WILLIS LEASE FINANCE CORP
Form 10-K/A
October 17, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 2)

ý **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

for the fiscal year ended December 31, 2004

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 0-28774

WILLIS LEASE FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**68-0070656**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2320 Marinship Way, Suite 300, Sausalito, CA	**94965**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

None.

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock	Nasdaq
Preferred Stock	

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendments to this Form 10-K/A. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter was approximately $37.6 million (based on a closing sale price of $8.26 per share as reported on the NASDAQ National Market).

The number of shares of the registrant s Common Stock outstanding as of March 23, 2005 was 9,013,140.

The Company s Proxy Statement for the 2004 Annual Meeting of Stockholders is incorporated by reference into Part III of this 10-K/A.

EXPLANATORY NOTE

Willis Lease Finance Corporation (the Company) is filing this Amendment No. 2 to its Annual Report on Form 10-K for the year ended December 31, 2004 (the 2004 10-K), originally filed on March 31, 2005, to correct typographical errors in the date of the auditor s report and auditor s consent made in the Form 10-K/A, Amendment No. 1 filed on August 3, 2005. Only the auditor s report and auditor s consent have been changed but the entire Part II Item 8 Financial Statements and Supplementary Data has been included in this Amendment No. 2 to the 2004 10-K.

This Amendment No. 2 to the 2004 10-K should be read in conjunction with the Company s filings made with the SEC subsequent to the filing of the 2004 10-K and the filing of the 10-K/A, Amendment No. 1, including any amendments to those filings. The following items have been amended as a result of the corrections described above:

Part II Item 8 Financial Statements and Supplementary Data

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm

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.

Dated: September 27, 2005

Willis Lease Finance Corporation

By: /s/ CHARLES F. WILLIS, IV
Charles F. Willis, IV
Chairman of the Board, President, and
Chief Executive Officer

Dated:	Title	Signature
Date: September 27, 2005	Chief Executive Officer and Director (Principal Executive Officer)	/s/ CHARLES F. WILLIS, IV Charles F. Willis, IV
Date: September 27, 2005	Chief Financial Officer	/s/ MONICA J. BURKE Monica J. Burke
Date: September 27, 2005	Chief Accounting Officer	/s/ ROBERT M. WARWICK Robert M. Warwick
Date: September 27, 2005	Director	/s/ WILLIAM M. LEROY William M. LeRoy
Date: September 27, 2005	Director	/s/ GLENN L. HICKERSON Glenn L. Hickerson
Date: September 27, 2005	Director	/s/ W. WILLIAM COON, JR. W. William Coon, Jr.
Date: September 27, 2005	Director	/s/ GERARD LAVIEC Gerard Laviec

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Willis Lease Finance Corporation:

We have audited the accompanying consolidated balance sheets of Willis Lease Finance Corporation and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Willis Lease Finance Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the consolidated financial statements, the Company has restated the accompanying consolidated financial statements to reclassify net gain on debt prepayment in the consolidated statements of income for the year ended December 31, 2002, and to reclassify restricted cash in the consolidated balance sheets as of December 31, 2004, and December 31, 2003, and the consolidated statements of cash flows for each of the years in the three year period ended December 31, 2004.

/s/ KPMG LLP
San Francisco, California
March 18, 2005, except for Note 2 as to which the date is July 27, 2005

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2004 (as restated)	December 31, 2003 (as restated)
ASSETS		
Cash and cash equivalents	$ 5,540	$ 9,202
Restricted cash	46,324	33,784
Equipment held for operating lease, less accumulated depreciation of $83,881 and $67,873 at December 31, 2004 and 2003, respectively	511,443	499,454
Net investment in direct finance lease		5,551
Operating lease related receivable, net of allowances of $400 and $440 at December 31, 2004 and 2003, respectively	1,630	2,095
Notes receivable	436	
Investment	1,480	1,480
Assets under derivative instruments	1,398	7
Property, equipment & furnishings, less accumulated depreciation of $1,259 and $1,193 at December 31, 2004 and 2003, respectively	7,537	877
Other assets	9,670	7,572
Total assets	$ 585,458	$ 560,022
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 7,280	$ 5,753
Liabilities under derivative instruments		696
Deferred income taxes	27,530	25,283
Notes payable	369,840	362,395
Maintenance reserves	56,871	46,408
Security deposits	2,088	2,314
Unearned lease revenue	5,381	7,111
Total liabilities	468,990	449,960
Shareholders equity:		
Preferred stock ($0.01 par value, 5,000,000 shares authorized; none outstanding)		
Common stock, ($0.01 par value, 20,000,000 shares authorized; 8,998,365 and 8,846,805 shares issued and outstanding at December 31, 2004 and 2003, respectively)	90	88
Paid-in capital in excess of par	62,631	61,710
Accumulated other comprehensive gain/(loss), net of tax expense of $355 and tax benefit of $584 at December 31, 2004 and 2003, respectively	966	(660)
Retained earnings	52,781	48,924
Total shareholders equity	116,468	110,062
Total liabilities and shareholders equity	$ 585,458	$ 560,022

See accompanying notes to the consolidated financial statements.

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share data)

	Years Ended December 31, 2004		2003		2002 (as restated)
REVENUE					
Lease revenue	$	58,177	$ 56,977	$	55,397
Gain on sale of leased equipment		3,085	2,372		482
Other income		677	520		
Total revenue		61,939	59,869		55,879
EXPENSES					
Depreciation expense		23,198	21,686		19,449
Write-down of equipment		577	1,272		3,052
Net finance costs:					
Interest expense		18,449	17,409		19,110
Interest income		(434)	(244)		(432)
Net gain on debt prepayment					(4,073)
General and administrative		14,791	13,852		14,439
Total expenses		56,581	53,975		51,545
Income before income taxes		5,358	5,894		4,334
Income tax expense		(1,501)	(1,717)		(738)
Net income	$	3,857	$ 4,177	$	3,596
Basic earnings per common share:	$	0.43	$ 0.47	$	0.41
Diluted earnings per common share:	$	0.42	$ 0.47	$	0.41
Average common shares outstanding		8,925	8,840		8,831
Diluted average common shares outstanding		9,276	8,888		8,851

See accompanying notes to the consolidated financial statements.

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity and Comprehensive Income

Years Ended December 31, 2004, 2003 and 2002

(In thousands)

	Issued and outstanding shares of common stock	Common Stock	Paid-in Capital in Excess of par	Accumulated Other Comprehensive Income/(Loss) (net)	Retained earnings	Total shareholders equity
Balances at December 31, 2001	8,826	$ 88	$ 61,532	$ (1,815)	$ 41,151	$ 100,956
Net Income					3,596	3,596
Other comprehensive income						
Net gain on cashflow hedging instruments, net of tax of $131				239		239
Total comprehensive income						3,835
Shares issued under stock compensation plans	8		40			40
Tax benefit on disqualified dispositions of shares			74			74
Balances at December 31, 2002	8,834	88	61,646	(1,576)	44,747	104,905
Net Income					4,177	4,177
Other comprehensive income						
Net gain on cashflow hedging instruments, net of tax of $376				916		916
Total comprehensive income						5,093
Shares issued under stock compensation plans	13		61			61
Tax benefit on disqualified dispositions of shares			3			3
Balances at December 31, 2003	8,847	88	61,710	(660)	48,924	110,062
Net Income					3,857	3,857

Other comprehensive income						
Net gain on cashflow hedging instruments, net of tax of $939				1,626		1,626
Total comprehensive income						5,483
Shares issued under stock compensation plans	151	2	755			757
Tax benefit on disqualified dispositions of shares			166			166
Balances at December 31, 2004	8,998	$ 90	$ 62,631	$ 966	$ 52,781	$ 116,468

See accompanying notes to the consolidated financial statements.

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Years ended December 31, 2004 (as restated)	2003 (as restated)	2002 (as restated)
Cash flows from operating activities:			
Net income	$ 3,857	$ 4,177	$ 3,596
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	23,198	21,686	19,449
Write-down of equipment	577	1,272	3,052
Amortization of loan discount	256		
Allowances and provisions	(40)	141	200
Loss on derivative instruments			99
Gain on sale of leased equipment	(3,085)	(2,372)	(482)
Write-off of deferred costs	135	312	781
Changes in assets and liabilities:			
Receivables	505	1,144	(1,030)
Other assets	1,735	(205)	366
Accounts payable and accrued expenses	1,527	1,314	(686)
Deferred income taxes	1,474	1,707	729
Restricted cash	(12,540)	(9,298)	(4,135)
Maintenance reserves	14,368	12,197	5,297
Security deposits	(226)	(26)	(8)
Unearned lease revenue	(1,620)	546	234
Net cash provided by operating activities	30,121	32,595	27,462
Cash flows from investing activities:			
Proceeds from sale of equipment held for operating lease (net of selling expenses)	19,007	20,386	16,400
Proceeds from principal payment of notes receivable	1,778		
Proceeds from sale of property, plant & equipment	33		
Purchase of equipment held for operating lease	(59,371)	(31,881)	(47,652)
Purchase of property, equipment and furnishings	(7,445)	(78)	(267)
Net principal payments received on direct finance lease	5,551	1,281	467
Net cash (used in)/provided by investing activities	(40,447)	(10,292)	(31,052)
Cash flows from financing activities:			
Proceeds from issuance of notes payable	58,633	68,376	66,378
Debt issuance cost	(1,282)	(363)	(2,457)
Purchase of derivative instruments			(789)
Proceeds from issuance of common stock	757	61	40
Principal payments on notes payable	(51,444)	(83,978)	(61,245)
Net cash (used in)/provided by financing activities	6,664	(15,904)	1,927
Increase (decrease) in cash and cash equivalents	(3,662)	6,399	(1,663)
Cash and cash equivalents at beginning of period	9,202	2,803	4,466
Cash and cash equivalents at end of period	**$ 5,540**	**$ 9,202**	**$ 2,803**
Supplemental disclosures of cash flow information:			
Net cash paid for:			
Interest	$ 15,762	$ 14,933	$ 11,449
Income Taxes	$ 25	$ 29	$ 15

Supplemental disclosures of non-cash investing activities:

In 2003, a liability of $13,317 was incurred in connection with the Company s purchase of aircraft and engines.

See accompanying notes to the consolidated financial statements

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Willis Lease Finance Corporation (Willis or the Company) is a provider of aviation services whose primary focus is on providing operating leases of aftermarket commercial aircraft engines and other aircraft-related equipment to air carriers, manufacturers and overhaul/repair facilities worldwide. Willis also engages in the selective purchase and resale of commercial aircraft engines.

T-11 Inc. (T-11), and WLFC-AC1 Inc. are wholly-owned consolidated subsidiaries of Willis. T-11 is a California corporation and WLFC-AC1 Inc., is incorporated in Delaware and were established to purchase, lease and resell commercial aircraft engines and parts.

WLFC (Ireland) Limited is a wholly-owned subsidiary of Willis. WLFC (Ireland) Limited was formed in 1998 to facilitate certain of Willis international leasing activities.

During 2004, Terandon Leasing Corporation, T-2 Inc., T-4 Inc., T-5 Inc., T-7 Inc., T-8 Inc., T-10 Inc. and WLFC Engine Pooling Company were merged into their parent and dissolved.

Willis Engine Funding LLC (WEF) is a wholly owned subsidiary of Willis. WEF is a Delaware limited liability company and was established in 2002 for the purpose of financing aircraft engines and is a special-purpose bankruptcy-remote entity. WLFC Funding (Ireland) Limited is a wholly-owned subsidiary of WEF and was established in 2001 to facilitate certain international leasing activities.

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

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Willis, WEF, WLFC-AC1 Inc., WLFC Funding (Ireland) Limited and WLFC (Ireland) Limited (together, the Company). All intercompany balances and transactions have been eliminated in consolidation.

(c) *Revenue Recognition*

Revenue from leasing of aircraft equipment is recognized as operating lease or finance lease revenue over the terms of the applicable lease agreements. Revenue is not recognized when cash collection is not reasonably assured.

(d) *Equipment Held for Operating Lease*

Aircraft assets held for operating lease are stated at cost, less accumulated depreciation. Certain costs incurred in connection with the acquisition of aircraft assets are capitalized as part of the cost of such assets. Major overhauls paid for by the Company, which add economic value, are capitalized and depreciated over the estimated remaining useful life of the equipment. Overhauls paid for from the accumulated maintenance reserves are not capitalized.

The Company generally depreciates engines on a straight-line basis over a 15-year period from the acquisition date to a 55% residual value. The Company believes that this methodology accurately reflects the Company s typical holding period for the assets and, that the residual value assumption reasonably approximates the selling price of the assets 15 years from date of acquisition.

For engines or aircraft that are unlikely to be repaired at the end of the current expected useful lives, the Company depreciates the engines or aircraft over their estimated lives to a residual value based on an estimate of the wholesale value of the parts after disassembly.

The spare parts packages owned by the Company are depreciated on a straight-line basis over an estimated useful life of 15 years to a 25% residual value.

The aircraft owned by the Company are depreciated on a straight-line basis over an estimated useful life of 13 to 20 years to a 15% to 17% residual value.

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS 144) requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and long-lived assets and certain identifiable intangibles to be disposed of generally be reported at the lower of carrying amount or fair value less cost to sell. Impairment is identified by comparison of undiscounted forecast cash flows, including estimated sales proceeds, over the life of the asset with the assets book value. If the forecast undiscounted cash flows are less than the book value the asset is written down to its fair value. Fair value is determined by reference to independent appraisals, quoted market prices (e.g. an offer to purchase) and other factors considered relevant by Management. The Company conducts a formal annual review of the carrying value of long-lived assets. Such reviews resulted in impairment charges for engines and aircraft of $0.6 million, $1.3 million and $3.1 million (disclosed separately as Write-down of equipment in the Consolidated Statements of Income) in 2004, 2003 and 2002, respectively.

(e) *Loan Commitment and Related Fees*

To the extent that the Company is required to pay fees in order to secure debt, such fees are capitalized and amortized over the life of the related loan using the interest method.

(f) *Maintenance and Repair Costs*

Maintenance and repair costs under the Company s leases are generally the responsibility of the lessees. Under many of the Company s leases, lessees pay periodic use fees to the Company based on the usage of the asset. The Company records a Maintenance reserve liability in respect of the use fees collected. Upon the completion of approved maintenance of an asset, such fees are returned to the lessee up to the amount of the repair but not exceeding the use fees paid by the lessee. Under certain of the Company s leases, the lessee is not obligated to perform maintenance on the asset. At the end of the lease, any un-reimbursed maintenance reserves are retained by the Company, and recognized as income upon sale of the related engine. Such amounts recognized were $0.9 million for the years ended December 31, 2004 and 2003.

(g) *Interest Rate Hedging*

The Company has entered into various hedge agreements to mitigate its exposure on its variable rate borrowings. The differential to be paid or received under the hedge agreements is charged or credited to interest expense.

The Company accounts for derivatives and hedging activities in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities (as amended), and under these Statements the Company s interest rate swaps were designated as cash flow hedges. Cash flow hedges are recognized on the balance sheet at their fair value. The Company formally documents, at the contract s inception, all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all cash-flow hedges to liabilities on the balance sheet. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of the hedged items.

Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability in cash flows of the designated hedged item.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

During the year ended December 31, 2002, the Company recorded adjustments to Accumulated Other Comprehensive Income/(Loss) of $239,000 (net of tax of $131,000) for changes in fair value of effective cash flow hedges and charges of $0.1 million to interest expense for changes in fair value of ineffective cash flow hedges.

During the year ended December 31, 2003, the Company recorded adjustments to Accumulated Other Comprehensive Income/(Loss) of $0.9 million (net of tax of $0.4 million) for changes in fair value of effective cash flow hedges.

During the year ended December 31, 2004, the Company recorded adjustments to Accumulated Other Comprehensive Income/(Loss) of $1.6 million (net of tax expense of $0.9 million). Refer to Note 5 for further details.

(h) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in the tax rates is recognized in income in the period that includes the enactment date.

(i) Property, Equipment and Furnishings

Property, equipment and furnishings are recorded at cost and depreciated by the straight-line method over the estimated useful lives of the related assets, which range from three to seven years. Leasehold improvements are recorded at cost and depreciated by the straight-line method over the lease term.

(j) Sale of Leased Equipment

The Company regularly sells equipment from its lease portfolio. This equipment may or may not be subject to a lease at the time of sale. The gain or loss on such sales is recognized as revenue and consists of proceeds associated with the sale less the net book value of the asset sold and any direct costs associated with the sale. To the extent that deposits or maintenance reserves associated with the engine are not included in the sale the Company includes such items in its calculation of gain or loss. The Company also engages in engine exchanges and where the cash element of the exchange exceeds 25% of the fair value of the transaction the exchange is treated as a monetary one and the gain or loss on sale is recognized.

(k) Cash and Cash Equivalents

The Company considers highly liquid investments readily convertible into known amounts of cash, with original maturities of 90 days or less, as cash equivalents.

(l) Restricted Cash

The Company has certain bank accounts that are subject to restrictions in connection with the Company s borrowings. Under the warehouse facility cash is collected in a restricted account, which is used to service the debt and any amounts remaining after debt service and defined expenses are distributed to the Company. Additionally, under this facility maintenance reserve payments and lease security deposits are accumulated in a restricted account and are not available for general use. Further, the Company must maintain a cash reserve equal to 2% of the outstanding warehouse debt at all times. The WLFC-AC1 credit facility has similar maintenance reserve and security deposit accounts restricted from general use. Maintenance reserve accounts are only available to meet the costs of specified engine maintenance or repair provisions and will usually be reimbursed to the lessee. In the event an engine is sold, accumulated maintenance reserves may then be available to the Company (see note 1(j) above). Security deposits are held until the end of the lease, at which time provided return conditions have been met, the deposit will be returned to the lessee. To the extent return conditions are not met, these deposits may be retained by the Company.

(m) *Reclassifications*

Certain items in the consolidated financial statements of prior years have been reclassified to conform to the current year s presentation.

(n) *Management Estimates*

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

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

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

If the useful lives or residual values are lower than those estimated by the Company, upon sale of 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.

(o) *Comprehensive Income*

The Company reports changes in equity from all sources. For the years ended December 31, 2004, 2003 and 2002, comprehensive income includes net income and the net gain or loss on the change in fair value of cash flow hedges.

(p) *Per share information*

Basic earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The computation of fully diluted earnings per share is similar to the computation of basic earnings per share, except for the inclusion of all potentially dilutive common shares. The reconciliation between basic common shares and fully diluted common shares is presented below:

		Years ended December 31,	
	2004	**2003**	**2002**
		(in thousands)	
Shares:			
Weighted-average number of common shares outstanding	8,925	8,840	8,831
Potentially dilutive common shares	351	48	20
Total Shares	9,276	8,888	8,851
Potential common stock excluded as anti-dilutive in period	406	1,645	1,263

(q) *Investment*

The Company s investment is in a non-marketable security where management does not have significant influence and is recorded at cost. Management evaluates the investment for impairment quarterly. No adjustment to the carrying value was required during the periods presented.

(r) *Stock Options*

The Company accounts for its two stock based compensation plans (as described in Note 10) using the intrinsic value method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees and related interpretations, as allowed under SFAS No. 123, Accounting for Stock Based Compensation and SFAS No. 148, Accounting for Stock Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. APB 25 requires compensation expense to be recognized over the employee service period based on the excess, if any, of the quoted market price of the stock at the date the award is granted or other measurement date, as applicable, over an amount the employee must pay to acquire the stock. As a result no compensation expense has been recognized during the three years ended December 31, 2004.

Had compensation cost for the Company s two stock-based compensation plans been determined consistent with SFAS 148, the Company s net income and earnings per share would have been as follows:

		2004		2003		2002
Net income as reported	$	3,857	$	4,177	$	3,596
Deduct: Total stock-based employees compensation expense determined under fair value based method for all awards, net of related tax effect		(748)		(651)		(929)
Proforma net income	$	3,109	$	3,526	$	2,667
Basic earnings per common share as reported	$	0.43	$	0.47	$	0.41
Basic earnings per common share pro forma	$	0.35	$	0.40	$	0.30
Diluted earnings per common share as reported	$	0.42	$	0.47	$	0.41
Diluted earnings per common share pro forma	$	0.34	$	0.40	$	0.30

The fair value of the purchase rights under the Purchase Plan, the Plan is estimated using the Black-Scholes option pricing model.

The assumptions underlying the estimates derived using the Black-Scholes model are as follows:

	1996 Stock Option/ Stock Issuance Plan			Employee Stock Purchase Plan		
	2004	2003	2002	2004	2003	2002
Expected Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk-free Interest Rate	3.61%	2.89%	3.47%	1.84%	1.21%	3.94%
Expected Volatility	69.15%	72.07%	72.80%	69.59%	71.35%	72.80%
Expected Life (in years)	5.17	3.97	3.89	0.5 2.0	0.5 -1.0	0.5-2.0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company s employee stock plans have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company s stock plans and the warrants.

(s) Initial Direct Costs associated with Leases

The Company accounts for the initial direct costs, including sales commission and legal fees, incurred in obtaining a new lease by deferring and amortizing those costs over the term of the lease. The amortization of these costs is recorded under General and Administrative expenses in the Consolidated Statements of Income. The amounts amortized were $737,000, $440,000 and $409,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

(2) Restatements

The Company recently reviewed its financial statement presentation and disclosure in response to comments received from the staff (the Staff) of the Securities and Exchange Commission (the SEC) in a normal periodic review of the Company s filings. As a result, the Company is restating the accompanying consolidated statement of income for the year ended December 31, 2002 to reclassify a portion of the Company s revenue for a net gain on debt prepayment to classify such gain as a separate item as part of expenses.

In response to comments from the Staff the Company is also restating the consolidated balance sheets for December 31, 2004 and 2003, to separately classify cash that is restricted in connection with the Company s borrowings. The restricted cash was previously disclosed in narrative form and included within the description for cash and cash equivalents. The consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002 have been restated to reflect the impact of this change.

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

Consolidated Income Statement Information	**For the Year Ended December 31, 2002 As Previously Filed**	**As Restated**
REVENUE		
Net gain on debt repayment	4,073	
Total revenues	59,952	55,879
EXPENSES		
Interest expense		19,110
Interest income		(432)
Net gain on debt repayment		(4,073)
Total expenses	36,940	51,545
Interest expense	19,110	
Interest income	(432)	
Net interest and finance costs	18,678	
Income before income taxes	$ 4,334	$ 4,334

For the years ended December 31, 2004, 2003 and 2002 the Company is reclassifying interest expense and interest income in the in the consolidated statements of income to expense. Due to the reclassification, earnings from operations is no longer presented within the statements of income.

Consolidated Balance Sheet Information	**December 31, 2004 As Previously Filed**	**As Restated**	**December 31, 2003 As Previously Filed**	**As Restated**
Cash and cash equivalents	$ 51,864	$ 5,540	$ 42,986	$ 9,202
Restricted cash		46,324		33,784

	For the Years Ended December 31,					
	2004		2003		2002	
Consolidated Statements of Cash Flow Information	**As Previously Filed**	**As Restated**	**As Previously Filed**	**As Restated**	**As Previously Filed**	**As Restated**
Changes in assets and liabilities:						
Restricted cash		(12,540)		(9,298)		(4,135)
Net cash provided by operating activities	42,661	30,121	41,893	32,595	31,597	27,462
Increase (decrease) in cash and cash equivalents	8,878	(3,662)	15,697	6,399	2,472	(1,663)
Cash and cash equivalents at beginning of period	42,986	9,202	27,289	2,803	24,817	4,466
Cash and cash equivalents at end of period	51,864	5,540	42,986	9,202	27,289	2,803

(3) Equipment Held For Lease and Net Investment in Direct Finance Lease

At December 31, 2004, the Company had 115 aircraft engines and related equipment with an aggregate original cost of $559.8 million, 3 spare parts packages with an aggregate original cost of $3.6 million and five aircraft with an aggregate original cost of $24.0 million and engine-related equipment with an aggregate original cost of $8.7 million, in its operating lease portfolio. At December 31, 2003, the Company had 119 aircraft engines and related equipment with an aggregate original cost of $534.0 million, 4 spare parts packages with an aggregate original cost of $10.4 million, seven aircraft with an aggregate original cost of $29.6 million and engine-related equipment with an aggregate original cost of $3.4 million in its operating and finance lease portfolio.

A majority of the Company s aircraft equipment is leased and operated internationally. All leases relating to this equipment are denominated and payable in U.S. dollars.

The Company leases its aircraft equipment to lessees domiciled in 9 geographic regions. The tables below set forth geographic information about the Company s leased aircraft equipment grouped by domicile of the lessee (which is not necessarily indicative of the asset s actual location):

Lease revenue	**2004**	**Years ended December 31, 2003 (in thousands)**	**2002**
Region			
United States	$ 8,094	$ 6,373	$ 9,067
Canada	238	1,042	1,041
Mexico	4,225	4,349	2,717
Australia/New Zealand	670	853	305
Europe	25,943	25,310	24,906
South America	8,452	7,576	6,322
Asia	4,889	5,540	6,312
Africa	1,064	1,373	418
Middle East	4,602	4,561	4,309
Totals	$ 58,177	$ 56,977	$ 55,397

Lease revenue less applicable depreciation, and interest:	**2004**	**Years ended December 31, 2003 (in thousands)**	**2002**
Region:			
United States	$ 2,284	$ 1,148	$ 3,071
Canada	216	914	488
Mexico	980	1,143	1,177
Australia/New Zealand	194	426	141
Europe	12,241	13,421	12,461
South America	3,852	4,111	3,257
Asia	2,313	2,736	2,978
Africa	571	775	135
Middle East	2,299	2,460	1,860
Off-lease and other	(4,552)	(4,682)	(8,097)
Totals	$ 20,398	$ 22,452	$ 17,471

16

Net book value of equipment held for operating lease:	**2004**	**As of December 31, 2003 (in thousands)**	**2002 (as restated)**
Region			
United States	$ 70,611	$ 48,575	$ 47,484
Canada			13,415
Mexico	38,387	37,025	26,776
Australia/New Zealand		10,470	18,103
Europe	170,088	195,887	179,230
South America	67,927	59,064	44,265
Asia	41,073	38,213	42,450
Africa	5,860	5,884	15,462
Middle East	38,024	38,475	34,173
Off-lease and other	79,473	65,861	74,040
Totals	$ 511,443	$ 499,454	$ 495,398

Included in off-lease and other is equipment that is held for disposal totaling approximately $5.5 million at December 31, 2004 and $7.0 million at December 31, 2003.

As of December 31, 2004 and 2003, the lease status of the equipment held for operating lease was as follows:

Lease Term	**December 31, 2004 Net Book Value (in thousands)**
Off-lease and other	$ 79,473
Month-to-month leases	35,252
Leases expiring 2005	180,261
Leases expiring 2006	79,046
Leases expiring 2007	32,988
Leases expiring 2008	29,008
Leases expiring 2009	6,418
Leases expiring thereafter	68,997
	$ 511,443

Lease Term	**December 31, 2003 Net Book Value (in thousands)**
Off lease and other	$ 65,861
Month-to-month leases	74,325
Leases expiring 2004	134,970
Leases expiring 2005	51,473
Leases expiring 2006	61,745
Leases expiring 2007	34,650
Leases expiring 2008	28,160
Leases expiring thereafter	48,270
	$ 499,454

The net investment in direct finance leases on December 31, 2004 and 2003 was as follows:

	2004	2003
	(in thousands)	
Minimum payments receivable	$	$ 714
Guaranteed residual value of leased assets		4,950
Unearned income		(113)
Net investment in finance lease	$	$ 5,551

The finance lease terminated during 2004.

As of December 31, 2004, minimum future payments under non-cancelable leases were as follows:

Year		(in thousands)
2005	$	37,431
2006		22,483
2007		16,527
2008		12,258
2009		9,358
Thereafter		11,008
	$	109,065

(4) Notes Receivable

At December 31, 2004, the Company had Notes Receivable of $0.4 million relating to the sale of two airframes in 2004. The notes are payable over two years at 6% per annum interest. The final payment is due July 2006.

(5) Notes Payable

Notes payable consisted of the following:

	As of December 31, 2004 (in thousands)	2003
Notes payable at a fixed interest rate of 8.63%. Secured by aircraft engines. The note matures in September 2006.	$ 2,291	$ 2,658
Note payable at a fixed interest rate of 6.95% secured by aircraft. The note matures in September 2005.	4,944	5,904
Class A notes payable of $194.4 million payable at a floating rate of interest based on commercial paper rates plus an average weighted spread of 2.26% and $21.6 million Class B notes payable at LIBOR plus an average weighted spread of 5.32%. The facility has a revolving period which ended in March 2005, followed by a 4-year amortization period. The Company has a guarantee to Class B Noteholders to a maximum of $21.6 million. The assets of the Issuer (WEF) and any associated Owner Trust are not available to satisfy the obligations of the Company or any of its affiliates.	216,000	219,000
Credit facility at a floating rate of interest of LIBOR plus 2.25% (2003, 1.75%). Secured by engines. The facility has a committed amount of $148.5 million (2003, $125.0 million), which revolves until May 2006 and matures in May 2007.	117,000	95,000
Note payable at a floating rate of LIBOR + 2.75%. The note had a maturity of December 2009 but was repaid in 2004.		415
Note payable at a floating rate of LIBOR + 2.05%. The note matures in June, 2005. Secured by aircraft engines.	17,958	22,225
Note payable at a fixed interest rate of 7.75% secured by aircraft. The note matures in December 2006.	2,644	3,876
Note payable at a fixed interest rate of 6% secured by an aircraft engine. The note was repaid in 2004.		4,436
Note payable at fixed interest rate of 6% maturing in 2005. Secured by an engine.	2,592	
Note payable at a floating rate of LIBOR + 1.78% maturing in 2011. Secured by an aircraft. A second tranche of $0.55 million was committed but unused as of December 31, 2004.	6,411	
Note payable, with no interest rate, secured by aircraft, engines and related equipment. The note was repaid in 2004 (net of 6% imputed discount of $256).		8,881
Total notes payable	$ 369,840	$ 362,395

At December 31, 2004, 1-month LIBOR was approximately 2.4% and the Commercial Paper rate was approximately 2.21%. At December 31, 2003, the rates were 1.12% and 1.05%, respectively.

The fair value of the Company s long-term debt is estimated based on quoted market prices for the same or similar issues or on the rates offered to the Company for debt of the same remaining maturities. The fair value of the Company s debt is estimated by the Company to be $369.6 million at December 31, 2004.

Principal outstanding at December 31, 2004, is repayable as follows:

Year		**(in thousands)**
2005	$	37,839
2006		16,430
2007		130,856
2008		14,511
2009		165,042
Thereafter		5,162
	$	369,840

Certain of the debt instruments above also have covenant requirements such as a minimum tangible net worth and interest coverage. As of December 31, 2004, the Company was in compliance with all covenant requirements.

At December 31, 2004, the Company had a $148.5 million revolving credit facility to finance the acquisition of aircraft engines for lease as well as for general working capital purposes. As of December 31, 2004, $31.5 million was available under this facility. The facility matures in May 2007. The interest rate on this facility at December 31, 2004 was 1-month LIBOR plus 2.25%. Under the revolver facility, all subsidiaries except WLFC-AC1 and Willis Engine Funding LLC (WEF) jointly and severally guarantee payment and performance of the terms of the loan agreement. The maximum guarantee is $148.5 million plus any accrued and unpaid interest, fees or reimbursements but is limited at any given time to the sum of the principal outstanding plus accrued interest and fees. The guaranty would be triggered by a default under the agreement.

At December 31, 2004, the Company had a fully drawn $216.0 million debt warehouse facility. A wholly-owned special purpose entity, WEF, was created in 2002 for the purpose of financing jet aircraft engines. The facility had a six-month revolving period which ended March 9, 2005, followed by a four-year amortization period, during which 90% of the net rents from the collateral are used to pay down principal, followed by a final balloon payment The facility s structure is designed to facilitate the issuance of public or private securitized notes. There is no assurance that a securitization can be completed or completed on terms that are favorable or acceptable to the Company. The Company will either renegotiate this facility with its lenders or the facility will go into its amortization period. The facility notes are divided into $194.4 million Class A notes and $21.6 million Class B notes. The Company has a guaranty to the Class B Noteholders determined by a formula in the debt agreement. The maximum amount of the guaranty at December 31, 2004 is $21.6 million. If WEF defaults on its obligations, the full amount of the Class B notes outstanding (together with any accrued interest and fees) is due and payable immediately. The governing documents of the warehouse facility and the WEF operating agreement require that the assets of WEF and any associated Owner Trust are not available to satisfy the obligations of the Company or any of its affiliates. WEF is consolidated for financial statement presentation purposes. At December 31, 2004, interest on the Class A notes is a commercial paper rate plus a weighted average spread of approximately 2.26% and interest on the Class B Notes is 1-month LIBOR plus a weighted average spread of 5.32%.

At December 31, 2004, the Company had warehouse and revolving credit facilities totaling $364.5 million compared to $344.0 million at December 31, 2003. At December 31, 2004 and 2003, respectively, $31.5 million and $30.0 million was available under these combined facilities.

At December 31, 2004, the Company had an $18.0 million term loan facility available to a wholly-owned consolidated subsidiary of the Company, WLFC-AC1, for the financing of jet aircraft engines sold by the Company to such subsidiary. The facility is a five-year term loan with final maturity of June 29, 2005. The interest rate is 1-month LIBOR plus 2.05%. This facility is fully drawn. The Company guarantees the obligations of WLFC-AC1 under the terms of this facility.

(6) Derivative Instruments

The Company holds a number of interest rate hedges to mitigate its exposure to changes in interest rates, in particular LIBOR, as 97% of the Company s borrowings are at variable rates. In addition, WEF is required under its credit agreement to hedge a portion of its borrowings. These hedges have been documented and designated as cash flow hedges under SFAS 133 Accounting for Derivative Instruments and Hedging Activities (as amended). At December 31, 2004, the Company was a party to interest rate swap agreements with notional outstanding amounts of $100.0 million, remaining terms of between 27 and 37 months and fixed rates of between 2.52% and 3.45%. The fair value of these swaps at December 31, 2004, was positive $1.4 million and represented the estimated amount the Company would receive if it terminated the swaps. The Company purchased a number of forward-commencing interest rate caps, documented and designated as cash flow hedges, during the second quarter of 2002. These caps have notional amounts of $60.0 million, with 3 year terms, and effective dates commencing in 2003 and rates capped at 5.5%. At December 31, 2004, the estimated fair value of the caps was zero.

Under the swap contracts, the difference between the index and the fixed rate that is paid or received by the Company is charged or credited to interest expense.

The Company uses an external provider to ascertain the fair value of the hedges and assess the effectiveness of the hedges during the period. Valuation of the hedges 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 and has not changed its method of valuation or assessment of effectiveness during the period.

The Company reviews the effectiveness of its interest rate hedges on a quarterly basis and adjusts the fair value of the interest rate hedges through either Accumulated Other Comprehensive Income/(Loss) and/or earnings for the period. For the year ended December 31, 2004, the change in fair value of the interest rate hedges recorded to Accumulated Other Comprehensive Income/(Loss) was a gain of $1.6 million (net of tax expense of $0.9 million). For the year ended December 31, 2003, the change in fair value of the interest rate hedges recorded to Accumulated Other Comprehensive Income/(Loss) was a gain of $0.9 million (net of tax expense of $0.4 million). Interest expense for the years ended December 31, 2004 and 2003, was increased due to the Company s interest rate hedges by approximately $1.6 million and $2.3 million, respectively. A reclassification into earnings from Accumulated Other Comprehensive Income/(Loss) may occur if the Company changes the terms of its debt such that the terms of the hedges no longer match or the hedges are terminated ahead of their maturity. The Company has no plans to undertake such transactions and accordingly, does not expect any reclassification into earnings within the next 12 months. Based on the implied forward rate for LIBOR at December 31, 2004, the Company anticipates that interest expense will be decreased by approximately $0.2 million for the year ending December 31, 2005.

(7) **Income Taxes**

The components of income tax for the years ended December 31, 2004, 2003 and 2002, included in the accompanying consolidated statements of income were as follows:

	Federal		State (in thousands)		Total	
December 31, 2004						
Current	$		$	23	$	23
Deferred		902		410		1,312
Charges in Lieu of Tax		145		21		166
	$	1,047	$	454	$	1,501
December 31, 2003						
Current	$		$	10	$	10
Deferred		1,184		519		1,703
Charges in Lieu of Tax		3		1		4
	$	1,187	$	530	$	1,717
December 31, 2002						
Current	$		$	13	$	13
Deferred		988		(337)		651
Charges in Lieu of Tax		86		(12)		74
	$	1,074	$	(336)	$	738

The following is a reconciliation of the federal income tax expense at the statutory rate of 34% to the effective income tax expense on continuing operations:

	Years ended December 31, (in thousands and % of pre-tax income)					
	2004		2003		2002	
	$	%	$	%	$	%
Statutory federal income tax expense	1,822	34	2,004	34	1,474	34
State taxes, net of federal benefit	307	6	350	6	(222)	(5)
Extraterritorial income exclusion	(671)	(13)	(661)	(11)	(533)	(12)
Other	43	1	24		19	
Effective income tax expense	1,501	28	1,717	29	738	17

In 2004, 2003, and 2002, the Company determined that a number of assets and their associated leases qualify for exclusion from federal taxable income under the Extraterritorial Income Exclusion rules, resulting in a reduction in the federal effective tax rate.

In 2002, the Company changed its estimated apportionment of income attributable to California, due to a change in the composition of the Company s revenue, resulting in an income tax benefit of $0.6 million. In addition, the Company has provided for a gross valuation allowance of $0.1 million relating to California net operating losses expiring in 2006 where management believes realizing the benefit of the loss carry-forward is not assured, and included in state taxes in the table above.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	As of December 31, 2004	2003
	(in thousands)	
Deferred tax assets:		
Charitable contribution	$ 83	$ 67
Unearned lease revenue	1,968	2,411
State Taxes	8	9
Reserves and allowances	309	161
Alternative minimum tax credit	335	335
Net operating loss carry forward	37,789	30,410
Total gross deferred tax assets	40,492	33,393
Less valuation allowances	(115)	(115)
Net deferred tax assets	40,377	33,278
Deferred tax liabilities:		
Depreciation on aircraft engines and equipment	(67,552)	(59,145)
	(27,175)	(25,867)
Deferred tax (liability)/asset related to unrealized (gain)/loss on derivative instruments	(355)	584
Net deferred tax liability	$ (27,530)	$ (25,283)

As of December 31, 2004, the Company had net operating loss carry forwards of approximately $108.2 million for federal tax purposes and $17.0 million for state tax purposes. The federal net operating loss carry forwards will expire at various times from 2019 to 2024 and the state net operating loss carry forwards will expire at various times from 2006 to 2014. However, in 2002, the Company provided for a valuation allowance against California net operating losses (NOLs) totaling $2.0 million that expire in 2006 and realization is not assured. Net operating losses can be used as a deduction against future income arising from the U.S. consolidated filing group. As of December 31, 2004, the Company also had alternative minimum tax credits of approximately $0.3 million for federal income tax purposes which have no expiration date and which should be available to offset future alternative minimum tax liabilities. Management believes that no valuation allowance is required on deferred tax assets, other than the California NOL as stated, as it is more likely than not that all amounts are recoverable through future taxable income.

(8)