, respectively, \$138.0 million and \$148.0 million were available under these facilities.

As of September 30, 2013 and 2012, one-month LIBOR was 0.18% and 0.21%, respectively.

Virtually all of the above debt is subject to our ongoing compliance with the covenants of each financing, including debt/equity ratios, minimum tangible net worth and minimum interest coverage ratios, and other eligibility criteria including customer and geographic concentration restrictions. In addition, under these facilities, we can typically borrow 70% to 83% of an engine's net book value and approximately 70% of spare part's net book value. Therefore we must have other available funds for the balance of the purchase price of any new equipment to be purchased or we will not be permitted to draw on these facilities. The facilities are also cross-defaulted against other facilities. If we do not comply with the covenants or eligibility requirements, we may not be permitted to borrow additional funds and accelerated payments may become necessary. Additionally, much of the above debt is secured by engines to the extent that engines are sold, repayment of that portion of the debt could be required.

At September 30, 2013, we are in compliance with the covenants specified in the revolving credit facility Credit Agreement, including the Interest Coverage Ratio requirement of at least 2.50 to 1.00, and the Total Leverage Ratio requirement to remain below 4.75 to 1.00. At September 30, 2013, the Company's calculated Minimum Consolidated Tangible Net Worth exceeded the minimum required amount of \$191.1 million. As defined in the revolving credit facility Credit Agreement, the Interest Coverage Ratio is the ratio of Earnings before Interest, Taxes, Depreciation and Amortization and other one-time charges (EBITDA) to Consolidated Interest Expense and the Total Leverage Ratio is the ratio of Total Indebtedness to Tangible Net Worth. At September 30, 2013, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

Approximately \$45.1 million of our debt is repayable during the next 12 months. Such repayments consist of scheduled installments due under term loans. Repayments are funded by the use of unrestricted cash reserves and from cash flows from ongoing operations. The table below summarizes our contractual commitments at September 30, 2013:

	Total	Payment due by period (in thousands)			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	\$ 744,300	\$ 45,132	\$ 61,536	\$ 368,076	\$ 269,556
Interest payments under long-term debt obligations	176,353	32,158	60,423	34,899	48,873
Operating lease obligations	3,111	767	1,241	1,103	—
Purchase obligations	37,932	19,844	18,088	—	—
Interest payments under derivative rate instruments	308	308	—	—	—
Total	\$ 962,004	\$ 98,209	\$ 141,288	\$ 404,078	\$ 318,429

We have estimated the interest payments due under long-term debt by applying the interest rates applicable at September 30, 2013 to the remaining debt, adjusted for the estimated debt repayments identified in the table above. Actual interest payments made will vary due to changes in the rates for one-month LIBOR.

We have made purchase commitments to secure the purchase of four engines and related equipment for a gross purchase price of \$39.3 million for delivery in 2013 to 2015. Of the \$39.3 million of commitment, \$10.8 million is scheduled to be delivered by the end of 2013. As of September 30, 2013, non-refundable deposits paid related to this purchase commitment were \$1.4 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 outstanding purchase orders with CFM for three engines represent deferral of engine deliveries originally scheduled for 2009 and are included in our commitments to purchase in 2013 to 2015.

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Our principal offices are located in Novato, California. We occupy space in Novato under a lease that covers approximately 20,534 square feet of office space and expires September 30, 2018. The remaining lease rental commitment is approximately \$2.7 million. We also sub-lease office and warehouse space for our operations at San Diego, California. This lease expires October 31, 2013 and the remaining lease commitment is approximately \$12,000. We also lease office and warehouse space in Shanghai, China. The office lease expires December 31, 2013 and the warehouse lease expires July 31, 2017 and the remaining lease commitments are approximately \$16,200 and \$27,300, respectively. We also lease office space in London, United Kingdom. The lease expires December 21, 2015 and the remaining lease commitment is approximately \$0.2 million. We also lease office space in Blagnac, France. The lease expires December 31, 2013 and the remaining lease commitment is approximately \$4,400. We lease office space in Dublin, Ireland. The lease expires May 15, 2017 and the remaining lease commitment is approximately \$0.2 million.

We believe our equity base, internally generated funds and existing debt facilities are sufficient to maintain our level of operations for the next twelve months. A decline in the level of internally generated funds, such as could result if the amount of equipment off-lease increases or there is a decrease in availability under our existing debt facilities, would impair our ability to sustain our level of operations. We are discussing additions to our capital base with our commercial and investment banks. If we are not able to access additional capital, our ability to continue to grow our asset base consistent with historical trends will be impaired and our future growth limited to that which can be funded from internally generated capital.

### **Management of Interest Rate Exposure**

At September 30, 2013, \$343.5 million of our borrowings are on a variable rate basis at interest rates tied to one-month LIBOR. Our equipment leases are generally structured at fixed rental rates for specified terms. Increases in interest rates could narrow or result in a negative spread, between the lease rental revenue we realize under our leases and the interest rate that we pay under our borrowings. We have entered into interest rate derivative instruments to mitigate our exposure to interest rate risk and not to speculate or trade in these derivative products. We currently have one interest rate swap agreement which has a notional outstanding amount of \$100.0 million, with a remaining term of two months and a fixed rate of 2.10%. The fair value of the swap at September 30, 2013 was negative \$0.3 million, representing a net liability for us.

We record derivative instruments at fair value as either an asset or liability. We use derivative instruments (primarily interest rate swaps) to manage the risk of interest rate fluctuation. Currently all of our derivative transactions are entered into for the purposes described above. Hedge accounting is only applied where specific criteria have been met and it is practicable to do so. In order to apply hedge accounting, the transaction must be designated as a hedge and the hedge relationship must be highly effective. The hedging instrument's effectiveness is assessed utilizing regression analysis at the inception of the hedge and on at least a quarterly basis throughout its life. All of the transactions that we have designated as hedges are accounted for as cash flow hedges. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported as a component of other comprehensive income and is reclassified into earnings in the period during which the transaction being hedged affects earnings. The ineffective portion of these hedges flows through earnings in the current period. The hedge accounting for these derivative instrument arrangements increased interest expense by \$1.1 million and \$6.0 million for the nine months ended September 30, 2013 and September 30, 2012, respectively. This incremental cost for the swaps effective for hedge accounting was included in interest expense for the respective periods. For further information see Note 6 to the unaudited consolidated financial statements.

We will be exposed to risk in the event of non-performance of the interest rate derivative instrument counterparties. We anticipate that we may hedge additional amounts of our floating rate debt during the next year.

### **Related Party and Similar Transactions**

**J.T. Power:** The Company entered into two Consignment Agreements dated January 22, 2008 and November 17, 2008, with J.T. Power, LLC ("J.T. Power"), an entity whose sole shareholder, Austin Willis, is the son of our Chief Executive Officer, and directly and indirectly, a shareholder and a Director of the Company. According to the terms of the Consignment Agreement, J.T. Power was responsible to market and sell parts from the teardown of four engines with a book value of \$5.2 million. During the nine months ended September 30, 2013 and September 30, 2012, sales of consigned parts were \$19,900 and \$14,700, respectively. Under these agreements, J.T. Power provided a minimum guarantee of net consignment proceeds of \$4.0 million as of February 22, 2012. Based on current consignment proceeds, J.T. Power was obligated to pay \$1.3 million under the guarantee in February 2012. On March 7, 2012, this guarantee was restructured as follows - quarterly payments of \$45,000 over five years at an interest rate of 6% with a balloon payment at the end of this five year term. The Agreement provides an option to skip one quarterly payment and apply it to the balloon payment at an interest rate of 12%. As of September 30, 2013, J.T. Power is current and the principal amount owing under the note is \$1.1 million.



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On July 31, 2009, the Company entered into Consignment Agreements with J.T. Power, without guaranties of consignment proceeds, in which they are responsible to market and sell parts from the teardown of one engine with a book value of \$23,000. During the nine months ended September 30, 2013 and September 30, 2012, sales of consigned parts were \$1,700 and \$54,200, respectively.

On July 27, 2006, the Company entered into an Aircraft Engine Agency Agreement with J.T. Power, in which the Company will, on a non-exclusive basis, provide engine lease opportunities with respect to available spare engines at J.T. Power. J.T. Power will pay the Company a fee based on a percentage of the rent collected by J.T. Power for the duration of the lease including renewals thereof. The Company earned no revenue during the nine months ended September 30, 2013 and September 30, 2012 under this program.

On November 6, 2013, the Company entered into an Asset Purchase Agreement for the purchase of certain assets of J.T. Power for \$5.9 million. A net cash payment of \$4.5 million was made to fund the transaction, after deducting amounts owed to the Company, including \$1.1 million related to the minimum guarantee related to an existing consignment program. Of the \$4.5 million cash payment, \$1.2 million was paid to various creditors and \$3.3 million was paid to the shareholders of J.T. Power.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our primary market risk exposure is that of interest rate risk. A change in the LIBOR rates would affect our cost of borrowing. Increases in interest rates, which may cause us to raise the implicit rates charged to our customers, could result in a reduction in demand for our leases. Alternatively, we may price our leases based on market rates so as to keep the fleet on-lease and suffer a decrease in our operating margin due to interest costs that we are unable to pass on to our customers. As of September 30, 2013, \$343.5 million of our outstanding debt is variable rate debt. We estimate that for every one percent increase or decrease in interest rates on our variable rate debt (net of derivative instruments), annual interest expense would increase or decrease \$2.4 million (in 2012, \$1.7 million per annum).

We hedge a portion of our borrowings, effectively fixing the rate of these borrowings. This hedging activity helps protect us against reduced margins on longer term fixed rate leases. Based on the implied forward rates for one-month LIBOR, we expect interest expense will be increased by approximately \$1.9 million for the year ending December 31, 2013, as a result of our hedges. Such hedging activities may limit our ability to participate in the benefits of any decrease in interest rates, but may also protect us from increases in interest rates. Furthermore, since lease rates tend to vary with interest rate levels, it is possible that we can adjust lease rates for the effect of change in interest rates at the termination of leases. Other financial assets and liabilities are at fixed rates.

We are also exposed to currency devaluation risk. During the nine months ended September 30, 2013, 87% of our total lease revenues came from non-United States domiciled lessees. All of our leases require payment in U.S. dollars. If these lessees' currency devalues against the U.S. dollar, the lessees could potentially encounter difficulty in making their lease payments.

No customer accounted for more than 10% of total lease rent revenue during the nine months ended September 30, 2013. One customer accounted for approximately 10% of total lease rent revenue during the nine months ended September 30, 2012. No other customer accounted for greater than 10% of total lease rent revenue during the nine months ended September 30, 2012.

### **Item 4. Controls and Procedures**

(a) *Evaluation of disclosure controls and procedures.* Based on management's evaluation (with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and CFO have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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Inherent Limitations on Controls

Management, including the CEO and CFO, does not expect that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

(b) *Changes in internal control over financial reporting.* There has been no change in our internal control over financial reporting during our fiscal quarter ended September 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II — OTHER INFORMATION**

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) *None.*

(b) *None.*

(c) *Issuer Purchases of Equity Securities.* On September 27, 2012, the Company announced that its Board of Directors has authorized a plan to repurchase up to \$100.0 million of its common stock over the next 5 years. This plan extends the previous plan authorized on December 8, 2009, and increases the number of shares authorized for repurchase to up to \$100.0 million.

Common stock repurchases, under our authorized plan, in the nine months ended September 30, 2013 were as follows:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans</u>	<u>Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans</u>
		(in thousands, except per share data)		
January 1, 2013 - January 31, 2013	25	\$ 14.48	25	\$ 88,882
February 1, 2013 - February 28, 2013	—	\$ —	—	\$ 88,882
March 1, 2013 - March 31, 2013	—	\$ —	—	\$ 88,882
April 1, 2013 - April 30, 2013	—	\$ —	—	\$ 88,882
May 1, 2013 - May 31, 2013	—	\$ —	—	\$ 88,882
June 1, 2013 - June 30, 2013	—	\$ —	—	\$ 88,882
July 1, 2013 - July 31, 2013	—	\$ —	—	\$ 88,882
August 1, 2013 - August 31, 2013	120	\$ 14.72	120	\$ 87,220
September 1, 2013 - September 30, 2013	209	\$ 15.50	209	\$ 83,982
Total	<u>354</u>	<u>\$ 14.87</u>	<u>354</u>	<u>\$ 83,982</u>

**Item 5. Exhibits**

(a) *Exhibits.*

**EXHIBITS**

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation, dated March 12, 1998, as amended by the Certificate of Amendment of Certificate of Incorporation, dated May 6, 1998 (incorporated by reference to Exhibit 3.1 to our report on Form 10-K filed on March 31, 2009).
3.2	Bylaws, dated April 18, 2001 as amended by (1) Amendment to Bylaws, dated November 13, 2001, (2) Amendment to Bylaws, dated December 16, 2008, (3) Amendment to Bylaws, dated September 28, 2010, and (4) Amendment to Bylaws, dated August 5, 2013
4.1	Rights Agreement dated as of September 24, 1999, by and between the Company and American Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.1 to Form 8-K filed on October 4, 1999).
4.2	Second Amendment to Rights Agreement dated as of December 15, 2005, by and between the Company and American Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.5 to our report on Form 10-K filed on March 31, 2009).
4.3	Third Amendment to Rights Agreement dated as of September 30, 2008, by and between the Company and American Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.6 to our report on Form 10-K filed on March 31, 2009).
4.4	Form of Certificate of Designations of the Company with respect to the Series I Junior Participating Preferred Stock (formerly known as “Series A Junior Participating Preferred Stock”) (incorporated by reference to Exhibit 4.7 to our report on Form 10-K filed on March 31, 2009).
4.5	Form of Amendment No. 1 to Certificate of Designations of the Company with respect to Series I Junior Participating Preferred Stock (incorporated by reference to Exhibit 4.8 to our report on Form 10-K filed on March 31, 2009).

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- 10.1 Form of Indemnification Agreement entered into between the Company and its directors and officers (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 1, 2010).
- 10.2 1996 Stock Option/Stock Issuance Plan, as amended and restated as of March 1, 2003 (incorporated by reference to Exhibit 99.1 to Form S-8 filed on September 26, 2003).
- 10.3 2007 Stock Incentive Plan (incorporated by reference to the Company’s Proxy Statement for 2007 Annual Meeting of Stockholders filed on April 30, 2007).
- 10.4 Amended and Restated Employment Agreement between the Company and Charles F. Willis IV dated as of December 1, 2008 (incorporated by reference to Exhibit 10.1 to our report on Form 8-K filed on December 22, 2008).
- 10.5 Employment Agreement between the Company and Donald A. Nunemaker dated November 21, 2000 (incorporated by reference to Exhibit 10.3 to our report on Form 10-K filed on April 2, 2001).
- 10.6 Amendment to Employment Agreement between the Company and Donald A. Nunemaker dated December 31, 2008 (incorporated by reference to Exhibit 10.6 to our report on Form 10-Q filed on May 9, 2011).
- 10.7 Employment Agreement between the Company and Bradley S. Forsyth dated February 20, 2007 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on February 21, 2007).
- 10.8 Amendment to Employment Agreement between Company and Bradley S. Forsyth dated December 31, 2008 (incorporated by reference to Exhibit 10.10 to our report on Form 10-Q filed on May 9, 2011).
- 10.9 Employment Agreement between the Company and Dean M. Poulakidas dated March 31, 2013 (incorporated by reference to Exhibit 10.23 to our report on Form 8-K filed on June 19, 2013).
- 10.10 Employment Offer Letter to Paul D. “Dave” Johnson dated March 22, 2011 (incorporated by reference to Exhibit 10.22 to our report on Form 10-Q filed on May 7, 2013).
- 10.11 Loan and Aircraft Security Agreement dated September 30, 2012 between Banc of America Leasing & Capital, LLC and the Company (incorporated by reference to Exhibit 10.12 to our report on Form 10-Q filed on November 9, 2011).
- 10.12\* Amended and Restated Credit Agreement, dated as of November 18, 2011, among the Company, Union Bank, N.A., as administrative agent and security agent, and certain lenders and financial institutions named therein (incorporated by reference to Exhibit 10.31 to our report on Form 10-K filed on March 13, 2011).
- 10.13 Amendment No. 2 to Amended and Restated Credit Agreement, dated as of June 18, 2013, among the Company, Union Bank, N.A., and the Lenders party thereto (incorporated by reference to Exhibit 10.24 to our report on Form 10-Q filed on August 6, 2013).
- 10.14 Amendment No. 3 to Amended and Restated Credit Agreement, dated as of August 21, 2013, among the Company, Union Bank, N.A., and the Lenders party thereto (incorporated by reference to Exhibit 10.1 to our report on Form 8-K filed on August 26, 2013).
- 10.15\* Indenture dated as of September 14, 2012 among Willis Engine Securitization Trust II, Deutsche Bank Trust Company Americas, as trustee, the Company and Crédit Agricole Corporate and Investment Bank (incorporated by reference to Exhibit 10.14 to our report on Form 10-Q filed on November 9, 2012).
- 10.16\* Security Trust Agreement dated as of September 14, 2012 by and among Willis Engine Securitization Trust II, Willis Engine Securitization (Ireland) Limited, the Engine Trusts listed on Schedule V thereto, each of the additional grantors referred to therein and from time to time made a party thereto and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 10.15 to our report on Form 10-Q filed on November 9, 2012).
- 10.17\* Note Purchase Agreement dated as of September 6, 2012 by and among Willis Engine Securitization Trust II, the Company, Credit Agricole Securities (USA) Inc. and Goldman, Sachs & Co. (incorporated by reference to Exhibit 10.16 to our report on Form 10-Q filed on November 9, 2012).
- 10.18\* Servicing Agreement dated as of September 17, 2012 between Willis Engine Securitization Trust II, the Company and the entities listed on Appendix A thereto (incorporated by reference to Exhibit 10.17 to our report on Form 10-Q filed on November 9, 2012).
- 10.19\* Administrative Agency Agreement dated as of September 17, 2012 among Willis Engine Securitization Trust II, the Company, Deutsche Bank Trust Company Americas, as trustee, and the entities listed on Appendix A thereto (incorporated by reference to Exhibit 10.18 to our report on Form 10-Q filed on November 9, 2012).
- 11.1 Statement re Computation of Per Share Earnings.
- 21.1 Subsidiaries of the Company.
- 31.1 Certification of Charles F. Willis, IV, pursuant to Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Bradley S. Forsyth, pursuant to Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from the Company’s report on Form 10-Q for the quarter ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Shareholder’s Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

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\* Portions of these exhibits have been omitted pursuant to a request for confidential treatment and the redacted material has been filed separately with the Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 7, 2013

Willis Lease Finance Corporation

By: /s/ **Bradley S. Forsyth**  
Bradley S. Forsyth  
Senior Vice President  
Chief Financial Officer  
*(Principal Accounting Officer)*

[Conformed]

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**BYLAWS**  
**OF**  
**WILLIS LEASE FINANCE CORPORATION**  
**(a Delaware corporation)**

Dated as of April 18, 2001

Amended as of November 13, 2001

Further Amended as of December 16, 2008

Further Amended as of September 28, 2010

Further Amended as of August 5, 2013

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BYLAWS

OF

WILLIS LEASE FINANCE CORPORATION  
(a Delaware corporation)

ARTICLE I.

Offices

SECTION 1.01 Registered Office. The registered office of Willis Lease Finance Corporation (hereinafter called the Corporation) in the State of Delaware shall be at 9 East Loockerman Street, City of Dover, County of Kent, and the name of the registered agent in charge thereof shall be National Registered Agents, Inc.

SECTION 1.02 Other Offices. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board of Directors (hereinafter called the Board) may from time to time determine or as the business of the Corporation may require.

ARTICLE II.

Meetings of Stockholders

SECTION 2.01 Annual Meetings. Annual meetings of the stockholders of the Corporation for the purpose of electing directors to succeed those whose terms expire and for the transaction of such other proper business as may properly come before such meetings may be held at such time, date and place as the Board shall determine by resolution.

SECTION 2.02 Special Meetings. Special meetings of the stockholders for the transaction of any proper business, unless otherwise prescribed by statute, may be called only in accordance with Article XI of the Corporation's Certificate of Incorporation as it may be amended from time to time (the "Certificate of Incorporation").

SECTION 2.03 Place of Meetings. All meetings of the stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof. In the absence of any such designation, stockholders' meetings shall be held at the principal executive office of the Corporation.

SECTION 2.04 Notice of Meetings. Except as otherwise required by law, notice of each meeting of the stockholders, whether annual or special, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder of record entitled to vote at such meeting by delivering a typewritten or printed notice thereof to him personally, or by depositing such notice in the United States mail, in a postage prepaid envelope, directed to him at his post office address furnished by him to the Corporate Secretary of the Corporation for such purpose or, if he shall not have furnished to the Corporate Secretary his address for such purpose, then at his post office address last known to the Corporate Secretary, or by transmitting a notice thereof to him at such address by telegraph, cable, or wireless. Except as otherwise expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. Every notice of a meeting of the stockholders shall state the place, date and hour of the meeting, and, in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall have waived such notice and such notice shall be deemed waived by any stockholder who shall attend such meeting in person or by proxy, except a stockholder who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the stockholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

SECTION 2.05            Quorum. Except where otherwise provided by law, the holders of record of a majority of the shares of stock of the Corporation entitled to be voted thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders of the Corporation or any adjournment thereof. For purposes of the foregoing, two or more classes or series of stock shall be considered a single class if the holders thereof are entitled to vote together as a single class at the meeting. In the absence of a quorum at any meeting or any adjournment thereof, a majority of the shares of stock of the Corporation present in person or by proxy and entitled to vote thereat or, in the absence thereof of all the stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 2.06            Voting.

(a)            Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy for each share or fractional share of the stock of the Corporation held by him which has voting power upon the matter in question.

(b)            Any such voting rights may be exercised by the stockholder entitled thereto in person or by his proxy appointed by an instrument in writing or by any other secure means permitted by law, including telephonic and electronic transmission, subscribed by such stockholder or by his attorney thereunto authorized and delivered to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after eleven months from its date unless said proxy shall provide for a longer period. The attendance at any meeting of a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless he shall in writing so notify the secretary of the meeting prior to the voting of the proxy. At any meeting of the stockholders, all matters, except as otherwise provided in the Certificate of Incorporation or in these Bylaws, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat and thereon, a quorum being present. The vote at any meeting of the stockholders on any question need not be by ballot, unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy shall so determine. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and it shall state the number of shares voted.

(c)            Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors in such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes. Persons holding stock of the Corporation in a fiduciary capacity shall be entitled to vote such stock. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent such stock and vote thereon. Stock having voting power standing of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants in common, tenants by entirety or otherwise, or with respect to which two or more persons have the same fiduciary relationship, shall be voted in accordance with the provisions of the General Corporation Law of the State of Delaware.

SECTION 2.07 Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held; and (2) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting. When a record date is so fixed, only shareholders of record at the close of business on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date. The Board may close the books of the Corporation against transfers of shares during the whole or any part of a period of not more than sixty (60) days prior to the date of a shareholders' meeting, the date when the right to any dividend, distribution, or allotment of rights vests, or the effective date of any change, conversion or exchange of shares.

SECTION 2.08 List of Stockholders Entitled to Vote. The Corporate Secretary of the Corporation shall prepare and make, or cause to be prepared and made, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 2.09 Judges. If at any meeting of the stockholders a vote by written ballot shall be taken on any question, the chairman of such meeting may appoint a judge or judges to act with respect to such vote. Each judge so appointed shall first subscribe an oath faithfully to execute the duties of a judge at such meeting with strict impartiality and according to the best of his ability. Such judges shall decide upon the qualification of the voters and shall report the number of shares represented at the meeting and entitled to vote on such question, shall conduct and accept the votes, and, when the voting is completed, shall ascertain and report the number of shares voted respectively for and against the question. Reports of judges shall be in writing and subscribed and delivered by them to the Corporate Secretary of the Corporation. The judges need not be stockholders of the Corporation, and any officer of the Corporation may be a judge on any question other than a vote for or against a proposal in which he shall have a material interest.

SECTION 2.10      Notice of Stockholder Business and Nominations.

(A)      Annual Meetings of Stockholders.

(1)      Nominations of persons for election to the Board and the proposal of business to be considered by the stockholders may be made at an annual meeting of the stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw.

(2)      For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Bylaw, the stockholder must have given timely notice thereof in writing, in conformance with the requirements of this Bylaw, to the Corporate Secretary of the Corporation and such other business must otherwise be a proper matter for stockholder action. To be timely, a stockholder's notice shall be delivered to the Corporate Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not later than the close of business on the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation which are beneficially owned by such person, (iv) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (v) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "1934 Act") (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (b) as to any other business that the stockholder proposes to bring before the meeting (i) a brief description of the business desired to be brought before the meeting, (ii) the reasons for conducting such business at the meeting, (iii) any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made and (iv) any other information which is required to be disclosed in solicitations of proxies on behalf of any such business, and specifically, any such information called for by Items 4 and 5 of Regulation 14A under the 1934 Act regarding such other business, the proponent of such other business and any associates or persons who would be deemed "participants" under Regulation 14A were the proponent soliciting proxies on behalf of such other business. All such notices shall include (i) a representation that the person sending the notice is a shareholder of record and will remain such through the record date for the meeting, (ii) the name and address, as they appear on the Corporation's books, of such shareholder, (iii) the class and number of the Corporation's shares which are owned beneficially and of record by such shareholder, and (iv) a representation that such shareholder intends to appear in person or by proxy at such meeting to make the nomination or move the consideration of other business set forth in the notice.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this Bylaw to the contrary, in the event that the number of directors to the Board is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased Board at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Corporate Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board or (b) provided that the Board has determined that directors shall be elected at such meeting, by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board, any such stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the stockholder's notice required by paragraph (A)(2) of this Bylaw shall be delivered to the Corporate Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a stockholder's notice as described above.

(C) General.

(1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, the chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that business or a nomination is not properly before the meeting and, if he should so determine, the defective business shall not be transacted and the defective nomination shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all the applicable requirements of the 1934 Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights (i) of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the 1934 Act or (ii) of the holders of any series of Preferred Stock to elect directors under specified circumstances.

ARTICLE III.

Board of Directors

SECTION 3.01        General Powers. The property, business and affairs of the Corporation shall be managed by the Board.

SECTION 3.02        Number and Term of Office. The authorized number of directors shall be five (5), and such number shall not be changed except by a Bylaw amending this section duly adopted by the Board or duly adopted by the stockholders pursuant to the terms of Article IX of the Certificate of Incorporation. Directors need not be stockholders. Each of the directors of the Corporation shall hold office until his successor shall have been duly elected and shall qualify or until he shall resign, die, become disqualified or disabled or shall otherwise be removed in the manner hereinafter provided.

SECTION 3.03        Election of Directors. The directors shall be elected annually by the stockholders of the Corporation and the persons receiving the greatest number of votes, up to the number of directors to be elected, shall be the directors. The election of directors is subject to any provisions contained in the Certificate of Incorporation relating thereto, including any provisions for a classified Board.

SECTION 3.04        Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board, the Chairman of the Board, the President or the Corporate Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time is not specified, it shall take effect immediately upon its receipt; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.05        Removal. Any director or the entire Board may be removed, with cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

SECTION 3.06        Vacancies. Except as otherwise provided in the Certificate of Incorporation and except for a vacancy created by the removal of a director, any vacancy in the Board, whether because of death, resignation, disqualification, an increase in the number of directors, or otherwise, may be filled by vote of the majority of the remaining directors, although less than a quorum. Vacancies created by the removal of a director may be filled only by the affirmative vote of the holders of a majority of the outstanding stock then entitled to vote at an election of directors. Each director so chosen to fill a vacancy shall hold office until his successor shall have been elected and shall qualify or until he shall resign, die, become disqualified or disabled or shall otherwise be removed in the manner herein provided.

SECTION 3.07        Place of Meeting, Etc. The Board may hold any of its meetings at such place or places within or without the State of Delaware as the Board may from time to time by resolution designate or as shall be designated by the person or persons calling the meeting or in the notice or a waiver of notice of any such meeting. Directors may participate in any regular or special meeting of the Board by means of conference telephone or similar communications equipment pursuant to which all persons participating in the meeting of the Board can hear each other, and such participation shall constitute presence in person at such meeting.

SECTION 3.08      Regular Meetings. A regular annual meeting of the Board shall be held without any further notice immediately after, and at the same place as, the annual meeting of shareholders. The Board may provide for other regular meetings from time to time by resolution. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day that is not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

SECTION 3.09      Special Meetings. Special meetings of the Board shall be held whenever called by the Chairman of the Board, the President, any Vice President, the Corporate Secretary or any two (2) directors. Except as otherwise provided by law or by these Bylaws, notice of the time and place of each such special meeting shall be mailed to each director, addressed to him at his residence or usual place of business, at least five (5) days before the day on which the meeting is to be held, or shall be sent to him at such place by telegraph, cable, facsimile or email or be delivered personally not less than forty-eight (48) hours before the time at which the meeting is to be held. Except where otherwise required by law or by these Bylaws, notice of the purpose of a special meeting need not be given. Notice of any meeting of the Board shall not be required to be given to any director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting, without protesting prior thereto or at its commencement, the lack of notice to such director.

SECTION 3.10      Quorum and Manner of Acting. Except as otherwise provided in these Bylaws, the presence of a majority of the authorized number of directors shall be required to constitute a quorum for the transaction of business at any meeting of the Board, and all matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the directors present. In the absence of a quorum, a majority of directors present at any meeting may adjourn the same from time to time until a quorum shall be present. If a meeting is adjourned for more than twenty-four (24) hours, notice of any adjournment to another time or place shall be given prior to the time of the reconvened meeting to the directors who were not present at the time of adjournment. The directors shall act only as a Board, and the individual directors shall have no power as such. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

SECTION 3.11      Organization. Meetings of the Board shall be presided over by the Chairman of the Board, or in his absence by the President, or in his absence by the Chief Administrative Officer, or in his absence by the Chief Financial Officer, or in his absence by a Vice President, or in their absence by a chairman chosen at the meeting. The Corporate Secretary shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

SECTION 3.12      Action by Consent. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee. Such action by written consent shall have the same force and effect as a unanimous vote of such directors.

SECTION 3.13      Compensation. The directors shall receive only such compensation for their services as directors as may be allowed by resolution of the Board. The Board may also provide that the Corporation shall reimburse each such director for any expense incurred by him on account of his attendance at any meetings of the Board or Committees of the Board. Neither the payment of such compensation nor the reimbursement of such expenses shall be construed to preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving compensation therefor.

SECTION 3.14 Committees. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one (1) or more of the directors of the Corporation and to serve at the pleasure of the Board. Any such committee, to the extent provided in the resolution of the Board and except as otherwise limited by law, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of dissolution, removing or indemnifying directors or amending these Bylaws; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of the stock. Any such committee shall keep written minutes of its meetings and report the same to the Board at the next regular meeting of the Board. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

SECTION 3.15. Qualification Requirement for Directors. No person shall be qualified to be elected to, or appointed to fill a vacancy on, the Board during the pendency of a Business Combination transaction (as defined in Article XIII of the Certificate of Incorporation) if such person is, or (in the case of a person described in clause (i), (ii) or (iii) below) was within the two years preceding the date of such election or appointment: (i) an officer, director, employee or affiliate (as such term is defined in Rule 12b-2 of the General Rules and Regulations under the 1934 Act) of a party to such transaction (an "Interested Party") or of any affiliate of an Interested Party; (ii) an agent subject to the direction of an Interested Party; (iii) a consultant or advisor to an Interested Party; (iv) a person having a material financial interest in the transaction (other than through the ownership of stock or securities of the Corporation); or (v) a person having any business, financial, or familial relationship with any person referred to in clauses (i)-(iv) above that would reasonably be expected to affect such person's judgment in a manner adverse to the Corporation. A person shall not be disqualified from election or appointment to the Board by reason of this Section 3.15 solely because such person is a director or officer of the Corporation who receives normal and customary compensation as such and/or is a stockholder or affiliate of the Corporation.

A Business Combination shall be deemed pending for purposes of this Section 3.15 commencing on the date any offer or proposal for such transaction shall be made and until such time as the proposed transaction is abandoned or until such time as: (i) the party proposing such transaction shall have acquired beneficial ownership, as defined above, of 50% or more of the Corporation's outstanding voting stock; and (ii) 10 business days shall have elapsed thereafter.

#### ARTICLE IV.

##### Officers

SECTION 4.01 Number. The officers of the Corporation shall be a Chairman of the Board, a President, a Chief Financial Officer, one or more Vice Presidents (the number thereof and their respective titles to be determined by the Board), and a Corporate Secretary. In addition, the Board may appoint such other officers as may be deemed expedient for the proper conduct of the business of the Corporation, each of whom shall have such authority and perform such duties as the Board may from time to time determine.



SECTION 4.02        Election, Term of Office and Qualifications. The officers of the Corporation, except such officers as may be appointed in accordance with Section 4.03, shall be chosen annually at the regular meeting of the Board held after the annual meeting of shareholders and shall serve at the pleasure of the Board. If officers are not chosen at such meeting of the Board, they shall be chosen as soon thereafter as shall be convenient. Each officer shall hold office until his successor shall have been duly chosen and shall qualify or until his resignation, death, disqualification or removal in the manner hereinafter provided.

SECTION 4.03        Assistants, Agents and Employees, Etc. In addition to the officers specified in Section 4.01, the Board may appoint other assistants, agents and employees as it may deem necessary or advisable, including one or more Assistant Secretaries, and one or more Assistant Financial Officers, each of whom shall hold office for such period, have such authority, and perform such duties as the Board may from time to time determine. The Board may delegate to any officer of the Corporation or any committee of the Board the power to appoint, remove and prescribe the duties of any such assistants, agents or employees.

SECTION 4.04        Removal. Any officer, assistant, agent or employee of the Corporation may be removed, with or without cause, at any time: (i) in the case of an officer, assistant, agent or employee appointed by the Board, only by resolution of the Board; and (ii) in the case of an officer, assistant, agent or employee, by any officer of the Corporation or committee of the Board upon whom or which such power of removal may be conferred by the Board.

SECTION 4.05        Resignations. Any officer or assistant may resign at any time by giving written notice of his resignation to the Board, the Chairman of the Board, the President or the Corporate Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, upon receipt thereof by the Board, the Chairman of the Board, the President or the Corporate Secretary, as the case may be; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 4.06        Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or other cause, may be filled by the Board for the unexpired portion of the term thereof.

SECTION 4.07        Inability to Act. In the case of absence or inability to act of any officer of the Corporation, the Board may from time to time delegate the powers or duties of such officer to any other officer, or any director or other person whom it may select.

SECTION 4.08        The Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Board.

SECTION 4.09        The Chief Executive Officer. The Chief Executive Officer, subject to the control of the Board, shall preside at all meetings shareholders, shall have the general charge of the business and affairs of the Corporation and shall oversee the management of the Corporation. If the offices of the Chief Executive Officer and Chairman are separate, in the absence of the Chairman or if designated to do so by the Board, the Chief Executive shall exercise the powers and perform the duties of the Chairman or designate the executive officers of the Corporation by whom such powers shall be exercised and duties performed. The Chief Executive Officer shall see to it that all resolutions and orders of the Board are carried into effect and shall have full power of delegation in so doing. The Chief Executive Officer shall make reports to the Board and shareholders and shall have such other powers and perform such other duties as the Board or these Bylaws may, from time to time, prescribe.

SECTION 4.10        The President. The President of the Corporation shall, subject to the control of the Board and the Chief Executive Officer, have general and active supervision and management over the business of the Corporation and over its several officers, assistants, agents and employees, shall make reports to the Board and shareholders, and shall perform all such other duties as are incident to such office or are properly required by the Board or the Chief Executive Officer.

SECTION 4.11        The Chief Financial Officer. The Chief Financial Officer shall have the general care and custody of the funds and securities of the Corporation, and shall deposit all such funds in the name of the Corporation in such banks, trust companies or other depositories as shall be selected by the Board, and shall keep regular books of account. He shall receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever. He shall exercise general supervision over expenditures and disbursements made by officers, agents and employees of the Corporation and the preparation of such records and reports in connection therewith as may be necessary or desirable. He shall, in general, perform all other duties incident to the office of Chief Financial Officer and such other duties as from time to time may be properly assigned to him by the Board or the President.

SECTION 4.12        The Vice Presidents. Each Vice President shall have such powers and perform such duties as the Board or the President may from time to time properly prescribe. At the request of the President, or in case of the President's absence or inability to act upon the request of the Board, a Vice President shall perform the duties of the President and when so acting, shall have all the powers of, and be subject to all the restrictions upon, the President.

SECTION 4.13        The Corporate Secretary. The Corporate Secretary shall, if present, record the proceedings of all meetings of the Board, of the stockholders, and of all committees of which a secretary shall not have been appointed, in one or more books provided for that purpose; he shall see that all notices are duly given in accordance with these Bylaws and as required by law; and, in general, he shall perform all the duties incident to the office of Corporate Secretary and such other duties as may from time to time be properly assigned to him by the Board or the President.

SECTION 4.14        Compensation. The compensation of the officers of the Corporation shall be fixed from time to time by the Board. None of such officers shall be prevented from receiving such compensation by reason of the fact that he is also a director of the Corporation. Nothing contained herein shall preclude any officer from serving the Corporation, or any subsidiary corporation, in any other capacity and receiving proper compensation therefor.

#### ARTICLE V.

Contracts, Checks, Drafts, Bank Accounts, Etc.

SECTION 5.01        Execution of Contracts. The Board, except as in these Bylaws otherwise provided, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances; and unless so authorized by the Board or by these Bylaws, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or in any amount.

SECTION 5.02        Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board.

SECTION 5.03        Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, the Chairman of the Board, the President, the Chief Financial Officer or any Vice President (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation who shall from time to time be determined by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

SECTION 5.04        General and Special Bank Accounts. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these Bylaws, as it may deem expedient.

## ARTICLE VI.

### Shares and Their Transfer

SECTION 6.01        Certificates for Stock. Every owner of stock of the Corporation shall be entitled to have a certificate or certificates, to be in such form as the Board shall prescribe, certifying the number and class of shares of the stock of the Corporation owned by him. The certificates representing shares of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the Chairman of the Board or the President or a Vice President, and by the Chief Financial Officer or the Corporate Secretary or an Assistant Secretary. Any of or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any such certificate, shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. A record shall be kept of the respective names of the persons, firms or corporations owning the stock represented by such certificates, the number and class of shares represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation, the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 6.04.

SECTION 6.02        Transfers of Stock. Transfers of shares of stock of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Corporate Secretary, or with a transfer clerk or a transfer agent appointed as provided in Section 6.03, and upon surrender of the certificate or certificates for such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation. Whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact shall be so expressed in the entry of transfer if, when the certificate or certificates shall be presented to the Corporation for transfer, both the transferor and the transferee request the Corporation to do so.

SECTION 6.03 Regulations. The Board may make such rules and regulations as it may deem expedient, not inconsistent with these Bylaws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

SECTION 6.04 Lost, Stolen, Destroyed, and Mutilated Certificates. In any case of loss, theft, destruction, or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, theft, destruction, or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sum as the Board may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Board, it is proper so to do.

## ARTICLE VII.

### Indemnification

SECTION 7.01 Indemnification. Subject to any limitation which may be contained in the Certificate of Incorporation and the other provisions of this Article VII, the Corporation shall to the full extent permitted by law, including, without limitation, Delaware General Corporation Law § 145, as such law or Section now exists or shall hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), indemnify any person who was, is or is threatened to be made a party, a named defendant or respondent to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, arbitral, administrative, or investigative, any appeal in such action, suit, or proceeding, and any inquiry or investigation that could lead to such an action, suit, or proceeding, because such person is or was a director, officer employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent, or similar functionary of another corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan, or other enterprise, against judgments, penalties (including excise and similar taxes), fines, settlements, and reasonable expenses (including attorneys' fees) actually incurred by such person in connection with such action, suit, or proceeding; provided, however, that, except as provided in Section 7.03 of this Article VII with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if (i) such indemnification is expressly required to be made by law, (ii) the proceeding was expressly authorized by the Board of Directors of the corporation, (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the Delaware General Corporation Law or (iv) such indemnification is required to be made under subsection Section 7.03 of this Article VII. The termination of any action, suit or proceeding by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that an individual did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 7.02 Expenses. Subject to any limitation which may be contained in the Certificate of Incorporation, the Corporation shall, to the full extent permitted by law, including, without limitation, § 145 of the Delaware General Corporation Law, as such law or Section now exists or shall hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), pay or reimburse on a current basis the expenses incurred by any person described in Section 7.01 in connection with any such action, suit, or proceeding in advance of the final disposition thereof, if the Corporation has received (i) a written affirmation by the recipient of his good faith belief that he has met the standard of conduct necessary for indemnification under the Delaware General Corporation Law and (ii) a written undertaking by or on behalf of such director or officer to repay the amount paid or reimbursed if it is ultimately determined that he has not satisfied such standard of conduct or if indemnification is prohibited by law.

SECTION 7.03 Right of Indemnitee to Bring Suit. If a claim under Sections 7.01 or 7.02 of this Article VII is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. To the fullest extent permitted by law, if successful in whole or in part in any such suit, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder it shall be a defense that the indemnitee has not met any applicable standard for indemnification set forth in the Delaware General Corporation Law. Neither the failure of the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its directors who are not parties to such action, a committee of such directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification hereunder, the burden of proving that the indemnitee is not entitled to be indemnified, under this Article VII or otherwise shall be on the Corporation.

SECTION 7.04 Other Rights and Remedies. The indemnification provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. The rights provided in this Article VII shall be deemed to be provided by a contract between the Corporation and the individuals who serve in the capacities described in Section 7.01 at any time while these bylaws are in effect, and no repeal or modification of this Article VII by the stockholders shall adversely affect any right of any person otherwise entitled to indemnification by virtue of this Article VII at the time of such repeal or modification.

SECTION 7.05 Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

SECTION 7.06 Constituent Corporations. For the purposes of this Article, references to “the Corporation” include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation, so that any person who is or was a director, officer, employee or agent of such a constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would if such person had served the resulting or surviving corporation in the same capacity.”

## ARTICLE VIII.

### Miscellaneous

SECTION 8.01 Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December.

SECTION 8.02 Waiver of Notices. Whenever notice is required to be given by these Bylaws or the Certificate of Incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice.

SECTION 8.03 Seal. The Corporation may have a corporate seal which shall have the name of the Corporation and shall be in such form as may be approved from time to time by the Board. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

SECTION 8.04 Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if: (1) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

SECTION 8.05 Amendments. These Bylaws may be amended only in accordance with Article IX of the Corporation's Certificate of Incorporation.

SECTION 8.06 Representation of Shares in Other Corporations. Shares of other corporations standing in the name of this Corporation may be voted or represented and all incidents thereto may be exercised on behalf of the Corporation by the Chairman of the Board, the President or any Vice President and the Chief Financial Officer or the Corporate Secretary or an Assistant Secretary.

SECTION 8.07 Forum for Adjustment of Disputes. Unless the Corporation consents in writing to the selection of an alternate forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (c) any action asserting a claim arising pursuant to any provision of the Delaware's General Corporation Law, or (d) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section.

SECTION 8.08 Severability. Any determination that any provision of these Bylaws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these Bylaws.

SECTION 8.09 Pronouns. All pronouns used in these Bylaws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

**WILLIS LEASE FINANCE CORPORATION  
AND SUBSIDIARIES**  
**Computation of Earnings (Loss) Per Share**  
**(In thousands, except per share data, unaudited)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Basic</b>				
Earnings:				
Net income (loss) attributable to common shareholders	\$ (2,229)	\$ (7,976)	\$ 9,073	\$ (3,022)
Shares:				
Average common shares outstanding	8,126	8,667	8,091	8,553
Basic earnings (loss) per common share	\$ (0.27)	\$ (0.92)	\$ 1.12	\$ (0.35)
Assuming full dilution				
Earnings:				
Net income (loss) attributable to common shareholders	\$ (2,229)	\$ (7,976)	\$ 9,073	\$ (3,022)
Shares:				
Average common shares outstanding	8,126	8,667	8,091	8,553
Potentially dilutive common shares outstanding	203	222	241	293
Diluted average common shares outstanding	8,329	8,889	8,332	8,846
Diluted earnings (loss) per common share	\$ (0.27)	\$ (0.90)	\$ 1.09	\$ (0.34)

## Supplemental information:

The difference between average common shares outstanding to calculate basic and assuming full dilution is due to options outstanding under the 1996 Stock Options/Stock Issuance Plan and restricted stock issued under the 2007 Stock Incentive Plan.

The calculation of diluted earnings per share for the three months ended September 30, 2013 excluded from the denominator zero options and zero restricted stock awards granted to employees and directors because their effect would have been anti-dilutive. The calculation of diluted earnings per share for the three months ended September 30, 2012 excludes from the denominator zero options and zero restricted stock awards granted to employees and directors because their effect would have been anti-dilutive.

The calculation of diluted earnings per share for the nine months ended September 30, 2013 excluded from the denominator zero options and zero restricted stock awards granted to employees and directors because their effect would have been anti-dilutive. The calculation of diluted earnings per share for the nine months ended September 30, 2012 excludes from the denominator zero options and 132 restricted stock awards granted to employees and directors because their effect would have been anti-dilutive.



**List of Subsidiaries**

<b>Subsidiary</b>	<b>State or Jurisdiction of Incorporation</b>
WEST Engine Funding LLC	Delaware
WEST Engine Funding (Ireland) Limited	Rep. of Ireland
Willis Lease (Ireland) Limited	Rep. of Ireland
WLFC (Ireland) Limited	Rep. of Ireland
WLFC Funding (Ireland) Limited	Rep. of Ireland
Willis Aviation Finance Limited	Rep. of Ireland
Willis Lease France	France
Willis Lease (China) Limited	People's Republic of China
Willis Engine Securitization Trust II	Delaware
WEST Engine Acquisition LLC	Delaware
Facility Engine Acquisition LLC	Delaware
Willis Engine Securitization (Ireland) Limited	Rep. of Ireland
Willis Aeronautical Services, Inc.	Delaware
WOLF A340 LLC	Delaware
WOLF 149 LLC	Delaware
WOLF 139 LLC	Delaware

**CERTIFICATIONS**

I, Charles F. Willis IV, certify that:

1. I have reviewed this report on Form 10-Q of Willis Lease Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**Date: November 7, 2013**

**/s/ Charles F. Willis, IV**  
**Charles F. Willis, IV**  
**Chief Executive Officer**

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**CERTIFICATIONS**

I, Bradley S. Forsyth, certify that:

1. I have reviewed this report on Form 10-Q of Willis Lease Finance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 7, 2013**

**/s/ Bradley S. Forsyth**  
**Bradley S. Forsyth**  
**Senior Vice President**  
**Chief Financial Officer**

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Each of the undersigned hereby certifies, in his or her capacity as an officer of Willis Lease Finance Corporation (the "Company"), for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his or her knowledge:

- the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2013 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and
- the information contained in such report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: November 7, 2013

/s/ Charles F. Willis, IV

Chief Executive Officer

/s/ Bradley S. Forsyth

Senior Vice President and Chief Financial Officer

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