

WILLIS LEASE FINANCE CORP
Form 10-K/A
November 29, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 3

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the fiscal year ended December 31, 2004
- 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	

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

Indicate by check mark 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.

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

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 (June 30, 2004) 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. 3 to its Annual Report on Form 10-K for the year ended December 31, 2004 (the 2004 10-K). The 2004 10-K was originally filed on March 31, 2005, and subsequently amended on August 3, 2005 and October 14, 2005. This Amendment No. 3 addresses the restatement of the consolidated financial statements for the Company's inappropriate application of accounting for derivative related transactions under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (SFAS 133).

The Company enters into derivative instruments (swaps and caps) to hedge its interest rate exposure. Certain deficiencies have been identified in the Company's derivative documentation.

The Company had designated its swap and cap derivatives as cash flow hedges of its interest payments on its variable rate debt. It was determined that the documentation related to these derivative instruments was insufficient to meet the documentation criteria under SFAS 133 and as a result that the Company could not apply hedge accounting to the transactions.

A portion of the Company's interest payments were based on commercial paper rates. The Company erroneously tested the effectiveness of the related derivative instruments using one-month LIBOR instead of data that would have included both the interest rate risk and credit risk of the issuer of the commercial paper.

Please refer to Note 2 to the accompanying consolidated financial statements for additional information. The 2004, 2003 and 2002 consolidated balance sheets, statements of income, statements of shareholders' equity and statements of cash flows are restated to reflect the change in the fair market value of derivative contracts in the income statement and not in other comprehensive income, where the change was previously recorded. The amortization of upfront premium payments on interest rate caps has been reversed and is no longer a component of interest expense. In addition, the realized gain/loss (i.e. cash settlements) on derivative instruments has been reclassified from interest expense to realized and unrealized (gains) and losses on derivative instruments in the statements of income. The restatements contained within this Amendment No. 3 do not affect the economics of the derivative contract transactions but the change in the accounting presentation significantly increases the volatility in earnings, both quarter to quarter within a year and between years. The effect on net income, retained earnings and the components of shareholders' equity will differ from period to period. This Form 10-K/A also includes the restatement of selected financial data included in Item 6 and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

The accounting restatement for derivative instruments had the following effect on the Company's consolidated statements of income, balance sheets and cash flow accounts:

	2004	Increase (Decrease)	
		2003	2002
Consolidated Statements of Income:			
Interest expense	\$ (2,099)	\$ (2,452)	\$ (2,848)
Realized and unrealized (gains) and losses on derivative instruments	(465)	1,160	2,477
Net finance costs	(2,564)	(1,292)	(371)

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Income tax expense	938	376	132
Net income	1,626	916	239

Consolidated Balance Sheets:

Accumulated other comprehensive income	\$ (966)	\$ 660	\$ 1,576
Retained earnings	966	(660)	(1,576)
Total shareholders' equity			

Consolidated Statements of Cash Flows:

Net income	\$ 1,626	\$ 916	\$ 239
Change in fair value of derivative instruments	(2,086)	(1,157)	(371)
Change in deferred income taxes	938	376	132
Change in other assets	(478)	(135)	
Net cash provided by operating activities			

Included in this restatement is a reclassification on the statements of cash flows from amortization of deferred costs to changes in other assets to correct for the erroneous inclusion of the amortization of prepaid expenses in this line item.

The Company's independent accounting firm has also issued their Report of Independent Registered Public Accounting Firm in connection with the restatements, which is included with the financial statements. For the convenience of the reader, this Form 10-K/A

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sets forth the complete text of the originally filed 2004 Form 10-K as well as the subsequent amendments rather than just the amended portions thereof.

The Company is filing 10-Q/A s for the quarters ended March 31, 2005, and June 30, 2005, and the Company s 10-Q for the quarter ended September 30, 2005, concurrently with this Form 10-K/A Amendment No. 3. The following items have been amended as a result of the restatements and reclassifications described above:

Part I Item 1 Business

Part II Item 6 Selected Financial Data

Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations

Part II Item 8 Financial Statements and Supplementary Data

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm

Exhibit 31.1 Certification Chief Executive Officer

Exhibit 31.2 Certification Chief Financial Officer

Exhibit 32 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

WILLIS LEASE FINANCE CORPORATION

2004 FORM 10-K/A ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Willis Lease Finance Corporation and its subsidiaries (the Company) is a lessor of commercial aircraft engines and other aircraft-related equipment. The Company provides these services to passenger airlines, air cargo carriers and maintenance and repair organizations (MROs). Aircraft operators need engines and parts beyond those installed in the aircraft that they operate. These spare aircraft engines and parts are required for various reasons including requirements that engines and parts be inspected and repaired at regular intervals based on equipment utilization. Furthermore, unscheduled events such as mechanical failure, Federal Aviation Administration (FAA) directives or manufacturer recommended actions for maintenance, repair and overhaul of engines and parts can give rise to demand for spare engines.

The Company's engine portfolio consists of noise compliant Stage III commercial jet aircraft engines manufactured by CFM International, General Electric, Pratt & Whitney, Rolls Royce and International Aero Engines. These engines are the most widely used aircraft engines in the world, powering Airbus, Boeing and McDonnell Douglas aircraft. As of December 31, 2004, the Company had a total lease portfolio consisting of 115 engines and related equipment, five aircraft, three spare parts packages and various parts and other engine-related equipment with an aggregate net book value of \$511.4 million and 43 lessees in 26 countries.

On November 7, 2000, the Company entered into agreements for a series of strategic transactions, each of which closed on November 30, 2000, with Flightlease AG, (now in liquidation) a corporation organized under the laws of Switzerland (Flightlease), SR Technics Group, a corporation organized under the laws of Switzerland (SRT), FlightTechnics, LLC, a Delaware limited liability company (FlightTechnics) and SR Technics Group America, Inc., a Delaware corporation (SRT Group America), each of which are affiliated companies. In connection with the strategic transactions, the Company sold 1,300,000 newly issued shares of its common stock to FlightTechnics and granted an option to purchase additional shares. No shares were issued pursuant to the option which expired in 2002. FlightTechnics has the right to demand up to two registrations of its stock with the Securities and Exchange Commission (SEC) which are exercisable beginning November 30, 2003. The Company amended its Rights Agreement dated September 24, 1999, between the Company and American Stock Transfer & Trust Company to include FlightTechnics and its affiliates under the definition of an Exempt Person, subject to FlightTechnics and its affiliates owning a certain percentage of the Company's common stock.

FlightTechnics also may purchase more shares of the Company's common stock in the open market or from existing stockholders upon the occurrence of certain conditions, but in no event may FlightTechnics and its affiliates collectively own more than 49.9% of the Company's issued and outstanding common stock before November 30, 2005. Certain stockholders, including Charles F. Willis IV and FlightTechnics have also agreed to certain voting provisions and to certain restrictions on their abilities to sell their shares of the Company's common stock.

The Company is a Delaware corporation. Its executive offices are located at 2320 Marinship Way, Suite 300, Sausalito, California 94965. The Company transacts business directly and through its subsidiaries unless otherwise indicated.

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The Company maintains a website at www.willislease.com where its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with or furnished to the SEC.

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

AIRCRAFT EQUIPMENT LEASING

As of December 31, 2004, all of the Company's leases to air carriers, manufacturers and MROs are operating leases as opposed to finance leases. Under an operating lease, the Company retains title to the aircraft equipment thereby retaining the benefit and assuming the risk of the residual value of the aircraft equipment. Operating leases allow airlines greater fleet and financial flexibility due to the relatively small initial capital outlay necessary to obtain use of the aircraft equipment. Operating lease rates are generally higher than finance lease rates, in part because of the risks associated with the residual value. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results.

All of the Company's lease transactions are triple-net leases. A triple-net lease requires the lessee to make the full lease payment and pay any other expenses associated with the use of the equipment, such as maintenance, casualty and liability insurance, sales or use taxes and personal property taxes. The leases contain detailed provisions specifying maintenance standards and the required condition of the aircraft equipment upon return at the end of the lease. During the term of the lease, the Company generally

requires the lessee to maintain the aircraft equipment in accordance with an approved maintenance program designed to ensure that it meets applicable regulatory requirements in the jurisdictions in which the lessee operates. Under short-term leases and certain medium-term leases, the Company may undertake a portion of the maintenance and regulatory compliance risk.

The Company attempts to mitigate risk where possible. For example, the Company makes an independent analysis of the credit risk associated with the lessee before entering into any significant lease transaction. The Company's credit analysis generally consists of evaluating the prospective lessee's financial standing utilizing financial statements and trade and/or banking references. In certain circumstances, where the Company believes necessary, the Company may require its lessees to provide additional credit support such as a letter of credit or a guarantee from a bank or a third party or a security deposit. The Company also evaluates insurance and expropriation risk and evaluates and monitors the political and legal climate of the country in which a particular lessee is located in order to determine the Company's ability to repossess its equipment should the need arise.

At the commencement of a lease, the Company may collect, in advance, a security deposit (normally equal to at least one month's lease payment), and during the term of the lease, maintenance reserves from the lessee based on the lessee's use of the engine. The security deposit is returned to the lessee after all return conditions have been met. Maintenance reserves are collected in accounts maintained by the Company or its lenders and are used when normal repairs associated with engine use or maintenance are required. Under longer-term leases, to the extent that cumulative maintenance reserves are inadequate to fund normal repairs required prior to return of the engine to the Company, the lessee is obligated to cover the shortfall. Recovery is therefore dependent upon the financial condition of the lessee. Parts leases generally require that the parts be returned in the same condition as they were in at lease inception.

During the lease period, the Company's leases require that maintenance and inspection of the leased equipment be performed at qualified maintenance facilities certified by the FAA or its foreign equivalent. In addition, when equipment comes off-lease, it undergoes inspection to verify compliance with lease return conditions.

Despite these guidelines, the Company cannot assure that it will not experience collection problems or significant losses in the future. However, the Company believes that its attention to its lessees and its emphasis on maintenance and inspection contributes to residual values and generally helps the Company to recover its investment in its leased equipment. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results.

Upon termination of a lease, the Company will re-lease or sell the aircraft equipment. The demand for aftermarket aircraft equipment for either sale or re-lease may be affected by a number of variables including general market conditions, regulatory changes (particularly those imposing environmental, maintenance and other requirements on the operation of aircraft engines), changes in demand for air travel, fuel costs, changes in the supply and cost of aircraft equipment and technological developments. In addition, the value of particular used aircraft, spare parts or aircraft engines varies greatly depending upon their condition, the maintenance services performed during the lease term and as applicable the number of hours remaining until the next major maintenance is required. If the Company is unable to re-lease or sell aircraft equipment on favorable terms, its financial results and its ability to service debt may be adversely affected. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results.

The Company's management frequently reviews opportunities to acquire suitable aircraft equipment based on market demand, customer requirements and in accordance with the Company's lease portfolio mix criteria and planning strategies for leasing. Before committing to purchase specific equipment, the Company generally takes into consideration such factors as estimates of future values, potential for remarketing, trends in supply and demand for the particular make, model and configuration of the equipment and the anticipated obsolescence of the equipment.

The Company's parts packages consist of rotatable parts for use on commercial aircraft or the engines appurtenant to such aircraft. The Company's aircraft lease portfolio consists of five de Havilland DHC-8 commuter aircraft. The Company may make further investments in aircraft for lease in the future.

As of December 31, 2004, the Company had a total lease portfolio of 115 aircraft engines and related equipment, three spare parts packages, five aircraft and various parts and other engine-related equipment with an aggregate original cost of \$595.3 million in its lease portfolio. As of December 31, 2003, the Company had a total lease portfolio of 119 aircraft engines and related equipment, four spare parts packages, seven aircraft and various parts and other engine-related equipment with an aggregate original cost of \$577.4 million in its lease portfolio.

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As of December 31, 2004, minimum future rentals under noncancelable operating leases of these engines, parts and aircraft assets 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

As of December 31, 2004, the Company had 43 lessees of commercial aircraft engines, aircraft, and other aircraft-related equipment in 26 countries. The Company does not believe it is dependent on a single customer or a few customers the loss of which would have a material adverse effect on the Company's revenues.

The following table displays the regional profile of the Company's lease customer base for the years ended December 31, 2004, 2003 and 2002. No single country other than the United States accounted for more than 10% of the Company's lease revenue for any of the years ended December 31, 2004, 2003 and 2002.

	Year Ended December 31, 2004		Year Ended December 31, 2003		Year Ended December 31, 2002	
	Lease Revenue	Percentage	Lease Revenue	Percentage	Lease Revenue	Percentage
(dollars in thousands)						
United States	\$ 8,094	14%	\$ 6,373	11%	\$ 9,067	16%
Canada	238		1,042	2	1,041	2
Mexico	4,225	7	4,349	8	2,717	5
Australia/New Zealand	670	1	853	1	305	1
Europe	25,943	45	25,310	45	24,906	45
South America	8,452	15	7,576	13	6,322	11
Asia	4,889	8	5,540	10	6,312	11
Africa	1,064	2	1,373	2	418	1
Middle East	4,602	8	4,561	8	4,309	8
Total	\$ 58,177	100%	\$ 56,977	100%	\$ 55,397	100%

See Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors that May Affect Future Results.

FINANCING/SOURCE OF FUNDS

The Company typically acquires the engines it leases with a combination of equity capital and funds borrowed from financial institutions. The Company can typically borrow 83% of an engine purchase price and 50% to 80% of an aircraft or spare parts purchase price on a recourse, non-recourse or partial recourse basis. Under two of the Company's credit facilities, the lender is entitled to receive a portion of the lease payments associated with the financed equipment to apply to debt service. Generally, lenders take a security interest in the equipment. The Company retains ownership of the equipment, subject to such security interest. Spreads over the applicable base interest rate index are impacted by a number of variables including the length of the lease, the percentage of purchase price advanced, and the financial condition of the

Company. The Company obtains the balance of the purchase price of the equipment, the equity portion, from internally generated funds, cash-on-hand, and the net proceeds of prior common stock offerings and private placements. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources.

COMPETITION

The markets for the Company's products and services are very competitive, and the Company faces competition from a number of sources. These include aircraft engine and aircraft parts manufacturers, aircraft and aircraft engine lessors, airline and aircraft service and repair companies and aircraft spare parts distributors. Certain of the Company's competitors have substantially greater resources than the Company. Those resources may include greater name recognition, larger product lines, complementary lines of business, greater financial, marketing, information systems and other resources. In addition, equipment manufacturers, aircraft maintenance providers, FAA certified repair facilities and other aviation aftermarket suppliers may vertically integrate into the markets that the Company serves, thereby significantly increasing industry competition. The Company can give no assurance that

competitive pressures will not materially and adversely affect the Company's business, financial condition or results of operations. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Results.

INSURANCE

In addition to requiring full indemnification under the terms of its leases, the Company requires its lessees to carry the types of insurance customary in the air transportation industry, including comprehensive third party liability insurance and physical damage and casualty insurance. The Company requires that it be named as an additional insured on liability insurance with the Company or its lenders normally identified as the loss payee for damage to the equipment on policies carried by lessees. The Company monitors compliance with the insurance provisions of the leases. The Company also carries contingent physical damage and third party liability insurance as well as product liability insurance.

GOVERNMENT REGULATION

The Company's customers are subject to a high degree of regulation in the jurisdictions in which they operate. For example, the FAA regulates the manufacture, repair and operation of all aircraft operated in the United States and equivalent regulatory agencies in other countries, such as the Joint Aviation Authority (JAA) in Europe, regulate aircraft operated in those countries. Such regulations also indirectly affect the Company's business operations. All aircraft operated in the United States must be maintained under a continuous condition-monitoring program and must periodically undergo thorough inspection and maintenance. The inspection, maintenance and repair procedures for commercial aircraft are prescribed by regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. The FAA can suspend or revoke the authority of air carriers or their licensed personnel for failure to comply with regulations and ground aircraft if their airworthiness is in question.

While the Company's leasing and reselling business is not regulated, the aircraft, engines and engine parts that the Company leases and sells to its customers must be accompanied by documentation that enables the customer to comply with applicable regulatory requirements. Furthermore, before parts may be installed in an aircraft, they must meet certain standards of condition established by the FAA and/or the equivalent regulatory agencies in other countries. Specific regulations vary from country to country, although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. Presently, whenever necessary, with respect to a particular engine or engine component, the Company utilizes FAA and/or JAA certified repair stations to repair and certify engines and components to ensure marketability.

Effective January 1, 2000, federal regulations stipulate that all aircraft engines hold, or be capable of holding, a noise certificate issued under Chapter 3 of Volume 1, Part II of Annex 16 of the Chicago Convention, or have been shown to comply with Stage III noise levels set out in Section 36.5 of Appendix C of Part 36 of the FAA Regulations of the United States if the engines are to be used in the continental United States. Additionally, much of Europe has adopted similar regulations. As of December 31, 2004, all of the engines in the Company's lease portfolio are Stage III engines and are generally suitable for use on one or more commonly used aircraft.

The Company believes that the aviation industry will be subject to continued regulatory activity. Additionally, increased oversight has and will continue to originate from the quality assurance departments of airline operators. The Company has been able to meet all such requirements to date, and believes that it will be able meet any additional requirements that may be imposed. The Company cannot assure, however, that new, more stringent government regulations will not be adopted in the future or that any such new regulations, if enacted, would not have a material adverse impact on the Company.

EMPLOYEES

As of December 31, 2004, the Company had 44 full-time employees (excluding consultants), in sales and marketing, technical service and administration. None of the Company's employees is covered by a collective bargaining agreement and the Company believes its employee relations are satisfactory.

ITEM 2. PROPERTIES

The Company's principal offices are located at 2320 Marinship Way, Suite 300, Sausalito, California 94965. The Company occupies space in Sausalito under a lease that covers approximately 9,900 square feet of office space and expires December 31, 2005, but has two one-year renewal options. The Company has given notice that it may exercise its option to extend the lease for at least one further year. The annual lease rental commitment is approximately \$352,000 for 2005. Equipment leasing, financing, sales and general administrative activities are conducted from the Sausalito location. The Company also sub-leases from its former parts subsidiary, WASI, now called avioserv, approximately 3,100 square feet of office and warehouse space for the Company's operations at San Diego, California. This lease expires October 31, 2005, and the remaining lease commitment is approximately \$64,000 plus expenses. The Company also leases office space in Shanghai, China. The lease expires June 30, 2005 and the remaining lease commitment is

approximately \$25,000.

ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the fiscal year 2004.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following information relates to the Company's Common Stock, which is listed on the NASDAQ National Market under the symbol WLFC. As of March 23, 2005 there were approximately 1,096 stockholders of the Company's Common Stock.

The high and low closing sales price of the Common Stock for each quarter of 2004 and 2003, as reported by NASDAQ, are set forth below:

	2004		2003	
	High	Low	High	Low
First Quarter	\$ 8.97	\$ 6.43	\$ 5.74	\$ 4.23
Second Quarter	9.40	8.00	5.64	4.15
Third Quarter	8.99	6.59	5.79	4.75
Fourth Quarter	9.00	7.50	7.62	5.38

During the years ended December 31, 2004 and 2003 the Company did not pay cash dividends to Company stockholders. The Company has not made any dividend payments since its inception as all available cash has been utilized for the business. The Company has no intention of paying dividends on its common stock in the foreseeable future. In addition, certain of the Company's debt facilities contain negative covenants which prohibit the Company from paying any dividends or making distributions of any kind with respect to its capital stock.

The following table outlines the Company's Equity Compensation Plan Information.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans(excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,764,720	\$ 6.61	812,259
Equity compensation plans not approved by security holders	n/a	n/a	n/a
Total	1,764,720	\$ 6.61	812,259

ITEM 6.

SELECTED FINANCIAL DATA

EXPLANATORY NOTE

As more fully described in the *Explanatory Note* on page 2 of this Form 10-K/A and in Note 2 of the Notes to Consolidated Financial Statements, the Company is restating its financial statements and other financial information for the years ended December 31, 2004, 2003, and 2002. The 2001 financial data below is also restated.

The following table summarizes selected consolidated financial data and operating information of the Company. The selected consolidated financial and operating data should be read in conjunction with the Consolidated Financial Statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K/A.

	Years Ended December, 31					
	2004	2003	2002	2001	2000	
	(as restated)	(as restated)	(as restated)	(as restated)		
	(dollars in thousands, except per share data)					
Revenue:						
Lease revenue	\$ 58,177	\$ 56,977	\$ 55,397	\$ 60,515	\$ 49,012	
Gain on sale of leased equipment	3,085	2,372	482	5,636	8,129	
Other income	677	520			489	
Total revenue	\$ 61,939	\$ 59,869	\$ 55,879	\$ 66,151	\$ 57,630	
Net income	\$ 5,483	\$ 5,093	\$ 3,835	\$ 5,129	\$ 7,189	
Basic earnings from continuing operations per common share	\$ 0.61	\$ 0.58	\$ 0.43	\$ 0.58	\$ 0.73	
Diluted earnings from continuing operations per common share	\$ 0.59	\$ 0.57	\$ 0.43	\$ 0.58	\$ 0.72	
Balance Sheet Data:						
Total assets	\$ 585,458	\$ 560,022	\$ 542,995	\$ 531,453	\$ 454,930	
Debt (includes capital lease obligation)	\$ 369,840	\$ 362,395	\$ 364,680	\$ 359,547	\$ 301,346	
Shareholders' equity	\$ 116,468	\$ 110,062	\$ 104,905	\$ 100,956	\$ 95,065	
Lease Portfolio:						
Engines at end of the period - continuing operations	115	119	120	110	100	
Engines at end of the period - discontinued operations				4	10	
Spare parts packages at the end of the period	3	4	4	4	4	
Aircraft at the end of the period	5	7	6	6	6	

As noted above, certain items have been restated. Refer to Note 2 of the Notes to the Consolidated Financial Statements for further discussion.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Restatement

Willis Lease Finance Corporation is filing this Amendment No. 3 to its Annual Report on Form 10-K for the year ended December 31, 2004. The 2004 10-K was originally filed on March 31, 2005, and subsequently amended on August 3, 2005 and October 14, 2005. This Amendment No. 3 addresses the restatement of the consolidated financial statements for the Company's inappropriate application of accounting for derivative related transactions under SFAS 133.

The Company enters into derivative instruments (swaps and caps) to hedge its interest rate exposure. Certain deficiencies have been identified in the Company's derivative documentation.

The Company had designated its swap and cap derivatives as cash flow hedges of its interest payments on its variable rate debt. It was determined that the documentation related to these derivative instruments was insufficient to meet the documentation criteria under SFAS 133 and as a result that the Company could not apply hedge accounting to the transactions.

A portion of the Company's interest payments were based on commercial paper rates. The Company erroneously tested the effectiveness of the related derivative instruments using one-month LIBOR instead of data that would have included both the interest rate risk and credit risk of the issuer of the commercial paper.

Please refer to Note 2 to the accompanying consolidated financial statements for additional information. The 2004, 2003 and 2002 consolidated balance sheets, statements of income, statements of shareholders' equity and statements of cash flows were restated to reflect the change in the fair market value of derivative contracts in the income statement and not in other comprehensive income, where the change was previously recorded. The amortization of upfront premium payments on interest rate caps has been reversed and is no longer a component of interest expense. In addition, the realized gain/loss (i.e. cash settlements) on derivative instruments has been reclassified from interest expense to realized and unrealized (gains) and losses on derivative instruments in the statements of income. The restatement contained within this Amendment No. 3 does not affect the economics of the derivative contract transactions but the change in the accounting presentation significantly increases the volatility in earnings from quarter to quarter within a year and between years. The effect on net income, retained earnings and components of shareholders' equity will differ from period to period. This Form 10-K/A also includes the restatement of selected financial data included in Item 6 and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

The accounting restatement for derivative instruments had the following effect on the Company's Consolidated Statements of Income and Consolidated Balance Sheet accounts:

	Increase (Decrease) Years Ended December 31,		
	2004	2003	2002
Consolidated Statements of Income:			
Interest expense	\$ (2,099)	\$ (2,452)	\$ (2,848)
Realized and unrealized (gains) and losses on derivative instruments	(465)	1,160	2,477
Net finance costs	(2,564)	(1,292)	(371)
Income tax expense	938	376	132
Net income	1,626	916	239
Consolidated Balance Sheets:			
Accumulated other comprehensive income	\$ (966)	\$ 660	\$ 1,576
Retained earnings	966	(660)	(1,576)
Total shareholders' equity			
Consolidated Statements of Cash Flows:			
Net income	\$ 1,626	\$ 916	\$ 239
Change in fair value of derivative instruments	(2,086)	(1,157)	(371)
Change in deferred income taxes	938	376	132

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Change in other assets	(478)	(135)
Net cash provided by operating activities		

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	March 31, 2004	Increase (Decrease) For Quarters Ended and At		December 31, 2004
		June 30, 2004	September 30, 2004	
Consolidated Statements of Income:				
Interest expense	\$ (585)	\$ (653)	\$ (495)	\$ (366)
Realized and unrealized (gains) and losses on derivative instruments	1,246	(2,993)	1,683	(401)
Net finance costs	661	(3,646)	1,188	(767)
Income tax expense	(194)	1,234	(435)	333
Net income	(467)	2,412	(753)	434
Consolidated Balance Sheets:				
Accumulated other comprehensive income	\$ 1,127	\$ (1,285)	\$ (532)	\$ (966)
Retained earnings	(1,127)	1,285	532	966
Total shareholders' equity				

	March 31, 2003	Increase (Decrease) For Quarters Ended and At		December 31, 2003
		June 30, 2003	September 30, 2003	
Consolidated Statements of Income:				
Interest expense	\$ (561)	\$ (646)	\$ (604)	\$ (641)
Realized and unrealized (gains) and losses on derivative instruments	776	1,143	(546)	(213)
Net finance costs	215	497	(1,150)	(854)
Income tax expense	(68)	(157)	362	239
Net income	(147)	(340)	788	615
Consolidated Balance Sheets:				
Accumulated other comprehensive income	\$ 1,723	\$ 2,063	\$ 1,275	\$ 660
Retained earnings	(1,723)	(2,063)	(1,275)	(660)
Total shareholders' equity				

Included in this restatement is a reclassification on the statement of cash flows from amortization of deferred costs to changes in other assets to correct for the erroneous inclusion of the amortization of prepaid expenses in this line item.

The Company is filing 10-Q/A's for the quarters ended March 31, 2005, and June 30, 2005, and the Company's 10-Q for the quarter ended September 30, 2005, concurrently with this Form 10-K/A Amendment No. 3.

Management's Discussion and Analysis of Financial Condition and Results of Operations presented below reflects certain restatements to our operating results for the years ended December 31, 2004, 2003, and 2002.

OVERVIEW

General. As of December 31, 2004, the Company had a total portfolio of 43 lessees in 26 countries. Its total lease portfolio consisted of 115 engines and related equipment, five aircraft and three spare parts packages with an aggregate net book value of \$511.4 million. The Company actively manages its portfolio and structures its leases to maximize the residual values of its leased assets. The Company's leasing business focuses on popular Stage III commercial jet aircraft engines manufactured by CFMI, General Electric, Pratt & Whitney, Rolls Royce and International Aero Engines. These engines are the most widely used aircraft engines in the world, powering Airbus, Boeing, and McDonnell Douglas aircraft.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of its 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, and 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. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Leasing Related Activities. Revenue from leasing of aircraft equipment is recognized as operating lease or finance lease revenue over the terms of the applicable lease agreements. Where collection cannot be reasonably assured, for example, upon a lessee bankruptcy, the Company does not recognize revenue until received. The Company also estimates and charges to income a provision for bad debts based on its experience in the business and with each specific customer and the level of past due accounts. The financial condition of the Company's customers may deteriorate and result in actual losses exceeding the estimated allowances. In addition, any deterioration in the financial condition of the Company's customers may adversely affect future lease revenues. As of December 31, 2004, all of the Company's leases are accounted for as operating leases. Under an operating lease, the Company retains title to the leased equipment, thereby retaining the potential benefit and assuming the risk of the residual value of the leased equipment.

The Company generally depreciates engines on a straight-line basis over 15 years to a 55% residual value. Spare parts packages are generally depreciated on a straight-line basis over 15 years to a 25% residual value. Aircraft are generally depreciated on a straight-line basis over 13-20 years to a 15%-17% residual value. For equipment which is unlikely to be repaired at the end of its current expected life, and is likely to be disassembled upon lease termination, the Company depreciates the equipment over its estimated life to a residual value based on an estimate of the wholesale value of the parts after disassembly. Currently, 40 engines having a net book value of \$107.6 million are depreciated using this policy. If useful lives or residual values are lower than those estimated by the Company, upon sale of the equipment, a loss may be realized. The Company reviews these estimates regularly and a change in either of these estimates would cause an associated change in depreciation expense.

Sales Related Activities. For equipment sold out of the Company's lease portfolio, the Company recognizes the gain or loss associated with the sale as revenue. Gain consists of sales proceeds less the net book value of the equipment sold and any costs directly associated with the sale. Additionally, to the extent that any deposits or reserves are not included in the sale and the purchaser of the equipment assumes any liabilities associated therewith, such deposits and reserves are included in the gain on sale.

Asset Valuation. 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 by Management.

For further information on these and other accounting policies adopted by the Company, refer to Note 1 of the Notes to Consolidated Financial Statements.

YEAR ENDED DECEMBER 31, 2004 COMPARED TO THE YEAR ENDED DECEMBER 31, 2003

Revenue is summarized as follows:

	2004		Year ended December 31,		2003	
	Amount	%	(dollars in thousands)		Amount	%
Lease revenue	\$ 58,177	93.9%	\$	56,977		95.2%
Gain on sale of leased equipment	3,085	5.0		2,372		4.0
Other income	677	1.1		520		0.8
Total	\$ 61,939	100.0%	\$	59,869		100.0%

Leasing Related Activities. Lease related revenue for the year ended December 31, 2004, increased 2% to \$58.2 million from \$57.0 million for the comparable period in 2003. This increase primarily reflects a reduced amount of equipment off-lease together with increased average lease rate factors. The aggregate of net book value of leased equipment at December 31, 2004 and 2003, was \$511.4 million and \$505.0 million, respectively, an increase of 1%. At December 31, 2004, and 2003, respectively, approximately 86% and 88% of equipment by net book value was on-lease. However, the Company purchased three engines towards the end of 2004 which were off-lease at year end. Excluding those engines utilization would have been approximately 89% at December 31, 2004. The average utilization for the year ended December 31, 2004, was 89% compared to 87% in the prior year. During the year ended December 31, 2004, five engines were added to the Company's lease portfolio at a total cost of \$59.4 million (including capitalized costs). During the year ended December 31, 2003, 11 engines and two aircraft were added to the Company's lease portfolio at a cost of \$45.5 million (including capitalized costs).

Gain on Sale of Leased Equipment. During the year ended December 31, 2004, 13 engines, two airframes and various engine-related equipment from the lease portfolio were sold for a net gain of \$3.1 million.

During the year ended December 31, 2003, ten engines from the lease portfolio were sold for a net gain of \$2.4 million.

Other Income. Other income consists primarily of management fee income and additionally in the year ended December 31, 2003, income resulting from a net insurance recovery of \$0.2 million.

Depreciation Expense. Depreciation expense increased \$1.5 million or 7% to \$23.2 million for the year ended December 31, 2004, from the comparable period in 2003 due primarily to changes in the estimates of useful lives and residual values of certain older engine types.

Write-down of Equipment. Write-down of equipment to their estimated fair values from the application of SFAS 144 totaled \$0.6 million for the year ended December 31, 2004, compared to \$1.3 million for the year ended December 31, 2003, due to management's decision to dispose of, rather than repair, an engine.

Net Finance Costs. Net finance costs include interest expense, interest income, net (gain)/loss on debt extinguishment and realized and unrealized (gains) and losses on derivative instruments. Interest expense increased 9% to \$16.4 million for the year ended December 31, 2004, from the comparable period in 2003, mainly due to an increase in interest rates. Interest income for the year ended December 31, 2004, increased to \$0.4 million from \$0.2 million for the year ended December 31, 2003, due mainly to increases in interest rates. The majority of the Company's interest rates are tied to one-month US dollar LIBOR which increased from 1.12% at the beginning of 2004 to 2.40% by year end. Realized and unrealized gains on derivative instruments decreased net finance costs by \$0.5 million for the year ended December 31, 2004, compared to an increase of \$1.2 million for the year ended December 31, 2003, primarily due to the increase in LIBOR between the two periods and the resultant increase in the value of the fixed interest rate derivative instruments.

General and Administrative Expenses. General and administrative expenses increased 7% to \$14.8 million for the year ended December 31, 2004, from the comparable period in 2003 due mainly to increases in legal and accounting costs (\$0.4 million), engine-related maintenance and inspection costs (\$0.2 million), increased travel expenses (\$0.2 million), increased insurance costs (\$0.2 million), and increased employment related costs (\$0.1 million) offset by reduced bad debt expenses (\$0.2 million) and outside consultant expenses (\$0.1 million).

Income Taxes. Income taxes for the year ended December 31, 2004, increased to \$2.4 million from \$2.1 million for the comparable period in 2003 reflecting increased pre-tax income and a higher effective tax rate. The overall effective tax rate for the year ended December 31, 2004, was 30.8% compared to 29.1% for the prior year with the increase in rate due to both a decrease in the impact of the deduction for the Extraterritorial Income Exclusion (EIE) as well as an increase in the effective state tax rate. Recently

enacted legislation has repealed the EIE benefit and it will be phased out over the next three years. The Company's 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 and numerous other factors, including changes in tax law.

YEAR ENDED DECEMBER 31, 2003 COMPARED TO THE YEAR ENDED DECEMBER 31, 2002.

Revenue is summarized as follows:

	2003		Year ended December 31,		2002 (as restated)	
	Amount	%	Amount	%	Amount	%
	(dollars in thousands)					
Lease revenue	\$ 56,977	95.2%	\$ 55,397	99.1%		
Gain on sale of leased equipment	2,372	4.0	482	0.9		
Other income	520	0.8				
Total	\$ 59,869	100.0%	\$ 55,879	100.0%		

Leasing Related Activities. Lease related revenue for the year ended December 31, 2003, increased 3% to \$57.0 million from \$55.4 million for the comparable period in 2002. This increase primarily reflects a reduced amount of equipment off-lease offset by reduced average lease rate factors. The aggregate of net book value of leased equipment and net investment in direct finance lease on December 31, 2003 and 2002 was \$505.0 million and \$502.2 million, respectively, an increase of 1%. However, approximately \$16.0 million was purchased in December 2003 and had no effect on lease revenue. At December 31, 2003 and 2002, respectively, 88% and 86% of equipment by book value were on-lease, however, the average utilization for the year ended December 31, 2003, was 87% compared to 82% in the prior year. During the year ended December 31, 2003, 11 engines and two aircraft were added to the Company's lease portfolio at a total cost of \$45.5 million (including capitalized costs). During the year ended December 31, 2002, 10 engines were added to the Company's lease portfolio at a total cost of \$47.7 million (including capitalized costs).

Gain on the Sale of Leased Equipment. During the year ended December 31, 2003, 10 engines from the lease portfolio were sold for a gain of \$2.4 million.

During the year ended December 31, 2002, four engines from the lease portfolio were sold for a gain of \$0.5 million.

Other Income. Other income in 2003 consists primarily of management fee income and income resulting from a net insurance recovery of \$0.2 million.

Depreciation Expense. Depreciation expense increased \$2.2 million or 12% to \$21.7 million for the year ended December 31, 2003, from the comparable period in 2002. Approximately \$1.6 million of the increase was due primarily to changes in the estimates of useful lives and residual values of certain older engine types.

Write-Down of Equipment. Write-down of equipment to their estimated fair values from the application of SFAS144 totaled \$1.3 million for the year ended December 31, 2003, compared to \$3.1 million for the year ended December 31, 2002, due to reductions in demand and market prices on certain engine types, and management's decision to dispose of, rather than repair a number of engines.

Net Finance Costs. Net finance costs consists of interest expense, interest income, net (gain)/loss on debt extinguishment and realized and unrealized (gains) and losses on derivative instruments. Interest expense decreased 8% to \$15.0 million for the year ended December 31, 2003, from the comparable period in 2002, due to a decrease in interest rates. The majority of the Company's interest rates are tied to one-month US dollar LIBOR which decreased from 1.38% at the beginning of 2003 to 1.12% by year end. Interest income for the year ended December 31, 2003, decreased to \$0.2 million from \$0.4 million for the year ended December 31, 2002, due mainly to the reduction in interest rates. For the year ended December 31, 2002, the net gain on debt extinguishment relates to the prepayment of a \$35.0 million revolving credit facility at a discount to its carrying value. Realized and unrealized (gains) and losses on derivative instruments was a loss of \$1.2 million for 2003 compared to a loss of \$2.5 million for 2002, due to market changes in interest rates.

General and Administrative Expenses. General and administrative expenses decreased 4% to \$13.9 million for the year ended December 31, 2003, from the comparable period in 2002 due mainly to decreases in legal costs (\$1.5 million) and engine-related maintenance and inspection costs (\$0.4 million) offset by increased staffing costs (\$1.2 million).

Income Taxes. Income taxes for the year ended December 31, 2003, increased to \$2.1 million from \$0.9 million for the comparable period in 2002 reflecting increased pre-tax income and a higher effective tax rate. The overall effective tax rate for the year ended December 31, 2003, was 29.1% compared to 18.5% for the prior year. The effective tax rate in 2002 was 28%, before adjustments for state income tax apportionment changes and deferred tax assets valuation allowances. The 2002 effective tax rate also reflects a reduction in the estimated proportion of revenue to be generated within California when the California state tax timing differences reverse, offset by a valuation allowance on deferred tax assets relating to state net operating losses of \$0.1 million where

management believes realizing the benefit of the loss carry forward is not assured. The Company's 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 and numerous other factors, including changes in tax laws.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, FASB issued SFAS No. 153 *Exchanges of Nonmonetary Assets* an amendment of APB Opinion No. 29. The guidance in APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, was based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company did not undertake any transaction in 2004 that would be affected by this Statement.

In December 2004, FASB issued SFAS 123 (R) which is a revision to FASB Statement No. 123, *Accounting for Stock-Based Compensation*. This Statement also supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. The revised Statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award the requisite service period (usually the vesting period). No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met; those conditions are much the same as the related conditions in Statement 123. This Statement applies to all awards granted after the required effective date and to awards modified, repurchased, or cancelled after that date. The cumulative effect of initially applying this Statement, if any, is recognized as of the required effective date. The Company has an employee stock option/issuance plan (described in Note 11 of the accompanying Financial Statements) which will be affected by the implementation of this Statement. Currently, under the existing statement the Company does not recognize compensation cost in respect of its plans and opts to make pro-forma disclosure of the impact which is described in Note 1(q) to its Financial Statements.

In December 2003, FASB issued a revision of Interpretation No. 46, *Consolidation of Variable Interest Entities*, FIN46(R). Application of this Interpretation is required in financial statements of public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Interpretation was issued to clarify the consolidation requirements of ARB Opinion No. 51 *Consolidated Financial Statements*, especially with respect to variable interest entities. As of and for the year ended December 31, 2004, the Company did not have any interest in any variable interest entities that were required to be accounted for under this Interpretation.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has financed its growth through borrowings secured by its equipment lease portfolio. Cash of approximately \$58.6 million, \$68.4 million and \$66.4 million, in the years ended December 31, 2004, 2003 and 2002, respectively, was derived from this activity. In these same time periods \$51.4 million, \$84.0 million and \$61.2 million, respectively, was used to pay down related debt. Cash flow from operating activities generated \$30.1 million, \$32.6 million and \$27.5 million in the years ended December 31, 2004, 2003 and 2002, respectively.

The Company's primary use of funds is for the purchase of equipment for lease. Purchases of equipment (including capitalized costs) totaled \$59.4 million, \$45.2 million and \$47.7 million for the years ended December 31, 2004, 2003 and 2002, respectively.

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Cash flows from operations are driven significantly by payments made under the Company's lease agreements, which comprise lease revenue and maintenance reserves, and interest expense. While the Company has experienced firmer lease rates, these have been offset by increases in interest rates such that the spread between lease rates and interest rates has remained relatively constant throughout 2004. The lease revenue stream, in the short-term, is at fixed rates while a substantial amount of the Company's debt is at variable rates. If interest rates increase it is unlikely the Company could increase lease rates in the short term and this would cause a reduction in the Company's earnings. Revenue and maintenance reserves are also affected by the amount of equipment off lease. Approximately 86%, by book value, of the Company's assets were on-lease at December 31, 2004, compared to approximately 88% at December 31, 2003, and the average utilization rate for the year ended December 31, 2004, was 89% compared to 87% in the prior year. 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 December 31, 2004, notes payable consists of bank loans totaling \$369.8 million payable over periods of less than 1 year to 7 years with interest rates varying between approximately 4.2% and 8.6% (excluding the effect of the Company's interest rate derivative instruments).

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The significant facilities are described below.

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 guarantee 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's revolving period ended March 9, 2005, and commenced a 4-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. Refer to Factors that May Affect Future Results for further discussion of the risks the Company faces. The facility notes are divided into \$194.4 million Class A notes and \$21.6 million Class B notes. The Company provides a guarantee to the Class B Noteholders. 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 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 were 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 Inc., 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 has guaranteed the obligations of WLFC-AC1 under the terms of this facility.

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 approximately 1.12% and 1.05%, respectively.

Approximately \$37.8 million of the Company's debt is repayable during 2005. Such repayments consist of scheduled installments due under term loans. The table below summarizes the Company's contractual commitments at December 31, 2004.

	Total	Payment due by period			
		Less than 1 year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	\$ 369,840	\$ 37,839	\$ 147,286	\$ 179,553	\$ 5,162
	62,892	18,452	30,672	13,329	439

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Interest payments under long term debt

obligations

Operating lease obligations	441	441				
Purchase obligations	18,174	18,174				
Total	\$ 451,347	\$ 74,906	\$ 177,958	\$ 192,882	\$ 5,601	

Approximately \$351.0 million of the above debt is subject to the Company continuing to comply 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, the Company can typically borrow 83% of an engine purchase and only between 50% to 80% of an aircraft or spare parts purchase under these facilities, so the Company must have other available funds for the balance of the purchase price of any new equipment to be purchased or it will not be permitted to draw on these facilities. The facilities are also cross-defaulted. If the Company does not comply with the covenants or eligibility requirements, the Company may not be permitted to borrow additional funds and accelerated payments may become necessary. Additionally, debt is secured by engines on lease to customers and to the extent that engines are returned from lease early or are sold, repayment of that portion of the debt could be accelerated. The Company was in compliance with all covenants at December 31, 2004.

The Company has estimated the interest payments due under long-term debt by applying the interest rates applicable at

December 31, 2004 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 and commercial paper as applicable. The interest estimate excludes the effect of any derivative instruments in place at the balance sheet date.

The Company has commitments to purchase, during 2005, engines and other engine-related equipment totaling \$18.2 million.

The Company's lease of its office premises in Sausalito expires on December 31, 2005, but the Company has given notice that it may exercise its option to extend the lease for at least one further year. The sublease of Company premises in San Diego expires in October 2005. The lease of office space in Shanghai, China expires in June 2005. The Company also holds a 7% interest, accounted for under the Cost method, in a joint venture in China, Sichuan Snecma Aero-Engine Maintenance Co. Ltd. The Company has invested \$1.5 million to date.

The Company believes its equity base, internally generated funds and existing debt facilities are sufficient to maintain the Company's level of operations through 2005. A decline in the level of internally generated funds, such as could result if off-lease rates increase or there is a decrease in availability under the Company's existing debt facilities, would impair the Company's ability to sustain its level of operations. The Company is discussing additions to its capital base with its commercial and investment banks. If the Company is not able to access additional capital, its ability to continue to grow its asset base consistent with historical trends will be impaired and its future growth limited to that which can be funded from internally generated capital.

Management of Interest Rate Exposure

At December 31, 2004, \$357.4 million (97%) of the Company's borrowings were on a variable rate basis at various interest rates tied to LIBOR or commercial paper rates. The Company's 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 rental revenue the Company realizes under its leases and the interest rate that the Company pays under its borrowings. The Company has entered into interest rate derivative instruments to mitigate our exposure to interest rate risk and not to speculate or trade in these derivative products. The Company has entered into interest rate swap agreements which have notional outstanding amounts of \$100.0 million, with remaining terms of between 27 and 37 months and fixed rates of between 2.52% and 3.45%. During 2002, the Company purchased a number of forward-commencing caps with notional amounts totaling \$60.0 million, terms of 3 years, effective dates which commenced in 2003 and rates capped at 5.5%. The fair value of the swaps at December 31, 2004 and 2003 was positive \$1.4 million, representing an asset of the Company and negative \$0.7 million, representing a liability of the Company, respectively. The fair value of the caps at December 31, 2004 was zero compared to positive \$7,000 at December 31, 2003, representing an asset of the Company.

As discussed above under the caption *Restatement*, we are restating our financial statements for the years 2004, 2003 and 2002 and for each of the quarters in the years 2004 and 2003 with respect to the accounting for certain interest rate derivative transactions.

The errors identified related to the accounting for interest rate derivatives used to mitigate our interest rate exposure to floating rate debt. When interest rate derivative instruments are effective as accounting hedges under the technical requirements of SFAS 133, they offset the variability of the expected future cash flows both economically and for financial reporting purposes. The effect of our inability to apply hedge accounting for the interest-rate derivative instruments is that changes in their fair values must be recorded in earnings each period. As a result, reported net income will be directly influenced by changes in interest rates.

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The table above under the caption *Restatement* shows the effect of the accounting restatement related to the interest rate derivative contracts that we had designated as accounting hedges against future interest rate cash outflows on our previously reported earnings for the years 2002 through 2004, and each of the quarters for the years 2003 and 2004. Aggregate cash flows were unaffected by the restatement.

Net finance costs for the year ended December 31, 2004, were decreased by \$0.5 million due to realized and unrealized (gains) and losses on derivative instruments, compared to net finance costs for the year ended December 31, 2003, when realized and unrealized (gains) and losses on derivative instruments increased net finance costs by \$1.2 million. For the year ended December 31, 2002, net finance costs were increased by \$2.5 million due to realized and unrealized (gains) and losses on derivative instruments. Realized and unrealized (gains) includes both the change in fair value of derivative instruments as well as the cash settlement expense or income due to the derivative instruments for the period.

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The changes to the components of realized and unrealized (gains) and losses on derivative instruments for each of the years ended December 31, 2004, 2003 and 2002 are shown in the following table (dollars in thousands):

Increase (decrease) to net finance costs	Years ended December 31,					
	2004		2003		2002	
Change in fair value of derivative instruments	\$	(2.1)	\$	(1.1)	\$	(0.4)
Cash settlement expense		1.6		2.3		2.9
Total realized and unrealized (gains) and losses from derivative instruments	\$	(0.5)	\$	1.2	\$	2.5

The Company will be exposed to risk in the event of non-performance of the interest rate hedge counter-parties. The Company anticipates that it may hedge additional amounts of its floating rate debt during the next year.

Related Party and Similar Transactions

The Company occasionally sells engines to and purchases materials from avioserv, the successor to a former subsidiary of the Company and a current subsidiary of T Group America. T Group America is owned by T Group (f/k/a SR Technics Group), an entity that is related to FlightTechnics LLC, which holds 14% of the Company's common stock. The Company also leases office space from avioserv with the lease term expiring October 31, 2005. During the year ended December 31, 2004, the Company sold one engine to avioserv at a net gain of \$260,000. W. William Coon, Jr., a director of the Company, is a director of Flight Technics, LLC and T Group America. He is also Chairman of the Board of Directors of avioserv.

Effective September 13, 2002, the Company entered into a consulting agreement with Hans Jorg Hunziker, a former executive of Flightlease AG, a wholly owned subsidiary of SAir Group. Mr. Hunziker is a former Director of the Company having resigned from the Board on July 1, 2003. The agreement was for a one-year term ending September 13, 2003, and thereafter extended until January 2004 when it was terminated. Mr. Hunziker was to provide strategic advice and investigation into additional sources of capital in Europe.

Gavarnie Holding, LLC, a Delaware Limited Liability Company (Gavarnie) owned by Charles F. Willis, IV, purchased the stock of Aloha IslandAir, Inc., a Delaware Corporation, (IslandAir) from Aloha AirGroup, Inc. (Aloha) on May 11, 2004. Charles F. Willis, IV is the President, CEO and Chairman of the Board of Directors of the Company and owns approximately 34% of the Company's stock as of December 31, 2004. IslandAir leases five DeHaviland DHC-8-100 aircraft from the Company, under non-cancelable leases which generate lease revenue of approximately \$2.5 million per year and have a net book value of \$16.0 million, for remaining periods of between two and four years. IslandAir's obligations under four of these leases are guaranteed by Aloha. However, Aloha has recently filed for reorganization under Chapter 11 of the Bankruptcy Code and the Company expects Aloha's obligations under the guarantees to be discharged in this proceeding. Gavarnie is required to indemnify Aloha if a claim is made against Aloha in respect of its guarantees of IslandAir's leases from the Company.

The Company entered into a Consignment Agreement dated April 30, 2004, with Avsets.com, Inc. to sell parts from a disassembled engine. J.T. Power LLC (J.T. Power) has agreed to market these parts on behalf of Avsets.com, Inc. and also shares office space with Avsets.com, Inc. J.T. Power is an entity whose majority shareholder, Austin Willis, is the son of the President and Chief Executive Officer of the Company, and directly and indirectly, a shareholder of the Company. The book value of the parts consigned to Avsets.com is approximately \$19,000.

Factors That May Affect Future Results

Except for historical information contained herein, the discussion in this report contains forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. Forward-looking statements give the Company's expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them to reflect changes that occur after that date. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed below. The cautionary statements made in this report should be read as being applicable to all related forward-looking statements wherever they appear in this report or in other written or oral statements by the Company.

The business in which the Company is engaged is capital intensive. Accordingly, the Company's ability to successfully execute its business strategy and to sustain its operations is dependent, in large part, on the availability of debt and equity capital. There can be no assurance that the necessary amount of capital will continue to be available to the Company on favorable terms or at all. The Company's inability to obtain sufficient capital or to renew its credit facilities could result in increased funding costs and would limit the Company's ability to: (i) add new equipment to its portfolio, (ii) fund its working capital needs, and (iii) finance possible future acquisitions. The Company's inability to obtain sufficient capital would have a material adverse effect on the

Company's business, financial condition and/or results of operations.

The Company retains title to the equipment that it leases to third parties. Upon termination of a lease, the Company will seek to re-lease or sell the equipment. The Company also engages in the selective purchase and resale of commercial aircraft engines. On occasion, the Company purchases engines without having a firm commitment for their lease or sale. Numerous factors, many of which are beyond the Company's control, may have an impact on the Company's ability to re-lease or sell equipment on a timely basis, including the following: (i) general market conditions, (ii) the condition of the equipment upon termination of the lease, (iii) the maintenance services performed during the lease term and, as applicable, the number of hours remaining until the next major maintenance is required, (iv) regulatory changes (particularly those imposing environmental, maintenance and other requirements on the operation of aircraft engines), (v) changes in the supply of, or demand for, or cost of aircraft engines, and (vi) technological developments. There is no assurance that the Company will be able to re-lease or sell equipment on a timely basis or on favorable terms. The failure to re-lease aircraft equipment on a timely basis or on favorable terms or sell aircraft equipment on favorable terms could have a material adverse effect on the Company's business, financial condition and/or results of operations.

The Company experiences fluctuations in its operating results. Such fluctuations may be due to a number of factors, including: (i) general economic conditions, (ii) the timing of sales of engines, (iii) financial difficulties experienced by airlines, (iv) interest rates, (v) downturns in the air transportation industry, (vi) changes in fuel prices (vii) unanticipated early lease termination or a default by a lessee, (viii) the timing of engine acquisitions, (ix) engine marketing activities, (x) fluctuations in market prices for the Company's assets, (xi) downward pressure on lease rates, and (xii) other terrorism and geo-political risks. The Company anticipates that fluctuations from period to period will continue in the future. As a result, the Company believes that comparisons to results of operations for preceding periods are not necessarily meaningful and that results of prior periods should not be relied upon as an indication of future performance.

As of December 31, 2004, approximately 58% by value of the Company's equipment available for lease was either off-lease, on month-to-month leases or on leases expiring in 2005. At December 31, 2003, approximately 55% by value of the Company's equipment was similarly categorized. The ability of the Company to successfully remarket this equipment will have a significant impact on the Company's future results and on its ability to draw under certain of its credit facilities.

A lessee may default in performance of its lease obligations and the Company may be unable to enforce its remedies under a lease. The Company's inability to collect receivables due under a lease or to repossess aircraft equipment in the event of a default by a lessee could have a material adverse effect on the Company's business, financial condition and/or results of operations. Various airlines have experienced financial difficulties in the past, certain airlines have filed for bankruptcy and a number of such airlines have ceased operations. In the United States where a debtor seeks protection under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code), creditors are automatically stayed from enforcing their rights. In the case of United States certificated airlines, Section 1110 of the Bankruptcy Code provides certain relief to lessors of aircraft equipment. The scope of Section 1110 has been the subject of significant litigation and there is no assurance that the provisions of Section 1110 will protect the Company's investment in an aircraft, aircraft engines or parts in the event of a lessee's bankruptcy. In addition, Section 1110 does not apply to lessees located outside of the United States and applicable foreign laws may not provide comparable protection. Leases of spare parts may involve additional risks. For example, it is likely to be more difficult to recover parts in the event of a lessee default and the residual value of parts may be less ascertainable than an engine.

The Company's leases are generally structured at fixed rental rates for specified terms while the majority of the Company's borrowings (97%) are at floating rates. Increases in interest rates could narrow, or result in a negative spread, between the rental revenue the Company realizes under its leases and the interest rate the Company pays under its borrowings, and have a material adverse effect on the Company's business, financial condition and/or results of operations.

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For the twelve months ended December 31, 2004, 86% of the Company's lease revenue (in 2003, the percentage was 89%) was generated by leases to non-US customers. Such international leases may present greater risks to the Company because certain foreign laws, regulations and judicial procedures may not be as protective of lessor rights as those which apply in the United States. All leases require payment in US dollars. If the lessee's currency devalues against the US dollar, the lessee could potentially encounter difficulty in making their lease payments. The Company is also subject to the timing and access to courts and the remedies local laws impose in order to collect its lease payments and recover its assets. In addition, political instability abroad and changes in international policy also present risk of expropriation of the Company's leased engines. Furthermore, many foreign countries have currency and exchange laws regulating the international transfer of currencies.

There is no assurance that the Company will be able to effectively manage its existing or the possible future expansion of its operations, or that the Company's systems, procedures or controls will be adequate to support the Company's operations, in which event the Company's business, financial condition and/or results of operations could be adversely affected. The Company may also acquire businesses that would complement or expand the Company's existing businesses. Any acquisition or expansion made by the Company may result in one or more of the following events: (i) the incurrence of additional debt, (ii) future charges to earnings related to the impairment of goodwill and other intangible assets, (iii) difficulties in the assimilation of operations, services, products and

personnel, (iv) an inability to sustain or improve historical revenue levels, (v) diversion of management's attention from ongoing business operations, and (vi) potential loss of key employees. Any of the foregoing factors could have a material adverse effect on the Company's business, financial condition and/or results of operations.

The markets for the Company's products and services are extremely competitive, and the Company faces competition from a number of sources. These include aircraft engine and aircraft parts manufacturers, aircraft and aircraft engine lessors, aircraft and engine service and repair companies and aircraft spare parts distributors. Certain of the Company's competitors have substantially greater resources than the Company, including greater name recognition, a broader range of engines, complementary lines of business and greater financial, marketing and other resources. In addition, equipment manufacturers, and other aviation aftermarket suppliers may vertically integrate into the markets that the Company serves, thereby significantly increasing industry competition. There can be no assurance that competitive pressures will not materially and adversely affect the Company's business, financial condition and/or results of operations.

The Company's leasing activities generate significant depreciation allowances that provide the Company with substantial tax benefits on an ongoing basis. In addition, the Company's lessees enjoy favorable accounting and tax treatment by entering into operating leases. The Company also benefits from the Extraterritorial Income Exclusion regulations which significantly reduce the Company's effective tax rate. As a result of recent legislation this benefit is being phased out over the next three years and the Company's effective tax rate will increase. Other changes to tax laws or accounting principles that make operating lease financing less attractive or affect the Company's recognition of revenue or expense would have a material impact on the Company's business, financial condition and/or results of operations.

As a public company, Willis Lease is subject to certain regulatory requirements including, but not limited to, compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Such compliance results in significant additional costs to the Company both directly, through increased audit and consulting fees, and indirectly, through the time required by management to address the regulations. However, the SEC has recently delayed the implementation date of Section 404 for non-accelerated filers until the fiscal year ended December 31, 2007. Such costs will likely have an adverse effect on the Company's business, financial condition and/or results of operations.

In September 2004, the Company acquired a Canadair Challenger 601-1A aircraft for general corporate purposes and for charter to third parties. The Company expects that annual ownership costs will be approximately \$1.1 million with additional operating costs depending on usage. The Company has also negotiated a management contract which should generate net charter revenues of approximately \$0.6 million per annum depending on usage that will reduce overall cost. However there can be no assurance that these revenues will be realized.

The Company obtains a substantial portion of its engines and aircraft from airlines, overhaul facilities and other suppliers. There is no organized market for engines and aircraft. The Company relies on its representatives, advertisements and its reputation in order to generate opportunities to purchase such equipment. The market for bulk sales of engines and aircraft is highly competitive, in some instances involving a bidding process. While the Company has been able to purchase engines and aircraft in this manner successfully in the past, there is no assurance that engines and aircraft will be available on acceptable terms or that the Company will continue to compete effectively in the purchase of such equipment.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure is that of interest rate risk. A change in the LIBOR, or the commercial paper rates, would affect the Company's cost of borrowing. Increases in interest rates to the Company, which may cause the Company to raise the implicit rates charged to its customers, could result in a reduction in demand for the Company's leases. Alternatively, the Company may price its leases based on market rates so as to keep the fleet on-lease and suffer a decrease in its operating margin due to interest costs that it may not be able to pass on to its customers. Approximately \$357.4 million (97%) of the Company's outstanding debt is variable rate debt. The Company estimates a one percent

increase or decrease in the Company's variable rate debt (net of derivative instruments) would result in an increase or decrease, respectively, in interest expense of \$2.6 million per annum (in 2003, \$2.7 million per annum). The Company estimates a two percent increase or decrease in the Company's variable rate debt (net of derivative instruments) would result in an increase or decrease, respectively, in interest expense of \$5.2 million per annum (in 2003, \$5.4 million per annum).

The Company hedges a portion of its borrowings, effectively fixing the rate of these borrowings. Based on the implied forward rates for 1-month LIBOR, the Company expects interest expenses will be reduced by approximately \$0.2 million for the year ending December 31, 2005, as a result of its hedges. Such hedging activities may limit the Company's ability to participate in the benefits of any decrease in interest rates, but may also protect the Company from increases in interest rates. Furthermore, since lease rates tend to vary with interest rate levels, it is possible that the Company 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.

The Company is also exposed to currency devaluation risk. During 2004, 86% (in 2003, the percentage was 89%) of the Company's total lease revenues came from non-United States domiciled lessees. All of the leases require payment in US dollars. If these lessees' currency devalues against the US dollar, the lessees could potentially encounter difficulty in making their lease payments.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is submitted as a separate section of this report beginning on page 33.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* As of March 31, 2005, at the time of the original filing of the Company's annual report for the year ended December 31, 2004, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic reports.

Financial Statement Classifications

On July 13, 2005, the Company announced that it was restating its consolidated balance sheets, statements of income and statements of cash flows for years ended December 31, 2004, 2003 and 2002. As a result of a normal periodic review of the financial reports of the Company by the Staff of the SEC and discussions with the Staff of the SEC, the Company concluded that the net gain on debt prepayment in 2002 should be presented as an expense and cash that is restricted in connection with the Company's borrowings should be presented separately as restricted cash. In accordance with APB opinion 20, paragraphs 36 and 37, the Company reflected such changes in its restated consolidated balance sheets, consolidated statements of income and consolidated statements of cash flows as of and for the years ended December 31, 2004, 2003 and 2002, presented in the amended Annual Report on Form 10-K/A.

The Company has concluded that the circumstances that led to the filing of the amendment resulted primarily from an interpretation of SFAS No. 145, issued in April 2002 that changed the treatment of gain or loss on debt extinguishment, so that it was to be classified as an extraordinary item only if it was unusual or infrequently occurring. Relying on the guidance in APB 20 that any difference between the reacquisition price and the net carrying amount of the extinguished debt shall be recognized currently in income of the period of extinguishment as loss or gain and identified as a separate item, the Company and its Audit Committee discussed the disclosure of the net gain on debt prepayment in 2002 and concluded that the net gain should be classified as revenue, and KPMG concurred with this inclusion. In its recent discussions with the SEC, the Company has concluded that the more appropriate treatment is to offset the net gain on debt prepayment against

interest expense and this change has been reflected in this restatement.

The Company also concluded that the inclusion of restricted cash in the line item on the balance sheet, cash and cash equivalents had not been routinely reviewed for appropriateness. Even though the amounts were disclosed in the description of the line item, they should have been classified as a separate line item.

As a result of the restatement of its consolidated balance sheets, statements of income and statements of cash flows, the Company, including the Company's Chief Executive Officer and Chief Financial Officer determined that there was a material weakness in its internal control over financial reporting as of December 31, 2004, related to the presentation on its statement of income for the year ended December 31, 2002, for the net gain on debt prepayment and on its balance sheets and statements of cash flows for years ended December 31, 2004, 2003 and 2002 for cash that is restricted in connection with the Company's borrowings. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. To prevent future misstatements of a similar nature, the Company changed the internal control over financial reporting by implementing expanded procedures including completion of a financial reporting checklist to ensure compliance with current reporting standards and accounting pronouncements issued since the end of the previous reporting period.

Derivative Accounting

On October 28, 2005, the Company announced that it was restating its 2004, 2003 and 2002 consolidated balance sheets, statements of income, statements of shareholders' equity, and statements of cash flows to address the Company's inappropriate application of accounting for derivative related transactions. The Company enters into derivative instruments (swaps and caps) to hedge its interest rate exposure. Certain deficiencies have been identified in the Company's derivative documentation.

The Company had designated its swap and cap derivatives as cash flow hedges of its interest payments on its variable rate debt. It was determined that the documentation related to these derivative instruments was insufficient to meet the documentation criteria under SFAS 133 and as a result that the Company could not apply hedge accounting to the transactions.

A portion of the Company's interest payments were based on commercial paper rates. The Company erroneously tested the effectiveness of the related derivative instruments using one-month LIBOR instead of data that would have included both the interest rate risk and credit risk of the issuer of the commercial paper.

As a result of the restatement, the Company, including the Company's Chief Executive Officer and Chief Financial Officer, determined that there was a material weakness in its internal control over financial reporting related to the proper accounting for its derivative contracts. The Company did not maintain effective controls over the documentation and valuation of derivative transactions since the implementation of SFAS 133 in 2001. Specifically, our documentation and effectiveness testing was not reviewed and validated regularly to ensure compliance with SFAS 133 and related implementation issues.

To prevent future misstatements of a similar nature, the Company changed the internal control over its derivative documentation by implementing expanded procedures including a completion of a derivative accounting checklist to ensure compliance with current derivative documentation and accounting standards and accounting pronouncements issued since the end of the previous period.

Conclusion

Having subsequently identified the two material weaknesses discussed above, the Company's Chief Executive Officer and Chief Financial Officer determined that the disclosure controls and procedures as of the end of the period were not effective.

(b) *Changes in internal controls.* During the quarter ended December 31, 2004, there were no other changes in the Company's internal controls or in other factors that could affect the controls since the date of the last evaluation of internal controls as reported in the Form 10-Q for the quarter ended September 30, 2004.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Company has adopted a Standards of Ethical Conduct Policy (Code of Ethics) that applies to all employees and directors including the Company s Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Accounting Officer. The Code of Ethics is available on the Company s website at www.willislease.com. The Company will also provide, free of charge, a copy of the Code of Ethics by writing to the following address:

Attention: Director of Human Resources

Willis Lease Finance Corporation

2320 Marinship Way, Ste. 300

Sausalito, CA 94965

The remainder of the information required by this item is incorporated by reference to the Company s Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Company's Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the Company's Proxy Statement. The information in Item 5 of this report regarding the Company's Equity Compensation Plans is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the Company's Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company was billed the following amounts by its principal accountant:

	2004		2003
Audit fees	\$ 360,000	\$	370,440
Audit-related fees	6,125		9,500
Tax fees			40,700
All other fees	\$ 366,125	\$	420,640

Amounts billed under Audit-related fees for 2004 and 2003 consist of accounting advice.

Amounts billed under Tax fees for 2003 primarily consist of fees for tax compliance and tax planning advice.

The remaining information required by this item is incorporated by reference to the Company's Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

The response to this portion of Item 15 is submitted as a separate section of this report beginning on page 33.

(a) (2) Financial Statement Schedules

Schedule II Valuation Accounts are submitted as a separate section of this report on page 56.

All other financial statement schedules have been omitted as the required information is not pertinent to the Registrant or is not material or because the required information is included in the Financial Statements and Notes thereto.

(a) (3), (b) and (c): Exhibits: The response to this portion of Item 15 is submitted below.

EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation, filed on March 12, 1998 together with Certificate of Amendment of Certificate of Incorporation filed on May 6, 1998. Incorporated by reference to Exhibits 4.01 and 4.02 of the Company's report on Form 8-K filed on June 23, 1998.
3.2	Bylaws, as amended. Incorporated by reference to Exhibit 3.2 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
3.3	Amendment to Bylaws of Willis Lease Finance Corporation dated November 13, 2001. Incorporated by reference to Exhibit 3.3 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
4.1	Specimen of Common Stock Certificate. Incorporated by reference to Exhibit 4.1 of the Company's report on Form 10-Q for the quarter ended June 30, 1998.
4.2	Rights Agreement dated September 24, 1999, by and between the Company and American Stock Transfer and Trust Company, as Rights Agent. Incorporated by reference to Exhibit 4.1 of the Company's report on Form 8-K filed on October 4, 1999.
4.3	First Amendment to Rights Agreement, dated as of November 30, 2000, by and between the Company and American Stock Transfer and Trust Company. Incorporated by reference to Exhibit 10.1 of the Company's report on Form 8-K filed December 15, 2000.

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- 10.1 Form of Indemnification Agreement entered into between the Company and its directors and officers. Incorporated by reference to Exhibit 10.3 to Registration Statement No. 333-5126-LA filed on June 21, 1996.
- 10.2 Employment Agreement between the Company and Charles F. Willis IV dated November 7, 2000. Incorporated by reference to Exhibit 10.2 of the Company's report on Form 10-K for the year ended December 31, 2000.
- 10.3 Employment Agreement between the Company and Donald A. Nunemaker dated November 21, 2000. Incorporated by reference to Exhibit 10.3 of the Company's report on Form 10-K for the year ended December 31, 2000.
- 10.4 Employment contract between the Company and Monica J. Burke dated June 21, 2002. Incorporated by reference to Exhibit 10.5 to the Company's report on Form 10-Q for the quarter ended June 30, 2002.
- 10.5 The Company's 1996 Stock Option/Stock Issuance Plan, as amended and restated as of May 22, 2001. Incorporated by reference to the Company's Proxy Statement dated May 1, 2001.
- 10.6 Stockholders' Agreement, dated as of November 7, 2000, by and among the Company, Charles F. Willis, IV, CFW Partners, L.P., Austin Chandler Willis 1995 Irrevocable Trust and FlightTechnics LLC. Incorporated by reference to Exhibit 10.8 on Form 8-K filed on November 13, 2000.
- 10.7* Credit Agreement dated May 1, 2001 among the Company, certain banking institutions, National City Bank and Fortis Bank (Nederland) N.V. Incorporated by reference to Exhibit 10.24 of the Company's report on Form 10-Q for the quarter

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Exhibit Number	Description
	ended June 30, 2001.
10.8*	Credit Agreement dated September 21, 2001 between the Company and ABB Credit Finance AB (publ.). Incorporated by reference to Exhibit 10.25 to the Company's report on Form 10-Q for the quarter ended September 30, 2001.
10.9*	Amended and Restated Eighth Amendment to Amended and Restated Series 1997-1 Supplement among WLFC Funding Corporation and the Bank of New York, dated May 3, 2002. Incorporated by reference to Exhibit 10.23 to the Company's report on Form 10-Q for the quarter ended June 30, 2002.
10.10	Eighth Amendment to the Note Purchase Agreement, dated as of May 3, 2002, by and among the Company, WLFC Funding Corporation and Variable Funding Capital Corporation. Incorporated by reference to Exhibit 10.24 to the Company's report on Form 10-Q for the quarter ended June 30, 2002.
10.11*	Contribution and Sale Agreement between the Company and Willis Engine Funding LLC dated as of September 12, 2002. Incorporated by reference to Exhibit 10.25 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.12*	Series 2002-1 Supplement dated September 12, 2002 to Indenture between Willis Engine Funding LLC and The Bank of New York, Indenture Trustee. Incorporated by reference to Exhibit 10.26 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.13	Guaranty between the Company, Barclays Bank PLC and Fortis Bank (Nederland) N.V. dated as of September 12, 2002. Incorporated by reference to Exhibit 10.27 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.14*	Administration Agreement among Willis Engine Funding LLC, the Company, Barclays Bank PLC, and The Bank of New York, dated as of September 12, 2002. Incorporated by reference to Exhibit 10.28 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.15	Class A Note Purchase Agreement among Willis Engine Funding LLC, the Company, Sheffield Receivables Corporation and Barclays Bank PLC dated as of September 12, 2002. Incorporated by reference to Exhibit 10.29 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.16	Class B Note Purchase Agreement among Willis Engine Funding LLC, the Company, Fortis Bank (Nederland) N.V., and Barclays Bank PLC dated as of September 12, 2002. Incorporated by reference to Exhibit 10.30 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.17	Indenture Agreement between Willis Engine Funding LLC and The Bank of New York dated as of September 12, 2002. Incorporated by reference to Exhibit 10.31 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.18	Custodial Agreement by and among BNY Midwest Trust Company, Willis Engine Funding LLC, the Company, The Bank of New York and Barclays Bank PLC dated as of September 12, 2002. Incorporated by reference to Exhibit 10.32 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.19	Servicing Agreement between the Company and Willis Engine Funding LLC dated as of September 12, 2002. Incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.20	Independent Contractor Agreement between the Company and Hans Joerg Hunziker dated September 13, 2002. Incorporated by reference to Exhibit 10.34 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.21	Amendment No. 1 to Credit Agreement by and between the Company and ABB New Finance AB (publ) dated November 12, 2002. Incorporated by reference to Exhibit 10.35 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.
10.22	Amendment No. 2 to Credit Agreement among the Company, certain banking institutions, National City Bank and Fortis Bank (Nederland) N.V. dated as of November 13, 2002. Incorporated by reference to Exhibit 10.36 to the Company's report on Form 10-Q for the quarter ended September 30, 2002.

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Exhibit Number	Description
10.23*	Amended and Restated Contribution and Sale Agreement between the Company and Willis Engine Funding LLC dated as of December 13, 2002. Incorporated by reference to Exhibit 10.27 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.24*	Amended and Restated Series 2002-1 Supplement between Willis Engine Funding LLC and The Bank of New York dated as of December 13, 2002. Incorporated by reference to Exhibit 10.28 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.25	Amended and Restated Guaranty between the Company, Barclays Bank PLC and Fortis Bank (Nederland) N.V. dated as of December 13, 2002. Incorporated by reference to Exhibit 10.29 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.26*	Amended and Restated Administration Agreement among Willis Engine Funding LLC, the Company, Barclays Bank PLC and The Bank of New York dated as of December 13, 2002. Incorporated by reference to Exhibit 10.30 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.27	Amended and Restated Subclass A-1 Note Purchase Agreement among Willis Engine Funding LLC, the Company, Sheffield Receivables Corporation and Barclays Bank PLC dated as of December 13, 2002. Incorporated by reference to Exhibit 10.31 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.28	Subclass A-2 Note Purchase Agreement among Willis Engine Funding LLC, the Company, Sheffield Receivables Corporation and Barclays Bank PLC dated as of December 13, 2002. Incorporated by reference to Exhibit 10.32 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.29	Amended and Restated Subclass B-1 Note Purchase Agreement among Willis Engine Funding LLC, the Company, Fortis Bank (Nederland) N.V. and Barclays Bank PLC dated as of December 13, 2002. Incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.30	Subclass B-2 Note Purchase Agreement among Willis Engine Funding LLC, the Company and Barclays Bank PLC dated as of December 13, 2002. Incorporated by reference to Exhibit 10.34 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.31	Amended and Restated Indenture between Willis Engine Funding LLC, and The Bank of New York dated as of December 13, 2002. Incorporated by reference to Exhibit 10.35 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.32	Amended and Restated Servicing Agreement between the Company and Willis Engine Funding LLC dated as of December 13, 2002. Incorporated by reference to Exhibit 10.36 to the Company's report on Form 10-K for the year ended December 31, 2002.
10.33*	First Supplemental Indenture between Willis Engine Funding LLC and the Bank of New York dated October 10, 2003. Incorporated by reference to Exhibit 10.33 to the Company's report on Form 10-Q for the quarter ended September 30, 2003.
10.34*	First Amendment to Series Supplement between Willis Engine Funding LLC and the Bank of New York dated October 10, 2003. Incorporated by reference to Exhibit 10.34 to the Company's report on Form 10-Q for the quarter ended September 30, 2003.
10.35	Amendment No. 1 to Note Purchase Agreements between Willis Lease Finance Corporation, Willis Engine Funding LLC, Sheffield Receivables Corporation, Fortis Bank (Nederland) N.V., and Barclays Bank plc dated October 10, 2003. Incorporated by reference to Exhibit 10.35 to the Company's report on Form 10-Q for the quarter ended September 30, 2003.
10.36	The Company's 1996 Stock Option/Stock Issuance Plan, as amended and restated as of March 31, 2003. Incorporated by reference to Exhibit 99.1 of the Company's Form S-8 filed on September 26, 2003.
10.37	Employment letter between the Company and Thomas C. Nord dated June 11, 2003. Incorporated by reference to Exhibit 10.38 to the Company's report on Form 10-K for the year ended December 31, 2003.

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Exhibit Number	Description
10.38*	Amended and Restated Credit Agreement, dated as of June 29, 2004 among Willis Lease Finance Corporation, and Certain Banking Institutions Named Herein with National City Bank and Fortis Bank (Nederland) N.V. Incorporated by reference to Exhibit 10.39 of the Company's Form 10-Q for the quarter ended June 30, 2004.
10.39	The Company's Employee Stock Purchase Plan As Amended and Restated Effective August 1, 2004. Incorporated by reference to Exhibit 99.1 of the Company's Form S-8 filed on August 11, 2004.
10.40	First Amendment to Amended and Restated Credit Agreement dated as of September 23, 2004 among the Company, National City Bank, Fortis Bank (Nederland) N.V. and CDC Finance CDC IXIS. Incorporated by reference to Exhibit 10.41 of the Company's Form 10-Q for the quarter ended September 30, 2004.
10.41	Letter Agreement dated September 30, 2004 between the Company, Willis Engine Funding LLC, The Bank of New York, Sheffield Receivables Corporation, Barclays Bank PLC and Fortis Bank (Nederland) N.V. to extend the Company's warehouse facility. Incorporated by reference to Exhibit 10.42 of the Company's Form 10-Q for the quarter ended September 30, 2004.
10.42	Loan and Aircraft Security Agreement dated October 29, 2004 between Fleet Capital Corporation and Willis Lease Finance Corporation. Incorporated by reference to Exhibit 10.42 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
10.43	Second Amendment to Amended and Restated Credit Agreement dated as of December 9, 2004 among Willis Lease Finance Corporation, National City Bank, Certain Named Banking Institutions and Fortis Bank (Nederland) N.V. Incorporated by reference to Exhibit 10.43 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
10.44	Amendment No. 1 to Loan and Aircraft Security Agreement dated as of December 9, 2004 between Fleet Capital Corporation and Willis Lease Finance Corporation. Incorporated by reference to Exhibit 10.44 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
10.45	The Company's Deferred Compensation Plan Effective as of July 1, 2001. Incorporated by reference to Exhibit 10.45 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
11.1	Statement regarding computation of per share earnings.
21.1	Subsidiaries of the Company. Incorporated by reference to Exhibit 21.1 of the Company's report on Form 10-K/A, Amendment No. 1 for the year ended December 31, 2004 filed on August 3, 2005.
23.1	Consent and Report of KPMG LLP, Independent Auditors on Schedule II.
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 Monica J. Burke 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.

* 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.

(b) Reports on Form 8-K

(i) On November 9, 2004, the Company filed a Form 8-K disclosing under Item 2.02, Results of the Operations and Financial Condition , Item 7.01, Regulation FD Disclosure , and Item 9.01, Financial Statements and Exhibits , its Press Release on Earnings for the quarter and nine months ended September 30, 2004.

(ii) On December 15, 2004, the Company filed a Form 8-K disclosing under Item 1.01, Entry into a Material Definitive Agreement and Item 2.03, Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant that it had amended its revolving credit agreement to reflect the increase in the facility from \$138.5 million to \$148.5 million.

(d) Financial Statements

Financial Statements are submitted as a separate section of this report beginning on page 33.

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: November 23, 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: November 23 , 2005	Chief Executive Officer and Director (Principal Executive Officer)	/s/ CHARLES F. WILLIS, IV Charles F. Willis, IV
Date: November 23 , 2005	Chief Financial Officer and Chief Accounting Officer	/s/ MONICA J. BURKE Monica J. Burke
Date: November 23 , 2005	Director	/s/ WILLIAM M. LEROY William M. LeRoy
Date: November 23 , 2005	Director	/s/ GLENN L. HICKERSON Glenn L. Hickerson
Date: November 23 , 2005	Director	/s/ W. WILLIAM COON, JR. W. William Coon, Jr.
Date: November 23 , 2005	Director	/s/ GERARD LAVIEC Gerard Laviec

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Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2004 and December 31, 2003 (As restated)

Consolidated Statements of Income for the years ended December 31, 2004, December 31, 2003 and December 31, 2002 (As restated)

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2004, December 31, 2003 and December 31, 2002 (As restated)

Consolidated Statements of Cash Flows for the years ended December 31, 2004, December 31, 2003 and December 31, 2002 (As restated)

Notes to Consolidated Financial Statements

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 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 consolidated 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 that 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 U.S. generally accepted accounting principles.

As described in Note 2(a) 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. As described in Note 2(b) to the consolidated financial statements, the Company has restated the accompanying consolidated financial statements to reflect the change in fair value of various interest rate derivative transactions from comprehensive income to the income statement because of deficiencies in documentation and application of hedge accounting in all periods presented.

/s/ KPMG LLP

San Francisco, California

March 18, 2005, except for Note 2(a) as to which the date is July 27, 2005 and Note 2(b) as to which the date is November 18, 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
Retained earnings	53,747	48,264
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 (as restated)	2003 (as restated)	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
General and administrative	14,791	13,852	14,439
Net finance costs:			
Interest expense	16,350	14,957	16,262
Interest income	(434)	(244)	(432)
Net gain on debt extinguishment			(4,073)
Realized and unrealized (gains) and losses on derivative instruments	(465)	1,160	2,477
Total net finance costs	15,451	15,873	14,234
Total expenses	54,017	52,683	51,174
Income before income taxes	7,922	7,186	4,705
Income tax expense	(2,439)	(2,093)	(870)
Net income	\$ 5,483	\$ 5,093	\$ 3,835
Basic earnings per common share:	\$ 0.61	\$ 0.58	\$ 0.43
Diluted earnings per common share:	\$ 0.59	\$ 0.57	\$ 0.43
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

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		Retained earnings (as restated)		Total shareholders equity
Balances at December 31, 2001	8,826	\$	88	\$	61,532	\$	39,336	\$	100,956
Net income (as restated)							3,835		3,835