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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2013

OR

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

Commission File Number: 001-15369

WILLIS LEASE FINANCE CORPORATION
(Exact name of registrant as specified in its charter)

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

Registrant's telephone number, including area code **(415) 408-4700**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	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 May 3, 2013
Common Stock, $0.01 par value per share	8,819,130

WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

INDEX

PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands, except share data, unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$ 1,357	$ 5,379
Restricted cash	32,493	24,591
Equipment held for operating lease, less accumulated depreciation of $253,994 and $242,529 at March 31, 2013 and December 31, 2012, respectively	1,019,295	961,459
Equipment held for sale	23,996	23,607
Operating lease related receivable, net of allowances of $928 and $980 at March 31, 2013 and December 31, 2012, respectively	9,927	12,916
Investments	28,070	21,831
Property, equipment & furnishings, less accumulated depreciation of $7,615 and $7,087 at March 31, 2013 and December 31, 2012, respectively	5,492	5,989
Equipment purchase deposits	1,369	1,369
Other assets	26,002	21,574
Total assets	$ 1,148,001	$ 1,078,715
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 14,061	$ 15,374
Liabilities under derivative instruments	1,218	1,690
Deferred income taxes	91,363	90,248
Notes payable	757,135	696,988
Maintenance reserves	66,992	63,313
Security deposits	9,805	6,956
Unearned lease revenue	5,634	4,593
Total liabilities	946,208	879,162
Shareholders' equity:		
Common stock ($0.01 par value, 20,000,000 shares authorized; 8,692,743 and 8,715,580 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively)	87	87
Paid-in capital in excess of par	48,177	47,785
Retained earnings	154,521	152,911
Accumulated other comprehensive loss, net of income tax benefit of $514 and $651 at March 31, 2013 and December 31, 2012, respectively	(992)	(1,230)
Total shareholders' equity	201,793	199,553
Total liabilities and shareholders' equity	$ 1,148,001	$ 1,078,715

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
REVENUE		
Lease rent revenue	$ 24,487	$ 24,085
Maintenance reserve revenue	9,229	8,578
Gain on sale of leased equipment	686	2,608
Other revenue	902	468
Total revenue	35,304	35,739
EXPENSES		
Depreciation expense	13,610	12,506
Write-down of equipment	—	282
General and administrative	8,269	8,737
Technical expense	1,674	1,319
Net finance costs:		
Interest expense	9,227	7,947
Interest income	—	(30)
Total net finance costs	9,227	7,917
Total expenses	32,780	30,761
Earnings from operations	2,524	4,978
Earnings from joint ventures	93	397
Income before income taxes	2,617	5,375
Income tax expense	(1,007)	(2,086)
Net income	$ 1,610	$ 3,289
Preferred stock dividends	—	782
Net income attributable to common shareholders	$ 1,610	$ 2,507
Basic earnings per common share:	$ 0.20	$ 0.30
Diluted earnings per common share:	$ 0.19	$ 0.29
Average common shares outstanding	8,033	8,404
Diluted average common shares outstanding	8,273	8,756

See accompanying notes to the unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net income	$ 1,610	$ 3,289
Other comprehensive income:		
Derivative instruments		
Unrealized gain (loss) on derivative instruments	9	(2,300)
Reclassification adjustment for losses included in net income	366	2,448
Net gain recognized in other comprehensive income	375	148
Tax expense related to items of other comprehensive income	(137)	(54)
Other comprehensive income	238	94
Total comprehensive income	$ 1,848	$ 3,383

See accompanying notes to the unaudited consolidated financial statements.

WILLIS LEASE FINANCE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Three Months Ended March 31, 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 income	—	—	—	—	—	3,289	3,289
Unrealized gain from derivative instruments, net of tax expense of $54	—	—	—	—	94	—	94
Preferred stock dividends paid	—	—	—	—	—	(782)	(782)
Shares repurchased	—	(141)	(2)	(1,791)	—	—	(1,793)
Shares issued under stock compensation plans	—	256	3	288	—	—	291
Cancellation of restricted stock units in satisfaction of withholding tax	—	(18)	—	(232)	—	—	(232)
Stock-based compensation, net of forfeitures	—	—	—	751	—	—	751
Excess tax benefit from stock-based compensation	—	—	—	213	—	—	213
Balances at March 31, 2012	$ 31,915	9,207	$ 92	$ 56,071	$ (8,797)	$ 159,211	238,492
Balances at December 31, 2012	$ —	8,716	$ 87	$ 47,785	$ (1,230)	$ 152,911	$ 199,553
Net income	—	—	—	—	—	1,610	1,610
Unrealized gain from derivative instruments, net of tax expense of $137	—	—	—	—	238	—	238
Shares repurchased	—	(25)	—	(358)	—	—	(358)
Shares issued under stock compensation plans	—	20	—	230	—	—	230
Cancellation of restricted stock units in satisfaction of withholding tax	—	(18)	—	(263)	—	—	(263)
Stock-based compensation, net of forfeitures	—	—	—	783	—	—	783
Balances at March 31, 2013	$ —	8,693	$ 87	$ 48,177	$ (992)	$ 154,521	$ 201,793

See accompanying notes to the unaudited consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31, 2013	2012
Cash flows from operating activities:		
Net income	$ 1,610	$ 3,289
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	13,610	12,506
Write-down of equipment	—	282
Stock-based compensation expenses	783	751
Amortization of deferred costs	1,049	967
Amortization of loan discount	—	124
Amortization of interest rate derivative cost	(96)	(55)
Allowances and provisions	(52)	(18)
Gain on sale of leased equipment	(686)	(2,608)
Income from joint ventures, net of distributions	(93)	(258)
Deferred income taxes	1,007	2,086
Changes in assets and liabilities:		
Receivables	3,041	1,373
Other assets	6	(2,973)
Accounts payable and accrued expenses	144	(1,377)
Restricted cash	(5,695)	(9,847)
Maintenance reserves	3,679	3,128
Security deposits	(186)	245
Unearned lease revenue	430	293
Net cash provided by operating activities	18,551	7,908
Cash flows from investing activities:		
Proceeds from sale of equipment (net of selling expenses)	3,166	24,075
Restricted cash for investing activities	(2,207)	31
Capital contribution to joint ventures	(6,146)	(1,868)
Purchase of equipment held for operating lease	(79,576)	(14,307)
Purchase of property, equipment and furnishings	(31)	(966)
Net cash (used in) provided by investing activities	(84,794)	6,965
Cash flows from financing activities:		
Proceeds from issuance of notes payable	69,000	20,000
Debt issuance cost	(570)	(144)
Interest bearing security deposits	3,035	—
Preferred stock dividends	—	(782)
Proceeds from shares issued under stock compensation plans	230	291
Cancellation of restricted stock units in satisfaction of withholding tax	(263)	(232)
Excess tax benefit from stock-based compensation	—	213
Repurchase of common stock	(358)	(1,793)
Principal payments on notes payable	(8,853)	(33,265)
Net cash provided by (used in) financing activities	62,221	(15,712)
Decrease in cash and cash equivalents	(4,022)	(839)
Cash and cash equivalents at beginning of period	5,379	6,440
Cash and cash equivalents at end of period	$ 1,357	$ 5,601
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	8,140	4,713
Income Taxes	$ —	$ 17
Supplemental disclosures of non-cash investing activities:		
During the three months ended March 31, 2013 and 2012, engines and equipment totalling $2,141 and $4,429, 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 March 31, 2013 and December 31, 2012, and the results of our operations for the three months ended March 31, 2013 and 2012, and our cash flows for the three months ended March 31, 2013 and 2012. The results of operations and cash flows for the period ended March 31, 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 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 March 31, 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 $1.2 million and $1.7 million as of March 31, 2013 and December 31, 2012, respectively. For the three months ended March 31, 2013 and March 31, 2012, $0.4 million and $2.4 million, respectively, were realized as interest expense on the Consolidated Statements of Income.

The following table shows by level, within the fair value hierarchy, the Company's assets and liabilities at fair value as of March 31, 2013 and December 31, 2012:

	Assets and (Liabilities) at Fair Value (in thousands)							
	March 31, 2013				December 31, 2012			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities under derivative instruments	$ (1,218)	$ —	$ (1,218)	$ —	$ (1,690)	$ —	$ (1,690)	$ —
Total	$ (1,218)	$ —	$ (1,218)	$ —	$ (1,690)	$ —	$ (1,690)	$ —

During the three months ended March 31, 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. an offer to purchase) and other factors. An impairment charge is recorded when the carrying value of the asset exceeds its fair value.

The following table shows by level, within the fair value hierarchy, the Company's assets measured at fair value on a nonrecurring basis as of March 31, 2013 and 2012, and the gains (losses) recorded during the three months ended March 31, 2013 and 2012 on those assets:

	Assets at Fair Value (in thousands)				Total Losses Three Months Ended March 31, 2013 (in thousands)
	Total	Level 1	Level 2	Level 3	
Balance at March 31, 2013					
Equipment held for sale	$ 23,996	$ —	$ 23,966	$ 30	$ —
Total	$ 23,996	$ —	$ 23,966	$ 30	$ —

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

At March 31, 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 March 31, 2013 and March 31, 2012. An impairment charge is recorded when the carrying value of the asset exceeds its fair value. No asset write-down was recorded in the three months ended March 31, 2013 and an asset write-down of $0.3 million was recorded in the three months ended March 31, 2012 based on a comparison of the asset net book values with the proceeds expected from the sale of 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 $3.0 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 $86,000. 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 $48,600 and $27,000, 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 $12,600. 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 five engines and related equipment for a gross purchase price of $46.7 million, for delivery in 2013 to 2015. As of March 31, 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 three months ended March 31, 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 $17.7 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 are available under the loan agreement through March 31, 2013 and WMES is currently negotiating an extension. 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 $17.7 million and $11.8 million as of March 31, 2013 and December 31, 2012, respectively.

We hold a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (“WOLF”). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. The purchase was funded by four term notes with one financial institution totaling $76.8 million, with interest payable at one-month LIBOR plus 1.0% to 2.5% and maturing in May 2013. One of the aircraft is currently completing the lease return process with Emirates and the other aircraft will be returned from Emirates when the lease term expires in May 2013. Upon return, the airframes will be disassembled and parted out and the eight engines will be leased separately to airline customers. WOLF is currently working with the financial institution to structure a four year loan to support continued leasing operations. Our investment in the joint venture is $10.3 million and $10.1 million as of March 31, 2013 and December 31, 2012, respectively.

Three Months Ended March 31, 2013 (in thousands)	WOLF	WMES	Total
Investment in joint ventures as of December 31, 2012	$ 10,065	$ 11,766	$ 21,831
Capital contribution	—	6,146	6,146
Earnings (losses) from joint ventures	275	(182)	93
Distribution	—	—	—
Investment in joint ventures as of March 31, 2013	$ 10,340	$ 17,730	$ 28,070

5. Long Term Debt

At March 31, 2013, notes payable consists of loans totaling $757.1 million, payable over periods of approximately 1 to 10 years with interest rates varying between approximately 3.0% and 5.5% (excluding the effect of our interest rate derivative instruments).

Our significant debt instruments are discussed below:

At March 31, 2013, we had a $430.0 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 September 7, 2012, we increased this revolving credit facility to $430.0 million from $345.0 million. As of March 31, 2013 and December 31, 2012, $83.0 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 3.20, as calculated under the terms of the revolving credit facility at December 31 2012, the interest rate on this facility is LIBOR plus 2.75% as of March 31, 2013. Under the revolving credit facility, all subsidiaries except WEST II 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.

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 in 10 years. 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 March 31, 2013 and December 31, 2012, $382.8 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 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 $8.5 million and $8.6 million as of March 31, 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 $2.0 million and $2.3 million as of March 31, 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 $16.9 million and $17.3 million as of March 31, 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 March 31, 2013.

At March 31, 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 2.25 to 1.00, and the Total Leverage Ratio requirement to remain below 4.50 to 1.00. At March 31, 2013, the Company's calculated Minimum Consolidated Tangible Net Worth exceeded the minimum required amount of $183.3 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 March 31, 2013, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

At March 31, 2013 and 2012, one-month LIBOR was 0.20% and 0.24%, respectively.

The following is a summary of the aggregate maturities of notes payable at March 31, 2013:

Year	(in thousands)
2013	$ 14,521
2014	36,023
2015	20,934
2016 (includes $347.0 million outstanding on revolving credit facility)	369,215
2017	29,373
Thereafter	287,069
	$ 757,135

6. Derivative Instruments

We hold interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with $347.0 million and $282.0 million of our borrowings at March 31, 2013 and December 31, 2012, respectively, at variable rates. As a matter of policy, we do not use derivatives for speculative purposes. At March 31, 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 eight months as of March 31, 2013. The net fair value of the swap at March 31, 2013 and December 31, 2012 was negative $1.2 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 March 31, 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 March 31, 2013, we anticipate that net finance costs will be increased by approximately $1.3 million for the 12 months ending March 31, 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	Derivatives: Balance Sheet Location	Fair Value: March 31, 2013	Fair Value: December 31, 2012
		(in thousands)	
Interest rate contracts	Liabilities under derivative instruments	$ 1,218	$ 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 months ended March 31, 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 March 31, 2013	2012
		(in thousands)	
Interest rate contracts	Interest expense	$ 366	$ 2,448
Total		$ 366	$ 2,448

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 months ended March 31, 2013 and 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion), Three Months Ended March 31, 2013	2012	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 March 31, 2013	2012
	(in thousands)			(in thousands)	
Interest rate contracts*	$ 472	$ 202	Interest expense	$ (366)	$ (2,448)
Total	$ 472	$ 202	Total	$ (366)	$ (2,448)

* These amounts are shown net of $0.5 million and $2.5 million of other comprehensive income reclassified to the income statement during the three months ended March 31, 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 March 31, 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 1,728,156 shares of restricted stock awarded to date. 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 three months ended March 31, 2013:

	Shares
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	(244,044)
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	(270,692)
Restricted stock at December 31, 2012	682,654
Granted in 2013	—
Cancelled in 2013	—
Vested in 2013	(43,750)
Restricted Stock at March 31, 2013	638,904

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 $0.8 million and $0.7 million in stock compensation expense were recorded in the three months ended March 31, 2013 and March 31, 2012, respectively. The stock compensation expense related to the restricted stock awards will be recognized over the average remaining vesting period of 2.3 years and totals $5.8 million at March 31, 2013 compared to 2.8 years and totaling $7.8 million at March 31, 2012. At March 31, 2013, the intrinsic value of unvested restricted stock awards issued through March 31, 2013 is $9.7 million. At March 31, 2012, the intrinsic value of unvested restricted stock awards issued through March 31, 2012 was $10.0 million. The 2007 Plan terminates on May 24, 2017.

In the three months ended March 31, 2013, 12,375 options under the 1996 Plan were exercised and 6,500 options were canceled. As of March 31, 2013, there are 118,053 stock options remaining under the 1996 Plan which have an intrinsic value of $0.7 million. In the three months ended March 31, 2012, 83,069 options under the 1996 Plan were exercised. As of March 31, 2012, there were 360,512 stock options remaining under the 1996 Plan having an intrinsic value of $2.3 million.

8. Income Taxes

Income tax expense for the three months ended March 31, 2013 and 2012 was $1.0 million and $2.1 million, respectively. The effective tax rate for the three months ended March 31, 2013 and 2012 was 38.5% and 38.8%, respectively. The Company records tax expense or benefit for unusual or infrequent items discretely in the period in which they occur. 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 three months ended March 31, 2013 and March 31, 2012, sales of consigned parts were $8,800 and $1,400, 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 March 31, 2013, J.T. Power is current and the principal amount owing under the note is $1.2 million.

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 three months ended March 31, 2013 and March 31, 2012, sales of consigned parts were $400 and $44,800, 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, provides 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 three months ended March 31, 2013 and March 31, 2012 under this program.

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 March 31, 2013 and December 31, 2012 was estimated to have a fair value of approximately $750.4 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 three months ended March 31, 2013. The fair value of the Company’s notes payable at March 31, 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 $757.1 million as of March 31, 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.

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.

Results of Operations

Three months ended March 31, 2013, compared to the three months ended March 31, 2012:

Lease Rent Revenue. Lease rent revenue for the three months ended March 31, 2013 increased 1.7% to $24.5 million from $24.1 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 March 31, 2013 and 2012 was $1,019.3 million and $974.3 million, respectively, an increase of 4.6%. The average utilization for each of the three months ended March 31, 2013 and 2012 was 84%. At March 31, 2013 and 2012, respectively, approximately 82% and 85% of equipment held for lease by book value was on-lease.

During the three months ended March 31, 2013, we added $78.7 million of equipment and capitalized costs to the lease portfolio. During the three months ended March 31, 2012, we added $14.6 million of equipment and capitalized costs to the lease portfolio.

Maintenance Reserve Revenue. Our maintenance reserve revenue for the three months ended March 31, 2013 increased 7.6% to $9.2 million from $8.6 million for the comparable period in 2012. The increase was due to higher maintenance reserve revenues recognized related to the termination of long term leases in the three months ended March 31, 2013 than in the year ago period.

Gain on Sale of Leased Equipment. During the three months ended March 31, 2013, we sold seven engines and other related equipment generating a net gain of $0.7 million. During the three months ended March 31, 2012, we sold five engines and other related equipment generating a net gain of $2.6 million.

Other Revenue. Our other revenue generally consists of management fee income and lease administration fees. Other income increased to $0.9 million from $0.5 million for the comparable period in 2012 primarily due to 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 8.8% to $13.6 million for the three months ended March 31, 2013 from $12.5 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 that occurred in 2012 but did not affect the first quarter of 2012. As of July 1, 2012, we adjusted the depreciation for certain older engine types. It is our policy to review estimates regularly to reflect the cost of equipment over the useful life of these engines. The 2012 change in depreciation estimate resulted in a $0.7 million increase in depreciation for the three months ended March 31, 2013. The net effect of the 2012 change in depreciation estimate is a reduction in net income of $0.4 million or $0.05 in diluted earnings per share for the three months ended March 31, 2013 over what net income would have otherwise been had the change in depreciation estimate not been made.

Write-down of Equipment. There was no write-down of equipment recorded in the three months ended March 31, 2013. There was $0.3 million in equipment write-down recorded in the three month period ended March 31, 2012 related to the sale of two engines in April 2012 for which the net book value exceeded the proceeds from sale.

General and Administrative Expenses. General and administrative expenses decreased 5.4% to $8.3 million for the three months ended March 31, 2013, from $8.7 million in the comparable period in 2012, due primarily to decreases in consulting fees ($0.3 million) and computer system expenses ($0.1 million).

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 26.9% to $1.7 million for the three months ended March 31, 2013, from $1.3 million in the comparable period in 2012 due mainly to increases in technical support service expenses ($0.4 million), higher 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 ($0.2 million) and increased engine storage and freight expenses ($0.2 million), which was partially offset by a decrease in engine maintenance costs due to lower repair activity ($0.4 million).

Net Finance Costs. Net finance costs include interest expense and interest income. Interest expense increased 16.1% to $9.2 million for the three months ended March 31, 2013, from $7.9 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 March 31, 2013 and 2012, was $757.1 million and $705.0 million, respectively, an increase of 7.4%. As of March 31, 2013, $347.0 million of our debt is tied to one-month U.S. dollar LIBOR which decreased from an average of 0.25% for the three months ended March 31, 2012 to an average of 0.20% for the three months ended March 31, 2013 (average of month-end rates). As of March 31, 2013 and 2012, one-month LIBOR was 0.20% and 0.24%, respectively.

To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of March 31, 2013, such swap agreements had notional outstanding amounts of $100.0 million with a remaining term of eight months and a fixed rate of 2.10%. As of March 31, 2012, such swap agreements had notional outstanding amounts of $315.0 million, remaining terms of between sixteen and thirty-seven months and fixed rates of between 2.10% and 3.62%. In the three months ended March 31, 2013 and 2012, $0.4 million and $2.4 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 March 31, 2013, decreased to $0 from $0.03 million for the three months ended March 31, 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 for the three months ended March 31, 2013 and 2012 was $1.0 million and $2.1 million, respectively. The effective tax rate for the three months ended March 31, 2013 and 2012 was 38.5% and 38.8%, respectively. The Company records tax expense or benefit for unusual or infrequent items discretely in the period in which they occur. 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.

Liquidity and Capital Resources

We finance our growth through borrowings secured by our equipment lease portfolio. Cash of approximately $69.0 million and $20.0 million, in the three-month periods ended March 31, 2013 and 2012, respectively, was derived from this activity. In these same time periods, $8.9 million and $33.3 million, respectively, was used to pay down related debt. Cash flow from operating activities was $18.6 million and $7.9 million in the three-month periods ended March 31, 2013 and 2012, respectively.

At March 31, 2013, $0.9 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 $79.6 million and $14.3 million for the three-month periods ended March 31, 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 82%, by book value, of our assets were on-lease at March 31, 2013 compared to 85% at March 31, 2012. The average utilization rate was 84% for each of the three month periods ended March 31, 2013 and March 31, 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 March 31, 2013, Notes Payable consists of loans totaling $757.1 million, payable over periods of approximately 1 to 10 years with interest rates varying between approximately 3.0% and 5.5% (excluding the effect of our interest rate derivative instruments).

Our significant debt instruments are discussed below:

At March 31, 2013, we had a $430.0 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 September 7, 2012, we increased this revolving credit facility to $430.0 million from $345.0 million. As of March 31, 2013 and December 31, 2012, $83.0 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 3.20 as calculated under the terms of the revolving credit facility at December 31, 2012, the interest rate on this facility is LIBOR plus 2.75% as of March 31, 2013. Under the revolving credit facility, all subsidiaries except WEST II 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.

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 in 10 years. 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 March 31, 2013 and December 31, 2012, $382.8 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 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 $8.5 million and $8.6 million as of March 31, 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 $2.0 million and $2.3 million as of March 31, 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 $16.9 million and $17.3 million as of March 31, 2013 and December 31, 2012, respectively.

At March 31, 2013 and December 31, 2012, we had revolving credit facilities totaling $430.0 million. At March 31, 2013, and December 31, 2012, respectively, $83.0 million and $148.0 million were available under these facilities.

As of March 31, 2013 and 2012, one-month LIBOR was 0.20% and 0.24%, 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 March 31, 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 2.25 to 1.00, and the Total Leverage Ratio requirement to remain below 4.50 to 1.00. At March 31, 2013, the Company's calculated Minimum Consolidated Tangible Net Worth exceeded the minimum required amount of $183.3 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 March 31, 2013, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

Approximately $35.3 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 March 31, 2013:

		Payment due by period (in thousands)			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	$ 757,135	$ 35,324	$ 41,561	$ 398,971	$ 281,279
Interest payments under long-term debt obligations	188,733	32,051	59,709	40,525	56,448
Operating lease obligations	3,570	868	1,294	1,128	280
Purchase obligations	45,378	27,290	18,088	—	—
Interest payments under derivative rate instruments	1,254	1,254	—	—	—
Total	$ 996,070	$ 96,787	$ 120,652	$ 440,624	$ 338,007

We have estimated the interest payments due under long-term debt by applying the interest rates applicable at March 31, 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 five engines and related equipment for a gross purchase price of $46.7 million for delivery in 2013 to 2015. As of March 31, 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.

We entered into a lease effective November 1, 2007 for our offices in Novato, California that covers approximately 18,375 square feet of office space. This lease was amended on January 6, 2012 to cover an additional 2,159 square feet of office space. The remaining lease rental commitment is approximately $3.0 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 $86,000. 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 $48,600 and $27,000, 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 $12,600. 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 March 31, 2013, $347.0 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 eight months and a fixed rate of 2.10%. The fair value of the swap at March 31, 2013 was negative $1.2 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 $0.4 million and $2.4 million for the three months ended March 31, 2013 and March 31, 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 three months ended March 31, 2013 and March 31, 2012, sales of consigned parts were $8,800 and $1,400, 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 March 31, 2013, J.T. Power is current and the principal amount owing under the note is $1.2 million.

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 three months ended March 31, 2013 and March 31, 2012, sales of consigned parts were $400 and $44,800, 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, provides 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 three months ended March 31, 2013 and March 31, 2012 under this program.

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 March 31, 2013, $347.0 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, $3.7 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 $1.7 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 three months ended March 31, 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 three months ended March 31, 2013. One customer accounted for approximately 12.0% of total lease rent revenue during the three months ended March 31, 2012. No other customer accounted for greater than 10% of total lease rent revenue during the three months ended March 31, 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.

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 March 31, 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 three months ended March 31, 2013 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans
	(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
Total	25	$ 14.48	25	$ 88,882

Item 5. Exhibits

(a) *Exhibits.*

EXHIBITS

Exhibit Number	Description
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, and (3) Amendment to Bylaws, dated September 28, 2010 (incorporated by reference to Exhibit 3.2 to our report on Form 10-Q filed on November 8, 2010).
4.1	Specimen of Series A Cumulative Redeemable Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to Form S-1 Registration Statement Amendment No. 2 filed on January 27, 2006).
4.2	Form of Certificate of Designations of the Registrant with respect to the Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.2 to Form S-1 Registration Statement Amendment No. 2 filed on January 27, 2006).
4.3	Form of Amendment No. 1 to Certificate of Designations of the Registrant with respect to the Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.3 to our report on Form 10-K filed on March 31, 2009).
4.4	Rights Agreement dated as of September 24, 1999, by and between Willis Lease Finance Corporation 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).
4.5	Second Amendment to Rights Agreement dated as of December 15, 2005, by and between Willis Lease Finance Corporation 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).
4.6	Third Amendment to Rights Agreement dated as of September 30, 2008, by and between Willis Lease Finance Corporation 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).
4.7	Form of Certificate of Designations of the Registrant 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).

4.8	Form of Amendment No. 1 to Certificate of Designations of the Registrant 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).
10.1	Form of Indemnification Agreement entered into between the Registrant 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 Registrant's Proxy Statement for 2007 Annual Meeting of Stockholders filed on April 30, 2007).
10.4	Amended and Restated Employment Agreement between the Registrant and Charles F. Willis IV dated as of December 1, 2008 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 22, 2008).
10.5	Employment Agreement between the Registrant 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 Registrant 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 Registrant and Thomas C. Nord dated September 19, 2005 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on September 23, 2005).
10.8	Amendment to Employment Agreement between Registrant and Thomas C. Nord dated December 31, 2008 (incorporated by reference to Exhibit 10.8 to our report on Form 10-Q filed on May 9, 2011).
10.9	Employment Agreement between the Registrant and Bradley S. Forsyth dated February 20, 2007 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on February 21, 2007).
10.10	Amendment to Employment Agreement between Registrant 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).
10.11	Loan and Aircraft Security Agreement dated September 30, 2012 between Banc of America Leasing & Capital, LLC and Willis Lease Finance Corporation (incorporated by reference to Exhibit 10.12 to our report on Form 10-Q filed on November 9, 2011).
10.12	Limited Liability Company Agreement of WOLF A340 LLC, dated as of December 8, 2005, between Oasis International Leasing (USA), Inc. and the Registrant (incorporated by reference to Exhibit 10.49 to Form S-1 Registration Statement Amendment No. 1 filed on January 9, 2006).
10.13*	Amended and Restated Credit Agreement, dated as of November 18, 2011, among Willis Lease Finance Corporation, 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).
10.14*	Indenture dated as of September 14, 2012 among Willis Engine Securitization Trust II, Deutsche Bank Trust Company Americas, as trustee, the Registrant 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).
10.15*	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).
10.16*	Note Purchase Agreement dated as of September 6, 2012 by and among Willis Engine Securitization Trust II, the Registrant, 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).
10.17*	Servicing Agreement dated as of September 17, 2012 between Willis Engine Securitization Trust II, the Registrant 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).
10.18*	Administrative Agency Agreement dated as of September 17, 2012 among Willis Engine Securitization Trust II, the Registrant, 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).
10.19*	Asset Transfer and Liquidation Agreement dated as of September 14, 2012 between the Registrant and Willis Engine Securitization Trust (incorporated by reference to Exhibit 10.19 to our report on Form 10-Q filed on November 9, 2012).
10.20*	Acquisition Transfer Agreement dated as of September 14, 2012 among the Registrant, Willis Engine Securitization Trust II, Facility Engine Acquisition LLC, WEST Engine Acquisition LLC, and WEST Engine Funding LLC (incorporated by reference to Exhibit 10.20 to our report on Form 10-Q filed on November 9, 2012).

10.21	Transition Agreement dated as of December 21, 2012 between Registrant and Thomas C. Nord (incorporated by reference to Exhibit 21.1 to our report on Form 10-K filed on March 18, 2013).
10.22	Employment Offer Letter to Paul D. “Dave” Johnson dated March 22, 2011.
11.1	Statement re Computation of Per Share Earnings.
21.1	Subsidiaries of the Registrant.
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 March 31, 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.

* 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.

+ Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

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: May 7, 2013

Willis Lease Finance Corporation

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

Exhibit 10.22

Willis Lease
Power to Spare – Worldwide®

773 San Marin Drive, Ste. 2215
Novato, CA 94998
(415) 408.4700 Phone
(415) 408.4701 Fax
www.willislease.com

March 22, 2011 **CONFIDENTIAL**

David Johnson
10723 ½ Ashton Avenue
Los Angeles, CA 90024

Dear Dave:

On behalf of Willis Lease Finance Corporation ("Willis Lease"), I am pleased to provide you with the following offer to join our company and become part of our team:

Title:	Senior Vice President, Sales & Marketing.
Manager:	Donald Nunemaker, EVP and General Manager, Leasing.
Start Date:	On or about April 21, 2011. We would work with you to be as flexible as possible with respect to the Start Date.
Base Salary:	Your base salary will be $300,000 per annum, less payroll withholdings. You will be paid semi-monthly.
Incentive Compensation:	For the 2011 year, you will be guaranteed to receive a minimum bonus of $75,000 pro-rated based on your start date. Thereafter, you will be eligible to participate in the Willis Lease Bonus Plan. Your target bonus percentage under the Willis Lease Bonus Plan will be equal to 50% of your base salary and consists of two components: (a) 70% of your target bonus percentage is based upon company performance, and (b) 30% of your target bonus is based upon individual performance. The Board of Directors of Willis Lease may at any time amend, suspend, or terminate the operation of this Plan, and will have full discretion as to the administration and interpretation of this Plan.
Restricted Stock:	You will be eligible for The Willis Lease 2007 Incentive Stock Plan. Restricted Stock Awards, based upon individual performance, may be granted to an individual by the Company and vest over a period of time. At each vest date, the vested shares are issued and valued at the market close price on the day of vesting. The vesting of the shares constitutes income for tax purposes, and the Company is required to withhold for mandatory deductions. The

Company provides three ways to satisfy the withholding obligation.

Relocation/
Temporary Housing
Reimbursement: Willis Lease shall reimburse you in the amount of up to $15,000 for your expenses incurred in connection with your relocation to the Bay Area. The Company will also reimburse you the cost of temporary housing, not to exceed 45 days. If you leave Willis Lease within one year of your start date by reason of voluntary resignation, you shall be required to repay the amount to Willis Lease. Federal law requires that Willis Lease report all relocation expenses on the employee's W-2 in the fiscal year earned.

Benefits: You will be entitled to participate in the following benefits (see attached 2011 Benefits Summary and Employee Contribution Sheet for specific details):

a) Vacation. Three weeks vacation on an annual basis prorated based upon start date.

b) Sick Leave. 10 paid days of sick time prorated based upon start date.

c) Company Medical, Dental, and Vision Plans.

d) 401(k) Plan. Willis Lease has a state-of-the-art 401(k) plan that permits almost unlimited investment selections and allows you to administer your account via the Internet or over the phone 24 hours a day. The Company also matches a certain percentage of your contribution to this plan.

e) Employee Stock Purchase Plan. Allows you to acquire shares of Willis Lease through payroll deduction on a fairly attractive basis.

f) Short-Term Disability.

g) Long-Term Disability Plan.

h) Group Life Plan.

i) Supplemental Life Insurance.

j) Employee Assistance Plan.

k) Educational Reimbursement Plan.

l) Matching Gift Program.

Severance: In the event your employment is terminated other than for cause, the company will provide you with a severance payment in an amount equal to one year's base salary, subject to all applicable withholding tax, payable in one lump-sum.

Your employment at Willis Lease is contingent upon satisfactory references and background check.

Your employment relationship is "at-will". This means that you may resign your employment with the Company at any time and for any reason whatsoever simply by notifying the Company. Likewise, the Company may terminate your employment at any time and for any reason whatsoever, with or without cause, simply by notifying you.

For purposes of federal immigration law, you will be required to provide documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us within three (3) business days of your date of hire.

This letter sets forth the terms of your employment with Willis Lease and supersedes any prior representations or agreements, whether written or oral. This letter may not be modified or amended except by written agreement, signed by you and authorized by an officer of Willis Lease.

Dave, all of us here at Willis Lease feel you would make an excellent addition to our staff and that you would be able to provide immediate assistance toward helping us meet our overall corporate goals.

Dave, this offer is valid **through March 30, 2011**. I look forward to hearing from you soon. Please feel free to call if you have any questions.

To indicate your acceptance of our offer, please sign and date this letter in the space provided and return one copy to me.

Sincerely,

WILLIS LEASE FINANCE CORPORATION

/s/ Donald A. Nunemaker
Donald A. Nunemaker
Executive Vice President & General Manager, Leasing

Agreed and Accepted To:

Name: /s/ David Johnson
David Johnson

Date: March 28, 2011

Exhibit 11.1

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Basic		
Earnings:		
Net income attributable to common shareholders	$ 1,610	$ 2,507
Shares:		
Average common shares outstanding	8,033	8,404
Basic earnings per common share	$ 0.20	$ 0.30
Assuming full dilution		
Earnings:		
Net income attributable to common shareholders	$ 1,610	$ 2,507
Shares:		
Average common shares outstanding	8,033	8,404
Potentially dilutive common shares outstanding	240	352
Diluted average common shares outstanding	8,273	8,756
Diluted earnings per common share	$ 0.19	$ 0.29

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 March 31, 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 March 31, 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.

Exhibit 21.1

List of Subsidiaries

Subsidiary	State or Jurisdiction of Incorporation
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*	Delaware
Willis Engine Securitization Trust II	Delaware
WEST Engine Acquisition LLC	Delaware
Facility Engine Acquisition LLC	Delaware
Willis Engine Securitization (Ireland) Limited	Rep. of Ireland

*This entity was liquidated and cancelled effective as of September 26, 2012.

Exhibit 31.1

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: May 7, 2013

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

Exhibit 31.2

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: May 7, 2013

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

Exhibit 32

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

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 March 31, 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: May 7, 2013

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

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

wlfc-20130331.xml

wlfc-20130331.xsd

wlfc-20130331_cal.xml

wlfc-20130331_def.xml

wlfc-20130331_lab.xml

wlfc-20130331_pre.xml