WILLIS LEASE FINANCE CORP
Form 10-K
March 18, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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

Commission File Number: 001-15369

WILLIS LEASE FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Securities registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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, 2012) was approximately $74.9 million (based on a closing sale price of $12.32 per share as reported on the NASDAQ National Market).

The number of shares of the registrant s Common Stock outstanding as of March 14, 2013 was 8,692,743.

The Company s Proxy Statement for the 2013 Annual Meeting of Stockholders is incorporated by reference into Part III of this Form 10-K.

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WILLIS LEASE FINANCE CORPORATION
2012 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

INTRODUCTION

Willis Lease Finance Corporation with its subsidiaries is a leading lessor of commercial aircraft engines. Our principal business objective is to build value for our shareholders by acquiring commercial aircraft engines and managing those engines in order to provide a return on investment, primarily through lease rent and maintenance reserve revenues, as well as through management fees earned for managing aircraft engines owned by other parties. As of December 31, 2012, we had a total lease portfolio consisting of 184 engines and related equipment, 7 aircraft and 4 spare parts packages with 78 lessees in 42 countries and an aggregate net book value of $961.5 million. As of December 31, 2012, we managed a total lease portfolio of 33 engines and related equipment for other parties. We also seek, from time to time, to act as a leasing agent of engines for other parties.

Our strategy is to lease aircraft engines and aircraft and provide related services to a diversified group of commercial aircraft operators and maintenance, repair and overhaul organizations (MROs) worldwide. Commercial aircraft operators need engines in addition to those installed on the aircraft that they operate. These spare engines are required for various reasons including requirements that engines be inspected and repaired at regular intervals based on equipment utilization. Furthermore, unscheduled events such as mechanical failure, FAA airworthiness directives or manufacturer-recommended actions for maintenance, repair and overhaul of engines result in the need for spare engines. Commercial aircraft operators and others in the industry generally estimate that the total number of spare engines needed is between 10% and 14% of the total number of installed engines. Today it is estimated that there are nearly 42,000 engines installed on commercial aircraft. Accordingly, we estimate that there are between 4,200 and 5,900 spare engines in the market, including both owned and leased spare engines.

Our engine portfolio consists of noise-compliant Stage III commercial jet engines manufactured by CFMI, General Electric, Pratt & Whitney, Rolls Royce and International Aero Engines. These engines generally may be used on one or more aircraft types and are the most widely used engines in the world, powering Airbus, Boeing, McDonnell Douglas, Bombardier and Embraer aircraft.

The Company acquires engines for its leasing portfolio in a number of ways. It enters into sale and lease back transactions with operators of aircraft and providers of engine maintenance cost per hour services. We also purchase both new and used engines, on a speculative basis (i.e. without a lease attached from manufacturers or other parties which own such engines).

We are a Delaware corporation, incorporated in 1996. Our executive offices are located at 773 San Marin Drive, Suite 2215, Novato, California 94998. We transact business directly and through our subsidiaries unless otherwise indicated.

We maintain a website at www.willislease.com where our 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. You may read and copy any materials we file with the SEC at the SEC s public reference room at 100 F Street, NE,

Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0300. The SEC also maintains an electronic Internet site that contains our reports, proxy and information statements, and other information at http://www.sec.gov.

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We do not break our business into multiple segments. Instead, we consider our continuing operations to operate in one reportable segment.

THE WEST II SECURITIZATION

Willis Engine Securitization Trust II, or WEST II , is a special-purpose, bankruptcy-remote, Delaware statutory trust that is wholly-owned by us and consolidated in our financial statements. We established WEST II in September 2012, when WEST II issued and sold $390 million aggregate principal amount of Class 2012-A Term Notes (the Notes) and received $384.9 million in net proceeds. We used these funds, net of transaction expenses and swap termination costs, together with our revolving credit facility, to pay off the prior Wills Engine Securitization Trust, or WEST notes totaling $435.9 million. At closing, the net book values of 22 engines were pledged as collateral from WEST to the Company s revolving credit facility, which provided the remaining funds to pay off the WEST notes. The assets and liabilities of WEST II will remain on the Company s balance sheet. A portfolio of 79 commercial jet aircraft engines and leases thereof secures the obligations of WEST II.

WEST II s obligations under these notes are serviced by revenues from the lease and disposition of its engines, and are secured by all of its assets, including all of its interests in its engines, its subsidiaries, restricted cash accounts, engine maintenance reserve accounts, all proceeds from the sale or disposition of engines, and all insurance proceeds. We have not guaranteed any obligations of WEST II and none of our assets secure such obligations.

We are the servicer and administrative agent for WEST II. Our annual fees for these services are 11.5% as servicer and 2.0% as administrative agent of the aggregate net rents actually received by WEST II on its engines, and such fees are payable to us monthly. We are also paid a fee of 3.0% of the net proceeds from the sale of any engines. As WEST II is consolidated in our financial statements these fees eliminate in consolidation. Proceeds from engine sales will be used, at WEST II s election, to reduce WEST II s debt or to acquire other engines.

WEST II gives us the flexibility to manage the portfolio to adapt to changes in aircraft fleets and customer demand over time, benefiting both us and our investors. The asset-backed securitization is well suited to our engine leasing business as it provides long term capital in which debt maturity is better matched to long term asset lives.

INDUSTRY BACKGROUND - THE DEMAND FOR LEASED AIRCRAFT ENGINES

Historically, commercial aircraft operators owned rather than leased their engines. As engines become more powerful and technically sophisticated, they also become more expensive to acquire and maintain. In part due to cash constraints on commercial aircraft operators and the costs associated with engine ownership, commercial aircraft operators have become more cost-conscious and now utilize operating leases for a portion of their engines and are therefore better able to manage their finances in this capital-intensive business. Engine leasing is a specialized business that has evolved into a discrete sector of the commercial aviation market. Participants in this sector need access to capital, as well as specialized technical knowledge, in order to compete successfully.

Growth in the spare engine leasing industry is dependent on two fundamental drivers:

- the number of commercial aircraft, and therefore engines, in the market; and

- the proportion of engines that are leased, rather than owned, by commercial aircraft operators.

We believe both drivers will increase over time.

Increased number of aircraft, and therefore engines, in the market

We believe that the number of commercial and cargo aircraft, and hence spare engines, will increase. Boeing estimates that there are roughly 20,000 aircraft as of 2011 and projects this will grow to approximately 40,000 aircraft by 2031. Aircraft equipment manufacturers have predicted such an increase in aircraft to address the rapid growth of both passenger and cargo traffic in the Asian markets, as well as demand for new aircraft in more mature markets.

Increased lease penetration rate

Spare engines provide support for installed engines in the event of routine or other engine maintenance or unscheduled removal. The number of spare engines needed to service any fleet is determined by many factors. These factors include:

- the number and type of aircraft in an aircraft operator s fleet;

- the geographic scope of such aircraft operator s destinations;

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- the time an engine is on-wing between removals;

- average shop visit time; and

- the number of spare engines an aircraft operator requires in order to ensure coverage for predicted and unscheduled removals.

We believe that commercial aircraft operators are increasingly considering their spare engines as significant capital assets, where operating leases may be more attractive than capital leases or ownership of spare engines. Some believe that currently as many as 35% to 40% of the spare engine market falls under the category of leased engines. Industry analysts have forecast that the percentage of leased engines is likely to increase over the next 15 years as engine leasing follows the growth of aircraft leasing. We believe this is due to the increasing cost of newer engines, the anticipated modernization of the worldwide aircraft fleet and the significant cost associated therewith, and the emergence of new niche-focused airlines which generally use leasing in order to obtain their capital assets.

ENGINE LEASING

As of December 31, 2012, all but one of our leases to air carriers, manufacturers and MROs are operating leases as opposed to finance leases. Under operating leases, we retain the potential benefit and assume the risk of the residual value of the aircraft equipment, in contrast to capital or financing leases where the lessee has more of the potential benefits and risks of ownership. Operating leases allow commercial aircraft operators greater fleet and financial flexibility due to the relatively small initial capital outlay necessary to obtain use of the aircraft equipment, and the availability of short and long term leases to better meet their needs. Operating lease rates are generally higher than finance lease rates, in part because of the risks associated with the residual value.

We describe all of our current leases as triple-net operating leases. A triple-net operating lease requires the lessee to make the full lease payment and pay any other expenses associated with the use of the engines, such as maintenance, casualty and liability insurance, sales or use taxes and personal property taxes. The leases contain detailed provisions specifying the lessees responsibility for engine damage, maintenance standards and the required condition of the engine upon return at the end of the lease. During the term of the lease, we generally require the lessee to maintain the engine in accordance with an approved maintenance program designed to meet applicable regulatory requirements in the jurisdictions in which the lessee operates.

We lease our assets under both short and long term leases. Short term leases are generally for periods of less than one year. Under many of our leases the lessee pays use fees designed to cover expected future maintenance costs (often called maintenance reserves) which are reimbursable for certain maintenance expenditures. Under long term leases, at the end of the lease the accumulated use fees are retained by us to fund future maintenance not performed by the lessee as indicated by the remaining use fees. Under short-term leases and certain medium-term leases, we may undertake a portion of the maintenance and regulatory compliance risk. For these leases, the lessee has no claim to the maintenance reserves paid to us throughout the term of the lease. Use fees received are recognized in revenue as maintenance reserve revenue if they are not reimbursable to the lessee which is typically the case with short term leases. Use fees that are reimbursable under longer term leases are recorded as a maintenance reserve liability until they are reimbursed to the lessee or the lease terminates, at which time they are recognized in revenue as maintenance reserve revenue.

We try to mitigate risk where possible. For example, we make an analysis of the credit risk associated with the lessee before entering into any significant lease transaction. Our credit analysis generally consists of evaluating the prospective lessee s financial standing by utilizing financial statements and trade and/or banking references. In certain circumstances, we may require our lessees to provide additional credit support such as a letter of credit or a guaranty from a bank or a third party or a security deposit. We also evaluate insurance and expropriation risk and evaluate and monitor the political and legal climate of the country in which a particular lessee is located in order to determine our ability to repossess our engines should the need arise. Despite these guidelines, we cannot give assurance that we will not experience collection problems or significant losses in the future. See Risk Factors below.

At the commencement of a lease, we may collect, in advance, a security deposit normally equal to at least one month s lease payment. The security deposit is returned to the lessee after all lease return conditions have been met. Under the terms of some of our leases, during the term of the lease, the lessees pay amounts to us based on usage of the engine, which are referred to as maintenance reserves or use fees, which are designed to cover the expected future maintenance costs. For those leases in which the maintenance reserves are reimbursable to the lessee, maintenance reserves are collected and are reimbursed to the lessee when qualifying maintenance is performed. Under longer-term leases, to the extent that cumulative use fee billings are inadequate to fund expenditures required prior to return of the engine to us, the lessee is obligated to cover the shortfall. Recovery is therefore dependent upon the financial condition of the lessee.

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During the lease period, our leases require that maintenance and inspection of the leased engines be performed at qualified maintenance facilities certified by the FAA or its foreign equivalent. In addition, when an engine becomes off-lease, it undergoes inspection to verify compliance with lease return conditions. Our management believes that our attention to our lessees, and our emphasis on maintenance and inspection helps preserve residual values and generally helps us to recover our investment in our leased engines.

Upon termination of a lease, we will lease, sell or part out the related engines. The demand for aftermarket engines for either sale or 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 engines);
- changes in demand for air travel;
- fuel costs;
- changes in the supply and cost of aircraft equipment; and
- technological developments.

The value of particular used engines varies greatly depending upon their condition, the maintenance services performed during the lease term and, as applicable, the number of hours or cycles remaining until the next major maintenance is required. If we are unable to lease or sell engines on favorable terms, our financial results and our ability to service debt may be adversely affected. See Risk Factors below.

The value of a particular model of engine is heavily dependent on the status of the types of aircraft on which it is installed. We believe values of engines tend to be stable so long as the host aircraft for the engines as well as the engines themselves are still being manufactured. Prices will also tend to remain stable and even rise after a host aircraft is no longer manufactured so long as there is sufficient demand for the host aircraft. However, the value of an engine begins to decline rapidly once the host aircraft begins to be retired from service and/or parted out in significant numbers. Values of engines also may decline because of manufacturing defects that may surface subsequently.

As of December 31, 2012, we had a total lease portfolio of 184 aircraft engines and related equipment, 4 spare parts packages, 7 aircraft and various parts and other engine-related equipment with a cost of $1,204.0 million in our lease portfolio. As of December 31, 2011, we had a total lease portfolio of 194 aircraft engines and related equipment, 3 spare parts packages, 13 aircraft and various parts and other engine-related equipment with a cost of $1,210.2 million in our lease portfolio.

As of December 31, 2012, minimum future rentals under non-cancelable operating leases of these engines, parts and aircraft assets were as follows:

Year	**(in thousands)**
2013	56,492
2014	38,655
2015	30,436
2016	23,172
2017	14,620
Thereafter	18,133
	$ 181,508

As of December 31, 2012, we had 78 lessees of commercial aircraft engines, aircraft, and other aircraft-related equipment in 42 countries. We believe the loss of any one customer would not have a significant long-term adverse effect on our business. We operate in a global market in which our engines are easily transferable among lessees located in many countries, which stabilizes demand and allows us to recover from the loss of a particular customer. As a result, we do not believe we are dependent on a single customer or a few customers the loss of which would have a material adverse effect on our revenues.

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On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company Willis Mitsui & Company Engine Support Limited (WMES) for the purpose of acquiring and leasing jet engines. Each partner holds a fifty percent interest in the joint venture. Our investment in the joint venture is $11.8 million as of December 31, 2012.

AIRCRAFT LEASING

As of December 31, 2012, we owned four ATR72-202 aircraft, which are currently off-lease, and three DeHaviland DHC-8-100 turboprop aircraft, which are on lease to Hawaii Island Air, Inc. (Island Air). The aircraft on lease to Island Air have a net book value of $3.9 million. Charles F. Willis, IV, our CEO and Chairman of our Board of Directors and the owner of approximately 31% of our common stock, was the sole owner of Island Air, a lessee of the Company since 2004. On February 26, 2013 the stock of Hawaii Island Air was sold to an unrelated third party. While under common ownership, the independent members of our Board of Directors approved transactions between the Company and Island Air.

The Company and Island Air entered into a series of transactions over the past several years through which the Company provided equipment to Island Air in return for lease payments. The terms of the agreements have been amended from time to time with the Company accepting lower lease payments in some circumstances.

As of December 31, 2012, Island Air leased from the Company one DeHaviland DHC-8-100 aircraft under an operating lease and two DeHaviland DHC-8-100 aircraft and one spare engine under a finance lease. As of December 31, 2012, Island Air owed $4.5 million and $0.65 million under the finance lease and note payable, respectively. The Company received lease payments and recorded revenue from Island Air totaling $0.6 million, $1.6 million and $0.4 million in the years ended December 31, 2012, 2011 and 2010.

In connection with the sale of its stock to an unrelated third party on February 26, 2013, Island Air prepaid the note payable at a 45% discount of $0.4 million, conditioned on the other large creditors accepting similar reductions in the amounts due to them. The assets under lease to Island Air have a combined net book value of $4.0 million as of December 31, 2012. Management expects the new ownership should significantly improve the credit quality of the leases. Future lease rent revenue from Island Air totaling $6.2 million under the finance and operating leases is expected to be recorded through December 2015.

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Our aircraft leases are triple-net leases and the lessee is responsible for making the full lease payment and paying any other expenses associated with the use of the aircraft, such as maintenance, casualty and liability insurance, sales or use taxes and personal property taxes. In addition, the lessee is responsible for normal maintenance and repairs, engine and airframe overhauls, and compliance with return conditions of flight equipment on lease. Under the provisions of many leases, for certain engine and airframe overhauls, we reimburse the lessee for costs incurred up to but not exceeding maintenance reserves the lessee has paid to us. Maintenance reserves are designed to cover the expected maintenance costs. The lessee is also responsible for compliance with all applicable laws and regulations with respect to the aircraft. We require our lessees to comply with FAA requirements. We periodically inspect our leased aircraft. Generally, we require a deposit as security for the lessee s performance of obligations under the lease and the condition of the aircraft upon return. In addition, the leases contain extensive provisions regarding our remedies and rights in the event of a default by the lessee and specific provisions regarding the condition of the aircraft upon return. The lessee is required to continue to make lease payments under all circumstances, including periods during which the aircraft is not in operation due to maintenance or grounding.

We hold a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (WOLF). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. These two aircraft are currently on lease to Emirates until March and May 2013. Our investment in the joint venture at December 31, 2012 is $10.1 million.

OUR COMPETITIVE ADVANTAGES

We are uniquely positioned in the market and remain competitive, in part, due to the following advantages:

- *We have an entrepreneurial culture and our size and independent ownership structure gives us a unique ability to move faster than our competition*. We were founded in 1985 as a startup venture by our Chief Executive Officer, Charles F. Willis, IV, and we continue to foster an entrepreneurial attitude among our executives and employees. Unlike most other aircraft engine leasing companies, we are not tied to a particular manufacturer and are not part of a larger corporate entity. As a result, we can react more nimbly to customer demands and changes in the industry.

- *Our independent ownership allows us to meet our customer needs without regard to any potentially conflicting affiliate demands to use their engines or services*. Many of the aircraft engine leasing companies with which we compete are owned in whole or part by aircraft engine manufacturers. As a result, these leasing companies are inherently motivated to sell to customers the aircraft equipment that is manufactured by their owners, regardless of whether that equipment best meets the needs of their customers. As an independent public company we have the ability to work with customers to correctly identify their needs and provide them with the engines, equipment and services that are best suited to those needs.

- *We have significant technical expertise and experience.* Our management as well as our marketing and sales teams all have extensive experience in leasing aircraft engines and equipment. Our technical group makes up approximately half of our total company staff levels. As a result, we possess a deep knowledge of the technical details of commercial aircraft engines and maintenance issues associated with these engines that enables us to provide our customers with comprehensive and up to date information on the various engine types available for lease.

- *We have extensive industry contacts/relationships worldwide*. We have developed long-standing relationships with aircraft operators, equipment manufacturers and aircraft maintenance organizations around the world. Our extensive network of relationships enables us to quickly identify new leasing opportunities, procure engines and equipment and facilitate the repair of equipment owned by us and equipment leased by our customers.

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- *We have a trusted reputation for quality engines and engine records*. We have been an independent lessor of aircraft engines and engine equipment since 1985. Since that time we have focused on providing customers with high quality engines and engine records. As a result of our commitment to these high standards, a significant portion of our customer base consists of customers who have leased engines from us previously.

- *We have a diverse portfolio by customer, geography and engine type*. As of December 31, 2012, we had a total lease portfolio consisting of 184 engines and related equipment, 7 aircraft and 4 spare parts packages with 78 lessees in 42 countries and an aggregate net book value of $961.5 million.

- *We have a diverse product offering (by engine type and types of leases*). We lease a variety of noise-compliant, Stage III commercial jet engines manufactured by CFMI, General Electric, Pratt & Whitney, Rolls Royce and International Aero Engines. These engines generally may be used on one or more aircraft types and are the most widely used engines in the world, powering Airbus, Boeing, McDonnell Douglas, Bombardier and Embraer aircraft. We offer short and long-term leases, sale/leaseback transactions and engine pooling arrangements where members of the pool have quick access to available spare engines from us or other pool members, which are typically structured as short-term leases.

COMPETITION

The markets for our products and services are very competitive, and we face competition from a number of sources. These competitors include aircraft engine and aircraft parts manufacturers, aircraft and aircraft engine lessors, airline and aircraft service and repair companies and aircraft spare parts distributors. Many of our competitors have substantially greater resources than us. 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 we serve, thereby significantly increasing industry competition. We can give no assurance that competitive pressures will not materially and adversely affect our business, financial condition or results of operations.

We compete primarily with aircraft engine manufacturers as well as with other aircraft engine lessors. It is common for commercial aircraft operators and MRO s to utilize several leasing companies to meet their aircraft engine needs and to minimize reliance on a single leasing company.

Our competitors compete with us in many ways, including pricing, technical expertise, lease flexibility, engine availability, supply reliability, customer service and the quality and condition of engines. Some of our competitors have greater financial resources than we do, or are affiliates of larger companies. We emphasize the quality of our portfolio of aircraft engines, supply reliability and high level of customer service to our aircraft equipment lessees. We focus on ensuring adequate aircraft engine availability in high-demand locations, dedicate large portions of our organization to building relationships with lessees, maintain close day-to-day coordination with lessees and have developed an engine pooling arrangement that allows pool members quick access to available spare aircraft engines.

INSURANCE

In addition to requiring full indemnification under the terms of our leases, we require our 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. We require that we be named as an additional insured on liability insurance with ourselves and our lenders normally identified as the loss payee for damage to the equipment on policies carried by lessees. We monitor compliance with the insurance provisions of the leases. We also carry contingent physical damage and third party liability insurance as well as product liability insurance.

GOVERNMENT REGULATION

Our 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 European Aviation Safety Agency (EASA) in Europe, regulate aircraft operated in those countries. Such regulations also indirectly affect our 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.

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While our leasing and reselling business is not regulated, the aircraft, engines and engine parts that we lease and sell to our 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. With respect to a particular engine or engine component, we utilize FAA and/or EASA 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, 2012, all of the engines in our lease portfolio are Stage III engines and are generally suitable for use on one or more commonly used aircraft.

We believe 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. We have been able to meet all such requirements to date, and believe that we will be able to meet any additional requirements that may be imposed. We cannot give assurance, 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 us.

GEOGRAPHIC AREAS IN WHICH WE OPERATE

Approximately 92% of our on-lease engines, related aircraft parts, and equipment (all of which we sometimes refer to as equipment) by net book value are leased and operated internationally. All leases relating to this equipment are denominated and payable in U.S. dollars, which is customary in the industry. Future leases may provide for payments to be made in euros or other foreign currencies. In 2012, we leased our equipment to lessees domiciled in eight geographic regions. We are subject to a number of risks related to our foreign operations. See Risk Factors below.

The following table displays the regional profile of our lease customer base for the years ended December 31, 2012, 2011 and 2010. No single country accounted for more than 10% of our lease rent revenue for any of those periods except for the United States, Switzerland and China in 2012, the United States and Switzerland in each of 2010-2011 and Brazil and China in each of 2010. The tables include geographic information about our leased equipment grouped by the lessee s domicile (which does not necessarily indicate the asset s actual location):

	Years Ended December 31,					
	2012		2011		2010	
	Lease Rent Revenue	Percentage	Lease Rent Revenue	Percentage	Lease Rent Revenue	Percentage
	(dollars in thousands)					
United States	$ 11,693	12%	$ 20,790	20%	$ 22,662	22%
Mexico	6,075	6	6,806	6	6,367	6
Canada	5,206	6	3,183	3	1,662	2
Europe	35,001	37	38,626	37	32,604	32
South America	9,196	10	9,818	9	14,380	14

Asia		18,585	20		18,635	18		18,413	18
Africa		2,307	2		2,084	2		432	1
Middle East		6,528	7		4,721	5		5,613	5
Total	$	94,591	100%	$	104,663	100%	$	102,133	100%

FINANCING/SOURCE OF FUNDS

We, directly or through WEST II, typically acquire engines with a combination of equity capital and funds borrowed from financial institutions. In order to facilitate financing and leasing of engines, each engine is generally owned through a statutory or common law trust that is wholly-owned by us or our subsidiaries. We usually borrow 70% to 83% of an engine purchase price. Substantially all of our assets secure our related indebtedness. We typically acquire engines from airlines in a sale-lease back transaction, from engine manufacturers or from other lessors. From time to time, we selectively acquire engines prior to a firm commitment to lease or sell the engine, depending on the price of the engine, market demand with the expectation that we can lease or sell such engines.

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EMPLOYEES

As of December 31, 2012, we had 79 full-time employees (excluding consultants), in sales and marketing, technical service and administration. None of our employees are covered by a collective bargaining agreement and we believe our employee relations are satisfactory.

ITEM 1A. RISK FACTORS

The following risk factors and other information included in this Annual Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected.

RISKS RELATING TO OUR BUSINESS

We are affected by the risks faced by commercial aircraft operators and MROs because they are our customers.

Commercial aircraft operators are engaged in economically sensitive, highly cyclical and competitive businesses. We are a supplier to commercial aircraft operators and MROs. As a result, we are indirectly affected by all the risks facing commercial aircraft operators and MROs, which are beyond our control. Our results of operations depend, in part, on the financial strength of our customers and our customers ability to compete effectively in the marketplace and manage their risks. These risks include, among others:

- general economic conditions in the countries in which our customers operate, including changes in gross domestic product;
- demand for air travel and air cargo shipments;
- changes in interest rates and the availability and terms of credit available to commercial aircraft operators;
- concerns about security, terrorism, war, public health and political instability;

- environmental compliance and other regulatory costs;
- labor contracts, labor costs and stoppages at commercial aircraft operators;
- aircraft fuel prices and availability;
- technological developments;
- maintenance costs;
- airport access and air traffic control infrastructure constraints;
- insurance and other operating costs incurred by commercial aircraft operators and MROs;
- industry capacity, utilization and general market conditions; and
- market prices for aviation equipment.

To the extent that our customers are negatively affected by these risk factors, we may experience:

- a decrease in demand for some engine types in our portfolio;
- greater credit risks from our customers, and a higher incidence of lessee defaults and repossessions;
- an inability to quickly lease engines and aircraft on commercially acceptable terms when these become available through our purchase commitments and regular lease terminations; and

- shorter lease terms, which may increase our expenses and reduce our utilization rates.

Our engine values and lease rates, which are dependent on the status of the types of aircraft on which engines are installed, and other factors, could decline.

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The value of a particular model of engine depends heavily on the types of aircraft on which it may be installed and the supply of available engines. We believe values of engines tend to be relatively stable so long as there is sufficient demand for the host aircraft. However, we believe the value of an engine begins to decline rapidly once the host aircraft begins to be retired from service and/or used for spare parts in significant numbers. Certain types of engines may be used in significant numbers by commercial aircraft operators that are currently experiencing financial difficulties. If such operators were to go into liquidation or similar proceedings, the resulting over-supply of engines from these operators could have an adverse effect on the demand for the affected engine types and the values of such engines.

Upon termination of a lease, we may be unable to enter into new leases or sell the engine on acceptable terms.

We own the engines that we lease to customers and bear the risk of not recovering our entire investment through leasing and selling the engines. Upon termination of a lease, we seek to enter a new lease or to sell the engine. We also selectively sell engines on an opportunistic basis. We cannot give assurance that we will be able to find, in a timely manner, a lessee for our engines coming off-lease. If we do find a lessee, we may not be able to obtain satisfactory lease rates and terms (including maintenance and redelivery conditions) or rates and terms comparable to our current leases, and we can give no assurance that the creditworthiness of any future lessee will be equal to or better than that of the existing lessees of our engines. Because the terms of engine leases may be less than 12 months, we may frequently need to remarket engines. We face the risk that we may not be able to keep the engines on lease consistently.

We are subject to the risks and costs of aircraft maintenance and obsolescence on the aircraft that we own.

We currently own three DeHaviland DHC-8-100 and four ATR72-202 turboprop aircraft and interests through WOLF in two Airbus A340-313 aircraft. We may buy other aircraft or interests in aircraft in the future primarily to seek opportunities to realize value from the engines. Among other risks described in this Annual Report, the following risks apply when we lease or sell aircraft:

- we will be subject to the greater maintenance risks and risks of declines in value that apply to aircraft as opposed to engines, as well as the potentially greater risks of leasing or selling aircraft;

- intense competition among manufacturers, lessors, and sellers may, among other things, adversely affect the demand for, lease rates and residual values of our aircraft;

- our aircraft lessees are aircraft operators engaged in economically sensitive, highly cyclical and competitive businesses and our results of operations from aircraft leasing depend, in part, on their financial strength (for more details, see the risk factor entitled We are affected by the risks faced by commercial aircraft operators and MROs because they are our customers above);

- our aircraft lessees may encounter significant financial difficulties, which could result in our agreeing to amend our leases with the customer to, among other things, defer or forgive rent payments or extend lease terms as an alternative to repossession;

- our aircraft lessees may file for bankruptcy which could result in us incurring greater losses with respect to aircraft than with respect to engines; and

- aircraft technology is constantly improving and, as a result, aircraft of a particular model and type tend to become obsolete and less in demand over time, when newer, more advanced and efficient aircraft become available.

We carry the risk of maintenance for our leased assets. Our maintenance reserves may be inadequate or lessees may default on their obligations to perform maintenance, which could increase our expenses.

Under most of our engine leases, the lessee makes monthly maintenance reserve payments to us based on the engine s usage and management s estimate of maintenance costs. A certain level of maintenance reserve payments on the WEST II engines are held in related engine reserve restricted cash accounts. Generally the lessee under long term leases is responsible for all scheduled maintenance costs, even if they exceed the amounts of maintenance reserves paid. 15 of our leases comprising approximately 11.3% of the net book value of our on-lease engines at December 31, 2012 do not provide for any monthly maintenance reserve payments to be made by lessees, and we can give no assurance that future leases of the engines will require maintenance reserves. In some cases, including engine repossessions, we may decide to pay for refurbishments or repairs if the accumulated use fees are inadequate.

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We can give no assurance that our operating cash flows and available liquidity reserves, including the amounts held in the engine reserve restricted cash accounts, will be sufficient to fund necessary engine maintenance. Actual maintenance reserve payments by lessees and other cash that we receive may be significantly less than projected as a result of numerous factors, including defaults by lessees. Furthermore, we can provide no assurance that lessees will meet their obligations to make maintenance reserve payments or perform required scheduled maintenance or, to the extent that maintenance reserve payments are insufficient to cover the cost of refurbishments or repairs.

Failures by lessees to meet their maintenance and recordkeeping obligations under our leases could adversely affect the value of our leased engines and our ability to lease the engines in a timely manner following termination of the lease.

The value and income producing potential of an engine depend heavily on it being maintained in accordance with an approved maintenance system and complying with all applicable governmental directives and manufacturer requirements. In addition, for an engine to be available for service, all records, logs, licenses and documentation relating to maintenance and operations of the engine must be maintained in accordance with governmental and manufacturer specifications.

Our leases make the lessees primarily responsible for maintaining the engines, keeping related records and complying with governmental directives and manufacturer requirements. Over time, certain lessees have experienced and may experience in the future, difficulties in meeting their maintenance and recordkeeping obligations as specified by the terms of our leases.

Our ability to determine the condition of the engines and whether the lessees are properly maintaining our engines is generally limited to the lessees reporting of monthly usage and any maintenance performed, confirmed by periodic inspections performed by us and third-parties. A lessee s failure to meet its maintenance or recordkeeping obligations under a lease could result in:

- a grounding of the related engine;
- a repossession which would likely cause us to incur additional and potentially substantial expenditures in restoring the engine to an acceptable maintenance condition;
- a need to incur additional costs and devote resources to recreate the records prior to the sale or lease of the engine;
- loss of lease revenue while we perform refurbishments or repairs and recreate records; and
- a lower lease rate and/or shorter lease term under a new lease entered into by us following repossession of the engine.

Any of these events may adversely affect the value of the engine, unless and until remedied, and reduce our revenues and increase our expenses. If an engine is damaged during a lease and we are unable to recover from the lessee or insurance, we may incur a loss.

Our operating results vary and comparisons to results for preceding periods may not be meaningful.

Due to a number of factors, including the risks described in this ITEM 1A, our operating results may fluctuate. These fluctuations may also be caused by:

- the timing and number of purchases and sales of engines;
- the timing and amount of maintenance reserve revenues recorded resulting from the termination of long term leases, for which significant amount of maintenance reserves may have accumulated;
- the termination or announced termination of production of particular aircraft and engine types;
- the retirement or announced retirement of particular aircraft models by aircraft operators;
- the operating history of any particular engine or engine model;
- the length of our operating leases; and
- the timing of necessary overhauls of engines.

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These risks may reduce our engine utilization rates, lease margins, maintenance reserve revenues, proceeds from engine sales, and result in higher legal, technical, maintenance, storage and insurance costs related to repossession and costs of engines being off-lease. As a result of the foregoing and other factors, the availability of engines for lease or sale periodically experiences cycles of oversupply and undersupply of given engine models. The incidence of an oversupply of engines may produce substantial decreases in engine lease rates, the appraised and resale value of engines and increase the time and costs incurred to lease or sell engines.

We anticipate that fluctuations from period to period will continue in the future. As a result, we believe that comparisons to results for preceding periods may not be meaningful and that results of prior periods should not be relied upon as an indication of our future performance.

Our customers face intense competition and some carriers are in troubled financial condition.

The commercial aviation industry deteriorated sharply in 2001 and 2002 after the September 11, 2001 terrorist attacks and the related slowdown in economic activity. However, after a period of recovery, the airline industry was negatively impacted in 2008 and 2009 by the spike in fuel prices and the deepening worldwide recession, caused by the turmoil in the credit and financial markets. The airline industry has recovered in 2010 through 2012, returning to profitability with carriers in emerging markets and the U.S. faring better than European carriers. However, we cannot give assurance that delinquencies and defaults on our leases will not increase during future cyclical downturns in the economy and commercial aviation industry.

Certain lessees may be significantly delinquent in their rental payments and may default on their lease obligations. As of December 31, 2012, we had an aggregate of approximately $3.0 million in lease rent and $2.6 million in maintenance reserve payments more than 30 days past due. Our inability to collect receivables or to repossess engines or other leased equipment in the event of a default by a lessee could have a material adverse effect on us.

Various airlines have filed for bankruptcy in the United States and other foreign jurisdictions, some of which are seeking to restructure their operations and others which are ceasing operations entirely. In the case of airlines which are restructuring, such airlines often reduce their flights or eliminate the use of certain types of aircraft and the related engine types. Applicable bankruptcy law often allows these airlines to terminate leases early and to return our engines without meeting the contractual return conditions, and in that case, we may not be paid the full amount, or any part of, our claims for these lease terminations. Alternatively, we might negotiate agreements with those airlines under which the airline continues to lease the engine, but under modified lease terms. In the case of an airline which has ceased operations entirely, in addition to the risk of nonpayment, we face the enhanced risk of deterioration or total loss of an engine while it is under uncertain custody and control. In that case, we may be required to take legal action to secure the return of the engine and its records, or alternatively to negotiate a settlement under which we can immediately recover the engine and its records in exchange for waiving subsequent legal claims.

We may not be able to repossess an engine when the lessee defaults, and even if we are able to repossess the engine, we may have to expend significant funds in the repossession and leasing of the engine.

When a lessee defaults we typically seek to terminate the lease and repossess the engine. If a defaulting lessee contests the termination and repossession or is under court protection, enforcement of our rights under the lease may be difficult, expensive and time-consuming. We may not realize any practical benefits from our legal rights and we may need to obtain consents to export the engine. As a result, the relevant engine may

be off-lease or not producing revenue for a prolonged period. In addition, we will incur direct costs associated with repossessing our engine. These costs may include legal and similar costs, the direct costs of transporting, storing and insuring the engine, and costs associated with necessary maintenance and recordkeeping to make the engine available for lease or sale. During this time, we will realize no revenue from the leased engine, and we will continue to be obligated to pay our debt financing for the engine. If an engine is installed on an airframe, the airframe may be owned by an aircraft lessor or other third party. Our ability to recover engines installed on airframes may depend on the cooperation of the airframe owner.

We and our customers operate in a highly regulated industry and changes in laws or regulations may adversely affect our ability to lease or sell our engines.

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Licenses and consents

We and our customers operate in a highly regulated industry. A number of our leases require specific governmental or regulatory licenses, consents or approvals. These include consents for certain payments under the leases and for the export, import or re-export of our engines. Consents needed in connection with future leasing or sale of our engines may not be received timely or have economically feasible terms. Any of these events could adversely affect our ability to lease or sell engines.

The U.S. Department of Commerce, or the Commerce Department, regulates exports. We are subject to the Commerce Department s and the U.S. Department of State s regulations with respect to the lease and sale of engines and aircraft to foreign entities and the export of related parts. These Departments may, in some cases, require us to obtain export licenses for engines exported to foreign countries. The U.S. Department of Homeland Security, through the U.S. Customs and Border Protection, enforces regulations related to the import of engines and aircraft into the United States for maintenance or lease and imports of parts for installation on our engines and aircraft.

We are prohibited from doing business with persons designated by the U.S. Department of the Treasury s Office of Foreign Assets Control, or OFAC, on its Specially Designated Nationals List, and must monitor our operations and existing and potential lessees for compliance with OFAC s rules.

Anti-corruption Laws

As a U.S. corporation with significant international operations, we are required to comply with a number of U.S. and international laws and regulations, including those involving anti-corruption. For example, the U.S. Foreign Corrupt Practices Act (FCPA) and similar world-wide anti-bribery laws generally prohibit improper payments to foreign officials for the purpose of obtaining or keeping business. The scope and enforcement of anti-corruption laws and regulations may vary. Although our policies expressly mandate compliance with the FCPA and similar laws, there can be no assurance that none of our employees or agents will take any action in violation of our policies. Violations of such laws or regulations could result in substantial civil or criminal fines or sanctions. Actual or alleged violations could also damage our reputation, be expensive to defend, and impair our ability to do business.

Civil aviation regulation

Users of engines are subject to general civil aviation authorities, including the FAA and Joint Aviation Authorities in Europe, who regulate the maintenance of engines and issue airworthiness directives. Airworthiness directives typically set forth special maintenance actions or modifications to certain engine types or series of specific engines that must be implemented for the engine to remain in service. Also, airworthiness directives may require the lessee to make more frequent inspections of an engine or particular engine parts. Each lessee of an engine generally is responsible for complying with all airworthiness directives. However, if the engine is off lease, we may be forced to bear the cost of compliance with such airworthiness directives, and if the engine is leased, subject to the terms of the lease, if any, we may be forced to share the cost of compliance.

Environmental regulation

Governmental regulations of noise and emissions levels may be applicable where the related airframe is registered, and where the aircraft is operated. For example, jurisdictions throughout the world have adopted noise regulations which require all aircraft to comply with Stage III noise requirements. In addition to the current Stage III compliance requirements, the United States and the International Civil Aviation Organization, or ICAO, have adopted a new, more stringent set of Stage IV standards for noise levels which will apply to engines manufactured or certified beginning in 2006. At this time, the United States regulations would not require any phase-out of aircraft that qualify only for Stage III compliance, but the European Union has established a framework for the imposition of operating limitations on non-Stage IV aircraft. These regulations could limit the economic life of our engines or reduce their value, could limit our ability to lease or sell the non-compliant engines or, if engine modifications are permitted, require us to make significant additional investments in the engines to make them compliant.

The United States and other jurisdictions are beginning to impose more stringent limits on the emission of nitrogen oxide, carbon monoxide and carbon dioxide emissions from engines, consistent with ICAO standards. These limits generally apply only to engines manufactured after 1999. Concerns over global warming could result in more stringent limitations on the operation of older, non-compliant engines.

Any change to current tax laws or accounting principles making operating lease financing less attractive could adversely affect our business, financial condition and results of operations.

Our lessees enjoy favorable accounting and tax treatment by using operating leases. Changes in tax laws or accounting principles that make operating leases less attractive to our lessees could have a material adverse effect on demand for our leases and on our business.

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Our consolidated financial statements are prepared in accordance with GAAP. The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) have recently issued a jointly developed proposal on lease accounting that could significantly change the accounting and reporting for lease arrangements. The main objective of the proposed standard is to create a new accounting model for both lessees and lessors, replacing the existing concepts of operating and capital leases with models. The new models would result in the elimination of most off-balance sheet lease financing for lessees. Lessors would apply one of two models depending upon whether the lessor retains exposure to significant risks or benefits of the underlying assets. The FASB s document is in the form of an exposure draft of a proposed Accounting Standards Update, Leases (Topic 840) (ED), issued in August 2010, and would apply to the accounting for all leases, with some exceptions. The ED also includes expanded disclosures including quantitative and qualitative information to enable users to understand the amount and timing of expected cash flows for both lessors and lessees.

The proposals set out in the ED were open for comment until December 15, 2010. The FASB has not completed all of its deliberations and the decisions made to date were sufficiently different from those published in the Lease ED to warrant re-exposure of the revised proposal. The FASB s standard-setting process is ongoing and until new standards have been finalized and issued, we cannot determine the impact on our consolidated financial statements that may result from such future. If there are future changes in GAAP with regard to how we and our customers must account for leases, it could change the way we and our customers conduct our businesses and, therefore, could have the potential to have an adverse effect on our business. We do not anticipate that the accounting pronouncement, when issued, will change the fundamental economic reasons that airlines lease aircraft and aircraft engines.

Our aircraft, engines or parts could cause bodily injury or property damage, exposing us to liability claims.

We are exposed to potential liability claims if the use of our aircraft, engines or parts is alleged to have caused bodily injury or property damage. Our leases require our lessees to indemnify us against these claims and to carry insurance customary in the air transportation industry, including liability, property damage and hull all risks insurance on our engines and on our aircraft at agreed upon levels. We can give no assurance that one or more catastrophic events will not exceed insurance coverage limits or that lessees insurance will cover all claims that may be asserted against us. Any insurance coverage deficiency or default by lessees under their indemnification or insurance obligations may reduce our recovery of losses upon an event of loss.

We may not be adequately covered by insurance.

While we maintain contingent insurance covering losses not covered by our lessees insurance, such coverage may not be available in circumstances where the lessee s insurance coverage is insufficient. In addition, if a lessee is not obligated to maintain sufficient insurance, we may incur the costs of additional insurance coverage during the related lease. We are required under certain of our debt facilities to obtain political risk insurance for leases to lessees in specified jurisdictions. We can give no assurance that such insurance will be available at commercially reasonable rates, if at all.

Currently, the U.S. government is still offering war risk insurance to U.S.-certificated airlines; however, most foreign governments have ceased this practice, forcing non-U.S. airlines back into the commercial insurance market for this coverage. It is unknown how long the U.S. government will continue to offer war risk insurance and whether U.S.-certificated airlines could obtain war risk insurance in the commercial markets on acceptable terms and conditions.

We and our lenders generally are named as an additional insured on liability insurance policies carried by our lessees and are usually the loss payees for damage to the engines. We have not experienced any significant aviation-related claims or any product liability claims related to our engines or spare parts that were not insured. However, an uninsured or partially insured claim, or a claim for which third-party indemnification is not available, could have a material adverse effect upon us. A loss of an aircraft where we lease the airframe, an engine or spare parts could result in significant monetary claims.

RISKS RELATING TO OUR CAPITAL STRUCTURE

Our inability to obtain sufficient capital would constrain our ability to grow our portfolio and to increase our revenues.

Our business is capital intensive and highly leveraged. Accordingly, our ability to successfully execute our business strategy and maintain our operations depends on the availability and cost of debt and equity capital. Additionally, our ability to borrow against our portfolio of engines is dependent, in part, on the appraised value of our engines. If the appraised value of our engines declines, we may be required to reduce the principal outstanding under certain of our debt facilities.

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Availability under such debt facilities may also be reduced, at least temporarily, as a result of such reduced appraisals.

The recent, well publicized, worldwide disruptions in the credit and financial markets increase the risk of adverse effects on our customers and our capital providers (lenders and derivative counter-parties) and therefore on us. The disruptions may also adversely affect our ability to raise additional capital to continue our recent growth trend. Although we have adequate debt commitments from our lenders, assuming they are willing and able to meet their contractual obligation to lend to us, the market disruptions may adversely affect our ability to raise additional equity capital to fund future growth, requiring us to rely on internally generated funds. This would lower our rate of capital investment.

We can give no assurance that the capital we need will be available to us on favorable terms, or at all. Our inability to obtain sufficient capital, or to renew or expand our credit facilities could result in increased funding costs and would limit our ability to:

- meet the terms and maturities of our existing and future debt facilities;
- add new equipment to our portfolio;
- fund our working capital needs and maintain adequate liquidity; and
- finance other growth initiatives.

Our financing facilities impose restrictions on our operations.

We have, and expect to continue to have, various credit and financing arrangements with third parties. These financing arrangements are secured by all or substantially all of our assets. Our existing credit and financing arrangements require us to meet certain financial condition and performance tests. Our revolving credit facility prohibits our declaring or paying dividends on shares of any class or series of our capital stock if an event of default under such facilities has or will occur and remains uncured. The agreements governing our debt, including the issuance of notes by WEST II, also include restrictive financial covenants. A breach of those and other covenants could, unless waived or amended by our creditors, result in a cross-default to other indebtedness and an acceleration of all or substantially all of our debt. We have obtained such amendments and waivers to our financing agreements in the past, but we cannot provide any assurance that we will receive such amendments or waivers in the future if we request them. If our outstanding debt is accelerated at any time, we likely would have little or no cash or other assets available after payment of our debts, which could cause the value or market price of our outstanding equity securities to decline significantly and we would have few, if any, assets available for distributions to our equity holders in liquidation.

We are exposed to interest rate risk on our engine leases, which could have a negative impact on our margins.

We are affected by fluctuations in interest rates. Our lease rates are generally fixed, and a portion of our debt bears variable rate interest based on one-month LIBOR, so changes in interest rates directly affect our lease margins. We seek to reduce our interest rate volatility and uncertainty through hedging with interest rate derivative contracts with respect to a portion of our debt. Our lease margins, as well as our earnings and cash flows may be adversely affected by increases in interest rates, to the extent we do not have hedges or other derivatives in place or if our hedges or other derivatives do not mitigate our interest rate exposure from an economic standpoint. We would be adversely affected by increasing interest rates. As reported by British Bankers Association, the one-month LIBOR has decreased from approximately 0.30% on December 31, 2011 to approximately 0.21% on December 31, 2012.

We have risks in managing our portfolio of engines to meet customer needs.

The relatively long life cycles of aircraft and jet engines can be shortened by world events, government regulation or customer preferences. We seek to manage these risks by trying to anticipate demand for particular engine types, maintaining a portfolio mix of engines that we believe is diversified and that will have long-term value and will be sought by lessees in the global market for jet engines, and by selling engines that we expect will experience obsolescence or declining usefulness in the foreseeable future. The WEST II securitization facility includes restrictions and limitations on the sale of engines in that facility including, among others, that (i) the net proceeds from any individual engine sale must be at least 105% of the debt allocated under the facility to that engine, and (ii) the aggregate appraised value of the facility s engines sold through September 2019 cannot exceed 20% of the total appraised value of the facility s engines at the inception of the facility plus the value of capitalized modifications to the engines since then, and cannot exceed 30% thereafter. We can give no assurance that we can successfully manage our engine portfolio to reduce these risks.

Our inability to maintain sufficient liquidity could limit our operational flexibility and also impact our ability to make payments on our obligations as they come due.

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In addition to being capital intensive and highly leveraged, our business also requires that we maintain sufficient liquidity to enable us to contribute the non-financed portion of engine purchases as well as to service our payment obligations to our creditors as they become due despite the fact that the timing and amounts of payments under our leases do not match the timing under our debt service obligations. Our restricted cash is unavailable for general corporate purposes. Accordingly, our ability to successfully execute our business strategy and maintain our operations depends on our ability to continue to maintain sufficient liquidity, cash and available credit under our credit facilities. Our liquidity could be adversely impacted if we are subjected to one or more of the following: a significant decline in lease revenues, a material increase in interest expense that is not matched by a corresponding increase in lease rates, a significant increase in operating expenses, or a reduction in our available credit under our credit facilities. If we do not maintain sufficient liquidity, our ability to meet our payment obligations to creditors or to borrow additional funds could become impaired as could our ability to make dividend payments or other distributions to our equity holders. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

NUMEROUS FACTORS MAY AFFECT THE TRADING PRICE OF OUR COMMON STOCK

The trading price of our common stock may fluctuate due to many factors, including:

- risks relating to our business described in this Annual Report;
- sales of our securities by a few stockholders or even a single significant stockholder;
- general economic conditions;
- changes in accounting mandated under GAAP;
- quarterly variations in our operating results;
- our financial condition, performance and prospects;
- changes in financial estimates by us;
- level, direction and volatility of interest rates and expectations of changes in rates;

- market for securities similar to our common stock; and

- changes in our capital structure, including additional issuances by us of debt or equity securities.

In addition, the U.S. stock markets have experienced price and volume volatility that has affected many companies stock prices, often for reasons unrelated to the operating performance of those companies.

RISKS RELATING TO OUR FOREIGN OPERATIONS

A substantial portion of our lease revenue comes from foreign customers, subjecting us to divergent regulatory requirements.

For the year ended December 31, 2012, 88% of our lease revenue was generated by leases to foreign customers. Such international leases present risks to us because certain foreign laws, regulations and judicial procedures may not be as protective of lessor rights as those which apply in the United States. We are also subject to risks of foreign laws that affect the timing and access to courts and may limit our remedies when collecting lease payments and recovering assets. None of our leased engines have been expropriated; however, we can give no assurance that political instability abroad and changes in the policies of foreign nations will not present expropriation risks in the future that are not covered by insurance.

Our leases require payments in U.S. dollars but many of our customers operate in other currencies; if foreign currencies devalue against the U.S. dollar, our lessees may be unable to make their payments to us.

All of our current leases require that payments be made in U.S. dollars. If the currency that our lessees typically use in operating their businesses devalues against the U.S. dollar, the lessees could encounter difficulties in making payments in U.S. dollars. Furthermore, many foreign countries have currency and exchange laws regulating international payments that may impede or prevent payments from being paid to us in U.S. dollars. Future leases may provide for payments to be made in euros or other foreign currencies. Any change in the currency exchange rate that reduces the amount of U.S. dollars obtained by us upon conversion of future lease payments denominated in euros or other foreign currencies, may, if not appropriately hedged by us, have a material adverse effect on us and increase the volatility of our earnings. If payments on our leases are made in foreign currency, our risks and hedging costs will increase.

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We operate globally and are affected by our customers local and regional economic and other risks.

We believe that our customers growth and financial condition are driven by economic growth in their service areas. The largest portion of our lease revenues come from Europe. European airline operations are among the most heavily regulated in the world. At the same time, new low-cost carriers have exerted substantial competitive and financial pressure on major European airlines. Low-cost carriers are having similar effects in North America and elsewhere.

Our operations may also be affected by political or economic instability in the areas where we have customers.

We may not be able to enforce our rights as a creditor if a lessee files for bankruptcy outside of the United States.

When a debtor seeks protection under the United States 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. Section 1110 has been the subject of significant litigation and we can give no assurance that Section 1110 will protect our investment in an aircraft or engines 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.

Liens on our engines could exceed the value of the engines, which could negatively affect our ability to repossess, lease or sell a particular engine.

Liens that secure the payment of repairers charges or other liens may, depending on the jurisdiction, attach to the engines. Engines also may be installed on airframes to which liens unrelated to the engines have attached. These liens may secure substantial sums that may, in certain jurisdictions or for limited types of liens, exceed the value of the particular engine to which the liens have attached. In some jurisdictions, a lien may give the holder the right to detain or, in limited cases, sell or cause the forfeiture of the engine. Such liens may have priority over our interest as well as our creditors interest in the engines, either because they have such priority under applicable local law or because our creditors security interests are not filed in jurisdictions outside the United States. These liens and lien holders could impair our ability to repossess and lease or sell the engines. We cannot give assurance that our lessees will comply with their obligations to discharge third party liens on our engines. If they do not, we may, in the future, find it necessary to pay the claims secured by such liens to repossess the engines.

In certain countries, an engine affixed to an aircraft may become an accession to the aircraft and we may not be able to exercise our ownership rights over the engine.

In some jurisdictions, an engine affixed to an aircraft may become an accession to the aircraft, so that the ownership rights of the owner of the aircraft supersede the ownership rights of the owner of the engine. If an aircraft is security for the owner s obligations to a third-party, the security interest in the aircraft may supersede our rights as owner of the engine. This legal principle could limit our ability to repossess an engine in the event of a lease default while the aircraft with the engine installed remains in such a jurisdiction. We may suffer a loss if we are not able to repossess engines leased to lessees in these jurisdictions.

RISKS RELATED TO OUR SMALL SIZE AND CORPORATE STRUCTURE

Intense competition in our industry, particularly with major companies with substantially greater financial, personnel, marketing and other resources, could cause our revenues and business to suffer.

The engine leasing industry is highly competitive and global. Our primary competitors include GE Engine Leasing, Shannon Engine Support, Pratt &Whitney, Rolls-Royce Partners Finance and Engine Lease Finance.

Our primary competitors generally have significantly greater financial, personnel and other resources, and a physical presence in more locations, than we do. In addition, competing engine lessors may have lower costs of capital and may provide financial or technical services or other inducements to customers, including the ability to sell or lease aircraft or provide other forms of financing that we do not provide. We cannot give assurance that we will be able to compete effectively or that competitive pressures will not adversely affect us.

There is no organized market for the spare engines we purchase. Typically, we purchase engines from commercial aircraft operators, engine manufacturers, MROs and other suppliers. We rely on our representatives, advertisements and reputation to generate opportunities to purchase and sell engines. The market for purchasing engine portfolios is highly competitive, generally involving an auction bidding process. We can give no assurance that engines will continue to be available to us on acceptable terms and in the types and quantities we seek consistent with the diversification requirements of our debt facilities and our portfolio diversification goals.

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Substantially all of our assets are pledged to our creditors.

Substantially all of our assets are pledged to secure our obligations to creditors. Our revolving credit banks have a lien on all of our assets, including our equity in WEST II. Due to WEST II s bankruptcy remote structure, that equity is subject to the prior payments of WEST II s debt and other obligations. Therefore, our rights and the rights of our creditors to participate in any distribution of the assets of WEST II upon its liquidation, reorganization, dissolution or winding up will be subject to the prior claims of WEST II s creditors. Similarly, the rights of our shareholders are subject to satisfaction of the claims of our lenders and other creditors.

We may be unable to manage the expansion of our operations.

We can give no assurance that we will be able to manage effectively the potential expansion of our operations, or that if we are successful expanding our operations that our systems, procedures or controls will be adequate to support our operations, in which event our business, financial condition, results and cash flows could be adversely affected.

Any acquisition or expansion involves various risks, which may include some or all of the following:

- incurring or assuming additional debt;
- diversion of management s time and attention from ongoing business operations;
- future charges to earnings related to the possible impairment of goodwill and the write down of other intangible assets;
- risks of unknown or contingent liabilities;
- difficulties in the assimilation of operations, services, products and personnel;
- unanticipated costs and delays;

- risk that the acquired business does not perform consistently with our growth and profitability expectations;

- risk that growth will strain our infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures; and

- potential loss of key employees and customers.

Any of the above factors could have a material adverse effect on us.

Compliance with the regulatory requirements imposed on us as a public company results in significant costs that will likely have an adverse effect on our results.

As a public company, we are subject to various regulatory requirements including, but not limited to, compliance with the Sarbanes-Oxley Act of 2002. Compliance with these regulations results in significant additional costs to us both directly, through increased audit and consulting fees, and indirectly, through the time required by our limited resources to address the regulations. We have complied with Section 404a of the Sarbanes-Oxley Act as of December 31, 2007, completing our annual assessment of internal controls over financial reporting. We complied with Section 404b of the Sarbanes-Oxley Act as of December 31, 2009 and our independent registered public accounting firm has audited internal controls over financial reporting. Such compliance requires us to incur additional costs on audit and consulting fees and require additional management time that will adversely affect our results of operations and cash flows.

We are effectively controlled by one principal stockholder, who has the power to contest the outcome of most matters submitted to the stockholders for approval and to affect our stock prices adversely if he were to sell substantial amounts of his common stock.

As of December 31, 2012, our principal stockholder, Chairman of the Board of Directors and Chief Executive Officer, Mr. Charles F. Willis, IV, beneficially owned or had the ability to direct the voting of 2,739,202 shares of our common stock, representing approximately 31% of the outstanding shares of our common stock. As a result, Mr. Willis

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effectively controls us and has the power to contest the outcome of substantially all matters submitted to our stockholders for approval, including the election of the board of directors. In addition, future sales by Mr. Willis of substantial amounts of our common stock, or the potential for such sales, could adversely affect the prevailing market price of our common stock.

Our business might suffer if we were to lose the services of certain key employees.

Our business operations depend upon our key employees, including our executive officers. Loss of any of these employees, particularly our Chief Executive Officer, could have a material adverse effect on our business as our key employees have knowledge of our industry and customers and would be difficult to replace.

We are the servicer and administrative agent for the WEST II facility and our cash flows would be materially and adversely affected if we were removed from these positions.

We are the servicer and administrative agent with respect to engines in the WEST II facility. We receive monthly fees of 11.5% as servicer and 2.0% as administrative agent of the aggregate net rents actually received by WEST II on its engines. We may be removed as servicer and administrative agent by the affirmative vote of a requisite number of holders of WEST II facility notes upon the occurrence of certain specified events, including the following events, subject to WEST II following certain specified procedures and providing us certain cure rights as set forth in the servicing agreement:

- We fail to perform the requisite services set forth in the servicing agreement or administrative agent agreement;
- We fail to provide adequate insurance or otherwise materially and adversely affects the rights of WEST;
- We cease to be engaged in the aircraft engine leasing business;
- We become subject to an insolvency or bankruptcy proceeding, either voluntarily or involuntarily;
- We fail to maintain the following financial covenant set forth in the Servicing Agreement: Maintain a minimum consolidated earnings before interest, taxes, depreciation and amortization to interest ratio of 2.25-to-1.00

As of December 31, 2012, we were in compliance with the financial covenants set forth above. There can be no assurance that we will be in compliance with these covenants in the future or will not otherwise be terminated as service or administrative agent for the WEST II facility. If we are removed, our expenses would increase since our consolidated subsidiary, WEST II, would have to hire an outside provider to replace the servicer and administrative agent functions, and we would be materially and adversely affected. Consequently, our business, financial condition, results of operations and cash flows would be adversely affected.

Provisions in Delaware law and our charter and bylaws might prevent or delay a change of control.

Certain provisions of law, our amended certificate of incorporation, bylaws and amended rights agreement could make the following more difficult: (1) an acquisition of us by means of a tender offer, a proxy contest or otherwise, and (2) the removal of incumbent officers and directors.

Our board of directors has authorized the issuance of shares of Series I Preferred Stock pursuant to our amended rights agreement, by and between us and American Stock Transfer and Trust Company, as rights agent. The rights agreement could make it more difficult to proceed with and tend to discourage a merger, tender offer or proxy contest. Our amended certificate of incorporation also provides that stockholder action can be taken only at an annual or special meeting of stockholders and may not be taken by written consent and, in certain circumstances relating to acquisitions or other changes in control, requires an 80% supermajority vote of all outstanding shares of our common stock. Our bylaws also limit the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice.

ITEM 2. PROPERTIES

Our principal offices are located in Novato, California. We occupy space in Novato under a lease that covers approximately 20,534 square feet of office space and expires September 30, 2018. The remaining lease rental commitment is approximately $3.2 million. Equipment leasing, financing, sales and general administrative activities are conducted from the Novato location. We also sub-lease office and warehouse space for our operations at San Diego, California. This lease expires October 31, 2013, and the remaining lease commitment is approximately $0.1 million. We also lease office and warehouse space in Shanghai, China. The office lease expires December 31, 2013 and the warehouse lease expires July 31, 2017 and the remaining lease commitments are approximately $64,800 and $28,000, respectively. We also lease office space in London, United Kingdom. The lease expires December 21, 2015 and the remaining lease commitment is approximately

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$219,000. We also lease office space in Blagnac, France. The lease expires December 31, 2013 and the remaining lease commitment is approximately $17,000. We lease office space in Dublin, Ireland. The lease expires May 15, 2017 and the remaining lease commitment is approximately $0.2 million.

ITEM 3. LEGAL PROCEEDINGS

None.

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 2012.

PART II

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

The following information relates to our Common Stock, which is listed on the NASDAQ National Market under the symbol WLFC. As of March 14, 2013 there were approximately 3,064 shareholders of our Common Stock.

The high and low closing sales price of the Common Stock for each quarter of 2012 and 2011, as reported by NASDAQ, are set forth below:

	2012		2011	
	High	Low	High	Low
First Quarter	$ 14.82	$ 12.13	$ 14.20	$ 12.15
Second Quarter	13.14	11.75	13.69	12.55
Third Quarter	13.33	11.46	14.00	11.00
Fourth Quarter	14.71	12.35	12.19	9.91

During the years ended December 31, 2012 and 2011, we did not pay cash dividends to our common shareholders. We have not made any dividend payments to our common shareholders since our inception as all available cash has been utilized for the business. We have no intention of paying dividends on our common stock in the foreseeable future. In addition, certain of our debt facilities contain negative covenants which prohibit us from paying any dividends or making distributions of any kind with respect to our common stock.

The following table outlines our 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)
Plans Not Approved by Stockholders:			
None	n/a	n/a	n/a
Plans Approved by Stockholders:			
Employee Stock Purchase Plan		n/a	58,380
1996 Stock Option/Stock Issuance Plan*	136,928	$ 8.60	
2007 Stock Incentive Plan		n/a	341,352
Total	136,928	$ 8.60	399,732

* Plan expired

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The 1996 Stock Option/Stock Issuance Plan and the 2007 Stock Incentive Plan were approved by security holders. The 2007 Stock Incentive Plan authorized 2,000,000 shares of common stock. 1,728,156 shares of restricted stock were granted under the 2007 Stock Incentive Plan by December 31, 2012. Of this amount, 69,508 shares of restricted stock were withheld or forfeited and returned to the pool of shares which could be granted under the 2007 Stock Incentive Plan resulting in a net number of 341,352 shares which were available as of December 31, 2012 for future issuance under the 2007 Incentive Plan.

On September 27, 2012, the Company announced that its Board of Directors has authorized a plan to repurchase up to $100.0 million of its common stock over the next 5 years. This plan extends the previous plan authorized on December 8, 2009, and increases the number of shares authorized for repurchase to up to $100.0 million. The repurchased shares are to be subsequently retired. 928,261 shares totaling $12.7 million were repurchased in 2012 under our authorized plan. As of December 31, 2012, the total number of common shares outstanding was approximately 8.7 million.

Common stock repurchases, under our authorized plan, in the quarter ended December 31, 2012 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans
		(in thousands, except per share data)		
October	458	$ 13.79	458	$ 93,677
November	68	$ 14.27	68	$ 92,711
December	246	$ 14.10	246	$ 89,240
Total	772	$ 13.93	772	$ 89,240

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ITEM 6. SELECTED FINANCIAL DATA

The following table summarizes our selected consolidated financial data and operating information. 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.

	Years Ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in thousands, except per share data)				
Revenue:					
Lease rent revenue	$ 94,591	$ 104,663	$ 102,133	$ 102,390	$ 102,421
Maintenance reserve revenue	41,387	39,161	34,776	46,049	33,716
Gain on sale of leased equipment	5,499	11,110	7,990	1,043	12,846
Other revenue	6,613	1,719	3,403	958	3,823
Total revenue	$ 148,090	$ 156,653	$ 148,302	$ 150,440	$ 152,806
Net income	$ 1,535	$ 14,508	$ 12,050	$ 22,367	$ 26,601
Net income (loss) attributable to common shareholders	$ (3,793)	$ 11,380	$ 8,922	$ 19,239	$ 23,473
Basic earnings (loss) per common share	$ (0.45)	$ 1.35	$ 1.03	$ 2.30	$ 2.85
Diluted earnings (loss) per common share	$ (0.43)	$ 1.28	$ 0.96	$ 2.14	$ 2.68
Balance Sheet Data:					
Total assets	$ 1,078,715	$ 1,133,205	$ 1,125,962	$ 1,097,702	$ 982,712
Debt (includes capital lease obligation)	$ 696,988	$ 718,134	$ 731,632	$ 726,235	$ 641,125
Shareholders equity	$ 199,553	$ 236,661	$ 226,970	$ 220,793	$ 192,207
Lease Portfolio:					
Engines at end of the period	184	194	179	169	160
Spare parts packages at the end of the period	4	3	4	3	3
Aircraft at the end of the period	7	13	3	4	4

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

OVERVIEW

Forward-Looking Statements. This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding prospects or future results of operations or financial position, made in this Annual Report on Form 10-K are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management s current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, among others, the effects on the airline industry and the global economy of events such as terrorist activity, changes in oil prices and other disruptions to the world markets; trends in the airline industry, including growth rates of markets and other economic factors; risks associated with owning and leasing jet engines and aircraft; our ability to successfully negotiate equipment purchases, sales and leases, to collect outstanding amounts due and to control costs and expenses; changes in interest rates and availability of capital, our ability to continue to meet the changing customer demands; regulatory changes affecting airline operations, aircraft maintenance, accounting standards and taxes; the market value of engines and other assets in our portfolio. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management s expectations, are described in greater detail in Item 1A of Part I, Risk Factors, which, along with the previous discussion, describes some, but not all, of the factors that could cause actual results to differ significantly from management s expectations.

General. Our core business is acquiring and leasing pursuant to operating leases, commercial aircraft engines and related aircraft equipment, and the selective sale of such engines, all of which we sometimes refer to as equipment. As of December 31, 2012, 160 of our leases were operating leases and 1 was a finance lease. As of December 31, 2012, we had 78 lessees in 42 countries. Our portfolio is continually changing due to acquisitions and sales. As of December 31, 2012, our total lease portfolio consisted of 184 engines and related equipment, 7 aircraft and 4 spare engine parts packages with an aggregate net book value of $961.5 million. As of December 31, 2012, we also managed 33 engines and related equipment on behalf of other parties.

On December 30, 2005, we entered into a joint venture called WOLF with Oasis International Leasing (USA), Inc., which is now known as Waha Capital PJSC, and WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company Willis Mitsui & Company Engine Support Limited (WMES) for the purpose of acquiring and leasing jet engines. Each partner holds a fifty percent interest in the joint venture. WMES owns and leases 15 engines with a net book value of $139.8 million at December 31, 2012.

We actively manage our portfolio and structure our leases to maximize the residual values of our leased assets. Our leasing business focuses on popular Stage III commercial jet engines manufactured by CFMI, General Electric, Pratt & Whitney, Rolls Royce and International Aero Engines. These engines are the most widely used engines in the world, powering Airbus, Boeing, McDonnell Douglas, Bombardier and Embraer aircraft.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to residual values, estimated asset lives, impairments and bad debts. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, grouped by our activities, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Leasing Related Activities. Revenue from leasing of aircraft equipment is recognized as operating lease revenue on a straight-line basis over the terms of the applicable lease agreements. Where collection cannot be reasonably assured, for example, upon a lessee bankruptcy, we do not recognize revenue until cash is received. We also estimate and charge to income a provision for bad debts based on our experience in the business and with each specific customer and the level of past due accounts. The financial condition of our customers may deteriorate and result in actual losses exceeding the estimated allowances. In addition, any deterioration in the financial condition of our customers may adversely affect future lease revenues. As of December 31, 2012, all but one of our leases are accounted for as operating leases. Under an operating lease, we retain title to the leased equipment, thereby retaining the potential benefit and assuming the risk of the residual value of the leased equipment.

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We generally depreciate 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. Major overhauls paid for by us, which improve functionality or extend the original useful life, are capitalized and depreciated over the shorter of the estimated period to the next overhaul (deferral method) or the remaining useful life of the equipment. We do not accrue for planned major maintenance. 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, we depreciate the equipment over its estimated life to a residual value based on an estimate of the wholesale value of the parts after disassembly. Currently, 51 engines having a net book value of $118.5 million are depreciated using this policy.

It is our policy to review estimates regularly to accurately expense the cost of equipment over the useful life of the engines. On July 1, 2011 and again on July 1, 2012, we adjusted the depreciation for certain older engine types within the portfolio. The 2012 change in depreciation estimate resulted in a $2.0 million increase in depreciation in 2012 and on an annual basis will result in an increase in depreciation expense of $4.0 million per year assuming no change in our portfolio. The net effect of the 2012 change in depreciation estimate is a reduction in 2012 net income of $1.0 million or $0.12 in diluted earnings per share over what net income would have otherwise been had the change in depreciation estimate not been made. If useful lives or residual values are lower than those estimated by us, future write-downs may be recorded or a loss may be realized upon sale of the equipment.

Asset Valuation. Long-lived assets and certain identifiable intangibles to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable, and long-lived assets and certain identifiable intangibles to be disposed of are reported at the lower of carrying amount or fair value less cost to sell. Impairment is identified by comparison of undiscounted forecasted cash flows, including estimated sales proceeds, over the life of the asset with the asset s book value. If the forecasted undiscounted cash flows are less than the book value, we write the asset down to its fair value. We determine fair value by reference to independent appraisals, quoted market prices (e.g., an offer to purchase) and other factors. If the undiscounted forecasted cash flows and fair value of our long-lived assets decrease in the future we may incur impairment charges.

Accounting for Maintenance Expenditures and Maintenance Reserves. Use fees received are recognized in revenue as maintenance reserve revenue if they are not reimbursable to the lessee. Use fees that are reimbursable are recorded as a maintenance reserve liability until they are reimbursed to the lessee or the lease terminates, at which time they are recognized in revenue as maintenance reserve revenue. Our expenditures for maintenance are expensed as incurred. Expenditures that meet the criteria for capitalization are recorded as an addition to equipment recorded on the balance sheet.

YEAR ENDED DECEMBER 31, 2012 COMPARED TO THE YEAR ENDED DECEMBER 31, 2011

Revenue is summarized as follows:

	Years Ended December 31,			
	2012		2011	
	Amount	%	Amount	%
	(dollars in thousands)			
Lease rent revenue	$ 94,591	63.9%	$ 104,663	66.8%
Maintenance reserve revenue	41,387	27.9%	39,161	25.0%
Gain on sale of leased equipment	5,499	3.7%	11,110	7.1%
Other revenue	6,613	4.5%	1,719	1.1%

Total revenue	$ 148,090	100.0%	$ 156,653	100.0%	

Lease Rent Revenue. Our lease rent revenue for the year ended December 31, 2012, decreased by 9.6% over the comparable period in 2011. This decrease primarily reflects lower portfolio utilization in the current period and a decrease in the average size of the lease portfolio, which translated into a lower amount of equipment on lease. The aggregate of net book value of equipment held for lease at December 31, 2012 and 2011, was $961.5 million and $981.5 million, respectively, a decrease of 2.0%. Portfolio utilization is defined as the net book value of on-lease assets as a percentage of the net book value

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of total lease assets. At December 31, 2012, and 2011, respectively, approximately 86% and 82% of equipment by net book value was on-lease. The average utilization for the year ended December 31, 2012 was 83% compared to 86% in the prior year. During the year ended December 31, 2012, one aircraft and 7 engines were added to our lease portfolio at a total cost of $67.4 million (including capitalized costs). During the year ended December 31, 2011, 10 aircraft and 30 engines were added to our lease portfolio at a total cost of $135.4 million (including capitalized costs).

Maintenance Reserve Revenue. Our maintenance reserve revenue for the year ended December 31, 2012 increased 5.7% to $41.4 million from $39.2 million for the comparable period in 2011. This increase was primarily due to higher maintenance reserve revenues generated for engines on short term leases, for which usage was higher in 2012 than in the year ago period.

Gain on Sale of Leased Equipment. During the year ended December 31, 2012, we sold 14 engines, 1 aircraft and various engine-related equipment from the lease portfolio for a net gain of $5.5 million. During the year ended December 31, 2011, we sold 12 engines and various engine-related equipment from the lease portfolio for a net gain of $11.1 million. The 2011 gain on sales included $3.6 million which represents 50% of the total $7.2 million gain related to the sale by the Company of seven engines to WMES in 2011, as described in footnote 4 to our consolidated financial statements.

Other Revenue. Our other revenue consists primarily of management fee income and lease administration fees, and increased $4.9 million from the prior year. The increase was primarily due to the recording of a gain of $2.0 million related to the receipt of an engine in exchange for an engine that was damaged while under lease. Other revenue also increased in the current period due to an increase in the number of engines managed, an increase in engine purchase arrangement fees, an increase in termination and other lessee settlements and the recording of a $0.2 million gain related to the settlement of an insurance claim of a casualty loss on a leased engine.

Depreciation Expense. Depreciation expense increased $1.3 million or 2.6% to $52.6 million for the year ended December 31, 2012, from the comparable period in 2011 due to changes in estimates of useful lives and residual values on certain older engine types. On July 1, 2011 and again on July 1, 2012, we adjusted the depreciation for certain older engine types within the portfolio. It is our policy to review estimates regularly to reflect the cost of equipment over the useful life of these engines. The 2012 change in depreciation estimate resulted in a $2.0 million increase in depreciation for 2012. The net effect of the 2012 change in depreciation estimate is a reduction in 2012 net income of $1.0 million or $0.12 in diluted earnings per share over what net income would have otherwise been had the change in depreciation estimate not been made.

Write-down of Equipment. Write-down of equipment to their estimated fair values totaled $5.9 million for the year ended December 31, 2012, an increase of $2.5 million from the $3.3 million recorded in the comparable period in 2011. A write-down of $1.2 million was recorded for the year ended December 31, 2012 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed. A write-down of $4.7 million was recorded in the year ended December 31, 2012 due to a management decision to sell 2 engines and consign 5 engines for part out and sale. A write-down of $2.3 million was recorded for the year ended December 31, 2011 to adjust the carrying values of engine parts held on consignment for which market conditions for the sale of parts has changed. Write-downs on held for use equipment to their estimated fair values totaled $1.0 million for the year ended December 31, 2011, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values.

General and Administrative Expenses. General and administrative expenses decreased 3.2% to $34.6 million for the year ended December 31, 2012, from the comparable period in 2011 due to a decrease in employee bonus related to the Company s financial results ($1.5 million), decreased legal and consulting expense (0.7 million) and decreased selling expenses ($0.3 million), which was partially offset by increases in

taxes, fees and licenses ($0.5 million), bad debt expense ($0.4 million), employee benefits ($0.2 million) and system conversion expenses ($0.2 million).

Technical Expense. Technical expenses consist of the cost of engine repairs, engine thrust rental fees, outsourced technical support services, sublease engine rental expense, engine storage and freight costs. These expenses decreased 16.5% to $7.0 million for the year ended December 31, 2012, from the comparable period in 2011 due mainly to a decrease in engine maintenance costs due to lower repair activity ($1.3 million), lower engine thrust rental fees due to a decrease in the number of engines being operated at higher thrust levels under the CFM thrust rental program ($0.4 million) and decreased sub-lease rental expense resulting from the termination of a sublease rental program in September 2011 ($0.3 million). The decreases were partially offset by an increase in storage expenses ($0.7 million).

Net Finance Costs. Net finance costs include interest expense, interest income and net (gain)/loss on debt extinguishment and derivatives termination. Interest expense decreased 9.8% to $31.7 million for the year ended December 31, 2012, from the comparable period in 2011, due to a decrease in the average debt outstanding and a decrease in the average notional value of interest rate swaps held throughout the period which were at a higher rate than the prevailing interest rates on our debt. As of December 31, 2012, $282.0 million of our debt is tied to one-month U.S. dollar LIBOR which was 0.23% for each of the

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years ended December 31, 2012 and 2011 (average of month-end rates). At December 31, 2012 and 2011, one-month LIBOR was 0.21% and 0.30%, respectively. To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of December 31, 2012, such swap agreements had notional outstanding amounts of $100.0 million, with a remaining term of eleven months and a fixed rate of 2.10%. In 2012 and 2011, $6.4 million and $11.3 million was realized through the income statement as an increase in interest expense, respectively.

We recorded a loss on extinguishment of debt and derivative instruments of $15.5 million for the year ended December 31, 2012 as a result of the write-off of $5.3 million of unamortized debt issuance costs and unamortized note discount associated with the full repayment of WEST notes on September 17, 2012 and the termination of interest rate swaps totaling $10.2 million. Upon the closing of WEST II on September 17, 2012, at which time the WEST floating rate debt was fully repaid, six interest rate swaps with a notional value of $215.0 million that were assigned to the WEST debt were terminated. The effective portion of the loss on these cash flow hedges was $10.1 million and was reclassified out of accumulated other comprehensive income and recorded in earnings for the year ended December 31, 2012.

Interest income for the year ended December 31, 2012 and 2011, decreased by 52.1% to $0.08 million compared to the year ago period due to a decrease in deposit balances.

Income Taxes. Income taxes for the year ended December 31, 2012, decreased to $1.2 million from $9.4 million for the comparable period in 2011 reflecting decreased pre-tax income. The overall effective tax rate for the year ended December 31, 2012 was 43.0% compared to 39.1% for the prior year. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California and numerous other factors, including changes in tax law.

YEAR ENDED DECEMBER 31, 2011 COMPARED TO THE YEAR ENDED DECEMBER 31, 2010

Revenue is summarized as follows:

	Years Ended December 31,			
	2011		2010	
	Amount	%	Amount	%
	(dollars in thousands)			
Lease rent revenue	$ 104,663	66.8%	$ 102,133	68.9%
Maintenance reserve revenue	39,161	25.0	34,776	23.4
Gain on sale of leased equipment	11,110	7.1	7,990	5.4
Other revenue	1,719	1.1	3,403	2.3
Total revenue	$ 156,653	100.0%	$ 148,302	100.0%

Lease Rent Revenue. Our lease rent revenue for the year ended December 31, 2011, increased by 2.4% over the comparable period in 2010. This increase primarily reflects growth in size of the lease asset portfolio which translated into a higher amount of equipment on lease throughout the year. The sale of lease assets in the last half of 2011 resulted in a drop in the year end portfolio value compared to the year ago period. The aggregate of net book value of equipment held for lease at December 31, 2011 and 2010, was $981.5 million and $998.0 million, respectively, a decrease of 1.7%. At December 31, 2011, and 2010, respectively, approximately 82% and 90% of equipment by net book value was on-lease. .

The average utilization for each of the years ended December 31, 2011 and December 31, 2010 was 86%. During the year ended December 31, 2011, 10 aircraft and 30 engines were added to our lease portfolio at a total cost of $135.4 million (including capitalized costs). During the year ended December 31, 2010, 16 engines were added to our lease portfolio at a total cost of $120.0 million (including capitalized costs).

Maintenance Reserve Revenue. Our maintenance reserve revenue for the year ended December 31, 2011, increased 12.6% to $39.2 million from $34.8 million for the comparable period in 2010. This increase was primarily due to the larger average lease portfolio and an increased amount of equipment on-lease during 2011, particularly as a result of higher maintenance reserve revenues generated for engines on short term leases, for which usage was higher in 2011 than in the year ago period.

Gain on Sale of Leased Equipment. During the year ended December 31, 2011, we sold 12 engines and various engine-related equipment from the lease portfolio for a net gain of $11.1 million. The 2011 gain on sales included $3.6 million which represents 50% of the total $7.2 million gain related to the sale by the Company of seven engines to WMES in the period, as described in footnote 4 to our consolidated financial statements. During the year ended December 31, 2010, we sold 7 engines and various engine-related equipment from the lease portfolio and one airframe for a net gain of $8.0 million.

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Other Revenue. Our other revenue consists primarily of management fee income and lease administration fees, and decreased $1.7 million from the prior year. The decrease was primarily due to the sale of our interest in the SSAMC joint venture in 2010 for $3.5 million, which generated a gain of $2.0 million in the prior year. This was partially offset in 2011 by higher fees earned on a larger portfolio of engines managed on behalf of third parties.

Depreciation Expense. Depreciation expense increased $2.5 million or 5.2% to $51.3 million for the year ended December 31, 2011, from the comparable period in 2010 due to an increase in the average lease portfolio value. On July 1, 2010 and again on July 1, 2011, we adjusted the depreciation for certain older engine types within the portfolio. It is our policy to review estimates regularly to reflect the cost of equipment over the useful life of these engines. The net effect of the change in depreciation estimate had no significant impact to the net income and diluted earnings per share for the year ended December 31, 2011 over what net income would have otherwise been had the change in depreciation estimate not been made.

Write-down of Equipment. Write-down of equipment to their estimated fair values totaled $3.3 million for the year ended December 31, 2011, an increase of $0.4 million from the $2.9 million recorded in the comparable period in 2010. A write-down of $2.3 million was recorded for the year ended December 31, 2011 to adjust the carrying values of engine parts held on consignment for which market conditions for the sale of parts has changed. Write-downs on held for use equipment to their estimated fair values totaled $1.0 million for the year ended December 31, 2011, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values. A write-down of $2.7 million was recorded for the year ended December 31, 2010 to adjust the carrying values of engine parts held on consignment for which market conditions for the sale of parts has changed. Write-downs on held for use equipment to their estimated fair values totaled $0.2 million for the year ended December 31, 2010, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values.

General and Administrative Expenses. General and administrative expenses increased 21.8% to $35.7 million for the year ended December 31, 2011, from the comparable period in 2010 due mainly to increases in employment related costs ($4.0 million), selling expenses ($1.0 million) and accounting, legal and consulting fees ($1.0 million).

Technical Expense. Technical expenses consist of the cost of engine repairs, engine thrust rental fees, outsourced technical support services, sublease engine rental expense, engine storage and freight costs. These expenses increased 3.7% to $8.4 million for the year ended December 31, 2011, from the comparable period in 2010 due mainly to increases in engine maintenance costs due to higher repair activity ($0.9 million) and higher engine freight costs ($0.3 million), which was partially offset by decreases in operating lease costs ($0.5 million) and engine thrust rental fees due to a decrease in the number of engines being operated at higher thrust levels under the CFM thrust rental program ($0.4 million).

Net Finance Costs. Net finance costs include interest expense, interest income and net (gain)/loss on debt extinguishment. Interest expense decreased 13.9% to $35.2 million for the year ended December 31, 2011, from the comparable period in 2010, due to a decrease in average debt outstanding and a decrease in the average notional value of interest rate swaps held throughout the period. Virtually all of our debt is tied to one-month U.S. dollar LIBOR which decreased from an average of 0.27% for the year ended December 31, 2010 to an average of 0.23% for the year ended December 31, 2011 (average of month-end rates). At December 31, 2011 and 2010, one-month LIBOR was 0.30% and 0.26%, respectively. To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of December 31, 2011, such swap agreements had notional outstanding amounts of $375.0 million, average remaining terms of between three and forty months and fixed rates of between 2.10% and 5.05%. In 2011 and 2010, $11.3 and $18.6 million was realized through the income statement as an increase in interest expense, respectively.

Interest income for the year ended December 31, 2011 and 2010, decreased by 21.2% to $167,000 compared to the year ago period due to the drop in the rate of interest earned on deposit balances.

Income Taxes. Income taxes for the year ended December 31, 2011, increased to $9.4 million from $7.6 million for the comparable period in 2010 reflecting increased pre-tax income. The overall effective tax rate for the year ended December 31, 2011was 39.1% compared to 38.8% for the prior year. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California and numerous other factors, including changes in tax law.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the Statement of Shareholder s Equity and Comprehensive Income. The guidance provided in ASU 2011-05 is effective for interim and annual period beginning on or after December 15, 2011 and should be applied retrospectively. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In November 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). This ASU requires companies to provide information about trading financial instruments and related derivatives in expanded disclosures. This ASU is the result of a joint project conducted by the FASB and the IASB to enhance disclosures and provide converged disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. The guidance provided in ASU 2011-11 is effective for interim and annual periods beginning on or after January 1, 2013 and

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should be applied retrospectively. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12, Comprehensive Income Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). This ASU defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The amendments are being made to allow the Board time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this ASU, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The guidance provided in ASU 2011-12 is effective for interim and annual period beginning on or after December 15, 2011 and should be applied retrospectively. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements.

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

LIQUIDITY AND CAPITAL RESOURCES

We finance our growth through borrowings secured by our equipment lease portfolio. Cash of approximately $603.7 million, $132.4 million and $174.8 million, in the years ended December 31, 2012, 2011 and 2010, respectively, was derived from this activity. In these same time periods $626.9 million, $146.4 million and $170.0 million, respectively, was used to pay down related debt. Cash flow from operating activities generated $67.3 million, $76.7 million and $56.6 million in the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, $1.2 million in cash and cash equivalents and restricted cash were held in foreign subsidiaries. We do not intend to repatriate the funds held in foreign subsidiaries to the United States. In the event that we decide to repatriate these funds to the United States, we would be required to accrue and pay taxes upon the repatriation.

Our primary use of funds is for the purchase of equipment for lease. Purchases of equipment (including capitalized costs) totaled $61.5 million, $144.3 million and $121.5 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Cash flows from operations are driven significantly by payments made under our lease agreements, which comprise lease revenue and maintenance reserves, and are offset by interest expense and general and administrative costs. Cash received as maintenance reserve payments for some of our engines on lease are partially restricted by our debt arrangements. The lease revenue stream, in the short-term, is at fixed rates

while a portion of our debt is at variable rates. If interest rates increase, it is unlikely we could increase lease rates in the short term and this would cause a reduction in our earnings and operating cash flows. Revenue and maintenance reserves are also affected by the amount of equipment off lease. Approximately 86%, by book value, of our assets were on-lease at December 31, 2012 compared to approximately 82% at December 31, 2011. The average utilization rate for the year ended December 31, 2012 was 83% compared to 86% a year ago. If there is an 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.

On February 27, 2013, we entered into a transaction to purchase and lease back a total of 19 aircraft engines with SAS Group subsidiary Scandinavian Airlines (SAS) for $119.5 million. We will purchase 11 of the engines for $65.0 million and our joint venture, Willis Mitsui & Company Engine Support Limited (WMES) will purchase the remaining 8 engines for $54.5 million. We will fund this transaction with available funds from our revolving credit facility.

At December 31, 2012, notes payable consists of loans totaling $697.0 million payable over periods of approximately 1 to 10 years with interest rates varying between approximately 3.0% and 5.5% (excluding the effect of our interest rate derivative instruments). At December 31, 2012, we had a revolving credit facility totaling approximately $430.0 million compared to $345.0 million at December 31, 2011. At December 31, 2012, and December 31, 2011, respectively, approximately $148.0 million and $117.0 million were available under these facilities.

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Our significant debt instruments are discussed below:

At December 31, 2012, we had a $430.0 million revolving credit facility to finance the acquisition of aircraft engines for lease as well as for general working capital purposes. We closed on this facility on November 18, 2011 and the proceeds of the new facility, net of $3.3 million in debt issuance costs, was used to pay off the balance remaining from our prior revolving facility. On September 7, 2012, we increased this revolving credit facility to $430.0 million from $345.0 million. As of December 31, 2012, $148.0 million was available under this facility. The revolving credit facility ends in November 2016. Based on the Company s debt to equity ratio of 3.20 as calculated under the terms of the revolving credit facility at September 30, 2012, the interest rate on this facility is one-month LIBOR plus 2.75% as of December 31, 2012. Under the revolving credit facility, all subsidiaries except WEST II jointly and severally guarantee payment and performance of the terms of the loan agreement. The guarantee would be triggered by a default under the agreement.

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

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

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

As a result of this transaction the Company recorded a loss on extinguishment of debt and derivative instruments of $15.5 million in the year ended December 31, 2012 as a result of the write-off of $5.3 million of unamortized debt issuance costs and unamortized note discount associated with the full repayment of WEST notes on September 17, 2012 and the termination of interest rate swaps totaling $10.2 million.

At December 31, 2012, $386.7 million of WEST II term notes were outstanding. The assets of WEST II are not available to satisfy our obligations or those of any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II s ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II s maintenance of adequate reserves and capital. Under WEST II, cash is collected in a restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account

equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of $9.0 million. These terms resulted in the release of excess cash which had been held in our restricted cash accounts generating greater liquidity.

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

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

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

At December 31, 2012 and 2011, one-month LIBOR was 0.21% and 0.30%, respectively.

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

At December 31, 2012, we are in compliance with the covenants specified in the revolving credit facility Credit Agreement, including the Interest Coverage Ratio requirement of at least 2.25 to 1.00, and the Total Leverage Ratio requirement to remain below 4.50 to 1.00. At December 31, 2012, the Company s calculated Minimum Consolidated Tangible Net Worth exceeded the minimum required amount of $182.1 million. As defined in the revolving credit facility Credit Agreement, the Interest Coverage Ratio is the ratio of Earnings before Interest, Taxes, Depreciation and Amortization and other one-time charges (EBITDA) to Consolidated Interest Expense and the Total Leverage Ratio is the ratio of Total Indebtedness to Tangible Net Worth. At December 31, 2012, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

Approximately $19.2 million of our debt is repayable during 2013. Such repayments primarily consist of scheduled installments due under term loans. Repayments are funded by the use of unrestricted cash reserves and from cash flows from ongoing operations. The table below summarizes our contractual commitments at December 31, 2012:

	Payment due by period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations	$ 696,988	$ 19,237	$ 57,094	$ 333,589	$ 287,068
Interest payments under long-term debt obligations	189,510	30,555	56,489	42,111	60,355
Operating lease obligations	3,794	898	1,380	1,096	420
Purchase obligations	37,132	19,044	18,088		
Interest payments under derivative rate instruments	1,696	1,696			
Total	$ 929,120	$ 71,430	$ 133,051	$ 376,796	$ 347,843

We have estimated the interest payments due under long-term debt by applying the interest rates applicable at December 31, 2012 to the remaining debt, adjusted for the estimated debt repayments identified in the table above. Actual interest payments made will vary due to changes in the rates for one-month LIBOR.

We have made purchase commitments to secure the purchase of four engines and related equipment for a gross purchase price of $38.5 million, for delivery in 2013 to 2015. As at December 31, 2012, non-refundable deposits paid related to this purchase commitment were $1.4 million. In October 2006, we entered into an agreement with CFM International (CFM) to purchase new spare aircraft engines. The agreement specifies that, subject to availability, we may purchase up to a total of 45 CFM56-7B and CFM56-5B spare engines over a five year period, with options to acquire up to an additional 30 engines. Our outstanding purchase orders with CFM for three engines represent deferral of engine deliveries originally scheduled for 2009 and are included in our commitments to purchase in 2013 to 2015.

We entered into a lease effective November 1, 2007 for our offices in Novato, California that covers approximately 18,375 square feet of office space. This lease was amended on January 6, 2012 to cover an additional 2,159 square feet of office space. The total remaining rent commitment is approximately $3.2 million and expires September 30, 2018. The sub-lease of our premises in San Diego, California expires in October 2013. Our Shanghai, China office lease expires in December 2013. Our London, United Kingdom office lease expires in December 2015. Our Blagnac, France office lease expires in December 2013. Our Dublin, Ireland office lease expires in May 2017.

We believe our equity base, internally generated funds and existing debt facilities are sufficient to maintain our level of operations through 2013. A decline in the level of internally generated funds, such as could result if the amount of equipment off-lease increases or there is a decrease in availability under our existing debt facilities, would impair our ability to sustain our level of operations. We are discussing additions to our capital base with our commercial and investment banks. If we are not able to access additional capital, our ability to continue to grow our asset base consistent with historical trends will be impaired and our future growth limited to that which can be funded from internally generated capital.

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Management of Interest Rate Exposure

We terminated six interest rate swaps with a notional value of $215.0 million on September 17, 2012. The originally specified hedged forecasted transactions were terminated upon the closing of WEST II on September 17, 2012. The effective portion of the loss on these cash flow hedges was $10.2 million and was reclassified out of accumulated other comprehensive income and recorded in earnings for the year ended December 31, 2012.

At December 31, 2012, $282.0 million of our borrowings were on a variable rate basis at various interest rates tied to one-month LIBOR. Our equipment leases are generally structured at fixed rental rates for specified terms. Increases in interest rates could narrow or result in a negative spread, between the rental revenue we realize under our leases and the interest rate that we pay under our borrowings. We have entered into interest rate derivative instruments to mitigate our exposure to interest rate risk and not to speculate or trade in these derivative products. We currently have one interest rate swap agreement which has a notional outstanding amount of $100.0 million, with a remaining term of eleven months at a fixed rate of 2.10%. The fair value of the swaps at December 31, 2012 and 2011 was negative $1.7 million and negative $12.3 million, respectively, representing a net liability for us.

We record derivative instruments at fair value as either an asset or liability. We use derivative instruments (primarily interest rate swaps) to manage the risk of interest rate fluctuation. While substantially all our derivative transactions are entered into for the purposes described above, hedge accounting is only applied where specific criteria have been met and it is practicable to do so. In order to apply hedge accounting, the transaction must be designated as a hedge and the hedge relationship must be highly effective. The hedging instrument s effectiveness is assessed utilizing regression analysis at the inception of the hedge and on at least a quarterly basis throughout its life. All of the transactions that we have designated as hedges are accounted for as cash flow hedges. The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported as a component of other comprehensive income and is reclassified into earnings in the period during which the transaction being hedged affects earnings. The ineffective portion of these hedges flows through earnings in the current period. The hedge accounting for these derivative instrument arrangements increased interest expense by $6.4 million and $11.3 million in 2012 and 2011, respectively. This incremental cost for the swaps effective for hedge accounting was included in interest expense for the respective periods.

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

Related Party and Similar Transactions

Island Air: Charles F. Willis, IV, our CEO and Chairman of our Board of Directors and the owner of approximately 31% of our common stock, was the sole owner of Island Air, a lessee of the Company since 2004. On February 26, 2013 the stock of Hawaii Island Air was sold to an unrelated third party. While under common ownership, the independent members of our Board of Directors approved transactions between the Company and Island Air.

The Company and Island Air entered into a series of transactions over the past several years through which the Company provided equipment to Island Air in return for lease payments. The terms of the agreements have been amended from time to time with the Company accepting lower lease payments in some circumstances.

As of December 31, 2012, Island Air leased from the Company one DeHaviland DHC-8-100 aircraft under an operating lease and two DeHaviland DHC-8-100 aircraft and one spare engine under a finance lease. As of December 31, 2012, Island Air owed $4.5 million and $0.65 million under the finance lease and note payable, respectively. The Company received lease payments and recorded revenue from Island Air totaling $0.6 million, $1.6 million and $0.4 million in the years ended December 31, 2012, 2011 and 2010.

In connection with the sale of its stock to an unrelated third party, on February 26, 2013, Island Air prepaid the note payable at a 45% discount of $0.4 million, conditioned on the other large creditors accepting similar reductions in the amounts due to them. The assets under lease to Island Air have a combined net book value of $4.0 million as of December 31, 2012. Management expects the new ownership should significantly improve the credit quality of the leases. Future lease rent revenue from Island Air totaling $6.2 million under the finance and operating leases is expected to be recorded through December 2015.

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J.T. Power: The Company entered into two Consignment Agreements dated January 22, 2008 and November 17, 2008, with J.T. Power, LLC (J.T. Power), an entity whose sole shareholder, Austin Willis, is the son of our Chief Executive Officer, and directly and indirectly, a shareholder and a Director of the Company. According to the terms of the Consignment Agreement, J.T. Power was responsible to market and sell parts from the teardown of four engines with a book value of $5.2 million. During the twelve months ended December 31, 2012, sales of consigned parts were $18,100. Under these agreements, J.T. Power provided a minimum guarantee of net consignment proceeds of $4.0 million as of February 22, 2012. Based on current consignment proceeds, J.T. Power was obligated to pay $1.3 million under the guarantee in February 2012. On March 7, 2012, this guarantee was restructured as follows - quarterly payments of $45,000 over five years at an interest rate of 6% with a balloon payment at the end of this five year term. The Agreement provides an option to skip one quarterly payment and apply it to the balloon payment at an interest rate of 12%. As a December 31, 2012, J.T. Power is current and the principal amount owing under the note is $1.2 million.

On July 31, 2009, the Company entered into Consignment Agreements with J.T. Power, without guaranties of consignment proceeds, in which they are responsible to market and sell parts from the teardown of one engine with a book value of $23,000. During the twelve months ended December 31, 2012, sales of consigned parts were $52,600.

On July 27, 2006, the Company entered into an Aircraft Engine Agency Agreement with J.T. Power, in which the Company will, on a non-exclusive basis, provides engine lease opportunities with respect to available spare engines at J.T. Power. J.T. Power will pay the Company a fee based on a percentage of the rent collected by J.T. Power for the duration of the lease including renewals thereof. The Company earned no revenue during the twelve months ended December 31, 2012 under this program.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market risk exposure is that of interest rate risk. A change in LIBOR rates would affect our cost of borrowing. Increases in interest rates, which may cause us to raise the implicit rates charged to our customers, could result in a reduction in demand for our leases. Alternatively, we may price our leases based on market rates so as to keep the fleet on-lease and suffer a decrease in our operating margin due to interest costs that we are unable to pass on to our customers. As of December 31, 2012, $282.0 million of our outstanding debt is variable rate debt. We estimate that for every one percent increase or decrease in interest rate, the annual interest expense for our variable rate debt (net of derivative instruments), would increase or decrease $1.8 million (in 2011, $3.2 million).

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We hedge a portion of our borrowings, effectively fixing the rate of these borrowings. This hedging activity helps protect us against reduced margins on longer term fixed rate leases. Based on the implied forward rates for one-month LIBOR, we expect interest expense will be increased by approximately $1.7 million for the year ending December 31, 2013 as a result of our hedges. Such hedging activities may limit our ability to participate in the benefits of any decrease in interest rates, but may also protect us from increases in interest rates. Furthermore, since lease rates tend to vary with interest rate levels, it is possible that we can adjust lease rates for the effect of change in interest rates at the termination of leases. Other financial assets and liabilities are at fixed rates.

We are also exposed to currency devaluation risk. During 2012, 2011, and 2010, respectively, 88%, 80% and 78% of our total lease rent revenues came from non-United States domiciled lessees. All of our leases require payment in U.S. dollars. If these lessees currency devalues against the U.S. dollar, the lessees could potentially encounter difficulty in making their lease payments.

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 43.

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

Inherent Limitations on Controls

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

Management s Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting includes policies and procedures that: (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and Board of Directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Our internal control over financial reporting is a process designed with the participation of our principal executive officer and principal financial officer or persons performing similar functions to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounted principles.

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Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on this assessment our management believes that, as of December 31, 2012, our internal control over financial reporting is effective under those criteria.

KPMG LLP, the independent registered public accounting firm that audited the Company s financial statements included in this Annual Report, issued an audit report on the Company s internal control over financial reporting. KPMG s audit report appears on page 41.

(b) *Changes in internal control over financial reporting.* There has been no change in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Thomas C. Nord, Senior Vice President and General Counsel of the Company, will retire effective as of March 31, 2013. Dean M. Poulakidas will assume Mr. Nord s duties as the Company s Senior Vice President and General Counsel on April 1, 2013.

In order to facilitate this transition, the Company and Mr. Nord entered into a Transition Agreement dated as of December 21, 2012 (the Transition Agreement) which outlines the terms of his compensation during the Company s transition to a new General Counsel through May 31, 2013 (the Transition Period). The Transition Agreement provides for a graduated reduction of Mr. Nord s work schedule and related compensation during the Transition Period, from full-time at his normal salary in January 2013 to 60% in February and March 2013. From April 1, 2013 through the remainder of the Transition Period Mr. Nord will be on retainer, compensated at a rate of $10,000 per month plus an hourly rate of $300/hour. Mr. Nord s unvested restricted stock scheduled to vest through March 31, 2013 will vest as scheduled. Additionally, subject to the satisfaction of the Company s CEO with the transition of Mr. Nord s duties to his successor, Mr. Nord s other restricted stock awards scheduled to vest in May, August and December 2013 would be accelerated to vest on April 1, 2013, and Mr. Nord would be paid a cash payment in lieu of a restricted stock award in recognition of his work on the Company s WEST II transaction.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We have adopted a Standards of Ethical Conduct Policy (Code of Ethics) that applies to all employees and directors including our Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer. The Code of Ethics is filed in Exhibit 14.1 and is also available on our website at www.willislease.com.

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our 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 our Proxy Statement. The information in Item 5 of this report regarding our 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 our Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

We were billed the following amounts by our principal accountant:

	2012	2011
Audit fees	$ 657,984	$ 653,631
Audit-related fees	167,660	77,386
Tax fees	24,509	114,788
All other fees		25,000
Total	$ 850,153	$ 870,805

The remaining information required by this item is incorporated by reference to our 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 40.

(a) (2) Financial Statement Schedule

Schedule II, Valuation Accounts, is submitted as a separate section of this report starting on page 70.

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.

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EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation, dated March 12, 1998, as amended by the Certificate of Amendment of Certificate of Incorporation, dated May 6, 1998 (incorporated by reference to Exhibit 3.1 to our report on Form 10-K filed on March 31, 2009).
3.2	Bylaws, dated April 18, 2001 as amended by (1) Amendment to Bylaws, dated November 13, 2001, (2) Amendment to Bylaws, dated December 16, 2008, and (3) Amendment to Bylaws, dated September 28, 2010 (incorporated by reference to Exhibit 3.2 to our report on Form 10-Q filed on November 8, 2010).
4.1	Specimen of Series A Cumulative Redeemable Preferred Stock Certificate (incorporated by reference to Exhibit 4.1 to Form S-1 Registration Statement Amendment No. 2 filed on January 27, 2006).
4.2	Form of Certificate of Designations of the Registrant with respect to the Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.2 to Form S-1 Registration Statement Amendment No. 2 filed on January 27, 2006).
4.3	Form of Amendment No. 1 to Certificate of Designations of the Registrant with respect to the Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.3 to our report on Form 10-K filed on March 31, 2009).
4.4	Rights Agreement dated as of September 24, 1999, by and between Willis Lease Finance Corporation and American Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.1 to Form 8-K filed on October 4, 1999).
4.5	Second Amendment to Rights Agreement dated as of December 15, 2005, by and between Willis Lease Finance Corporation and American Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.5 to our report on Form 10-K filed on March 31, 2009).
4.6	Third Amendment to Rights Agreement dated as of September 30, 2008, by and between Willis Lease Finance Corporation and American Stock Transfer and Trust Company, as Rights Agent (incorporated by reference to Exhibit 4.6 to our report on Form 10-K filed on March 31, 2009).
4.7	Form of Certificate of Designations of the Registrant with respect to the Series I Junior Participating Preferred Stock (formerly known as Series A Junior Participating Preferred Stock) (incorporated by reference to Exhibit 4.7 to our report on Form 10-K filed on March 31, 2009).
4.8	Form of Amendment No. 1 to Certificate of Designations of the Registrant with respect to Series I Junior Participating Preferred Stock (incorporated by reference to Exhibit 4.8 to our report on Form 10-K filed on March 31, 2009).
10.1	Form of Indemnification Agreement entered into between the Registrant and its directors and officers (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 1, 2010).
10.2	1996 Stock Option/Stock Issuance Plan, as amended and restated as of March 1, 2003 (incorporated by reference to Exhibit 99.1 to Form S-8 filed on September 26, 2003).
10.3	2007 Stock Incentive Plan (incorporated by reference to the Registrant s Proxy Statement for 2007 Annual Meeting of Stockholders filed on April 30, 2007).
10.4	Amended and Restated Employment Agreement between the Registrant and Charles F. Willis IV dated as of December 1, 2008 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 22, 2008).
10.5	Employment Agreement between the Registrant and Donald A. Nunemaker dated November 21, 2000 (incorporated by reference to Exhibit 10.3 to our report on Form 10-K filed on April 2, 2001).
10.6	Amendment to Employment Agreement between Registrant and Donald A. Nunemaker dated December 31, 2008 (incorporated by reference to Exhibit 10.6 to our report on Form 10-Q filed on May 9, 2011).
10.7	Employment Agreement between the Registrant and Thomas C. Nord dated September 19, 2005 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on September 23, 2005).
10.8	Amendment to Employment Agreement between Registrant and Thomas C. Nord dated December 31, 2008 (incorporated by reference to Exhibit 10.8 to our report on Form 10-Q filed on May 9, 2011).
10.9	Employment Agreement between the Registrant and Bradley S. Forsyth dated February 20, 2007 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on February 21, 2007).
10.10	Amendment to Employment Agreement between Registrant and Bradley S. Forsyth dated December 31, 2008 (incorporated by reference to Exhibit 10.10 to our report on Form 10-Q filed on May 9, 2011).

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10.11	Loan and Aircraft Security Agreement dated September 30, 2012 between Banc of America Leasing & Capital, LLC and Willis Lease Finance Corporation (incorporated by reference to Exhibit 10.12 to our report on Form 10-Q filed on November 9, 2011).
10.12	Limited Liability Company Agreement of WOLF A340 LLC, dated as of December 8, 2005, between Oasis International Leasing (USA), Inc. and the Registrant (incorporated by reference to Exhibit 10.49 to Form S-1 Registration Statement Amendment No. 1 filed on January 9, 2006).
10.13*	Amended and Restated Credit Agreement, dated as of November 18, 2011, among Willis Lease Finance Corporation, Union Bank, N.A., as administrative agent and security agent, and certain lenders and financial institutions named therein (incorporated by reference to Exhibit 10.31 to our report on Form 10-K filed on March 13, 2011).
10.14*	Indenture dated as of September 14, 2012 among Willis Engine Securitization Trust II, Deutsche Bank Trust Company Americas, as trustee, the Registrant and Crédit Agricole Corporate and Investment Bank (incorporated by reference to Exhibit 10.14 to our report on Form 10-Q filed on November 9, 2012).
10.15*	Security Trust Agreement dated as of September 14, 2012 by and among Willis Engine Securitization Trust II, Willis Engine Securitization (Ireland) Limited, the Engine Trusts listed on Schedule V thereto, each of the additional grantors referred to therein and from time to time made a party thereto and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 10.15 to our report on Form 10-Q filed on November 9, 2012).
10.16*	Note Purchase Agreement dated as of September 6, 2012 by and among Willis Engine Securitization Trust II, the Registrant, Credit Agricole Securities (USA) Inc. and Goldman, Sachs & Co. (incorporated by reference to Exhibit 10.16 to our report on Form 10-Q filed on November 9, 2012).
10.17*	Servicing Agreement dated as of September 17, 2012 between Willis Engine Securitization Trust II, the Registrant and the entities listed on Appendix A thereto (incorporated by reference to Exhibit 10.17 to our report on Form 10-Q filed on November 9, 2012).
10.18*	Administrative Agency Agreement dated as of September 17, 2012 among Willis Engine Securitization Trust II, the Registrant, Deutsche Bank Trust Company Americas, as trustee, and the entities listed on Appendix A thereto (incorporated by reference to Exhibit 10.18 to our report on Form 10-Q filed on November 9, 2012).
10.19*	Asset Transfer and Liquidation Agreement dated as of September 14, 2012 between the Registrant and Willis Engine Securitization Trust (incorporated by reference to Exhibit 10.19 to our report on Form 10-Q filed on November 9, 2012).
10.20*	Acquisition Transfer Agreement dated as of September 14, 2012 among the Registrant, Willis Engine Securitization Trust II, Facility Engine Acquisition LLC, WEST Engine Acquisition LLC, and WEST Engine Funding LLC (incorporated by reference to Exhibit 10.20 to our report on Form 10-Q filed on November 9, 2012).
10.21	Transition Agreement dated as of December 21, 2012 between Registrant and Thomas C. Nord.
11.1	Statement re Computation of Per Share Earnings.
12.1	Statement re Computation of Ratios.
14.1	Code of Ethics (incorporated by reference to Exhibit 14.1 to our report on Form 10-K filed on March 16, 2010).
21.1	Subsidiaries of the Registrant.
23.1	Consent of KPMG LLP.
31.1	Certification of Charles F. Willis, IV, pursuant to Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Bradley S. Forsyth, pursuant to Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101+	The following materials from the Company s report on Form 10-K for the fiscal year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Shareholder s Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

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

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

(d) Financial Statements

Financial Statements are submitted as a separate section of this report beginning on page 40.

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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: March 18, 2013

Willis Lease Finance Corporation

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

Dated:	Title	Signature
Date: March 18, 2013	Chief Executive Officer and Director (Principal Executive Officer)	/s/ CHARLES F. WILLIS, IV Charles F. Willis, IV
Date: March 18, 2013	Chief Financial Officer and Senior Vice President (Principal Finance and Accounting Officer)	/s/ BRADLEY S. FORSYTH Bradley S. Forsyth
Date: March 18, 2013	Director	/s/ ROBERT T. MORRIS Robert T. Morris
Date: March 18, 2013	Director	/s/ HANS JOERG HUNZIKER Hans Joerg Hunziker
Date: March 18, 2013	Director	/s/ W. WILLIAM COON, JR. W. William Coon, Jr.
	Director	Austin C. Willis
Date: March 18, 2013	Director	/s/ GERARD LAVIEC Gerard Laviec

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

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, 2012 and 2011, and the related consolidated statements of income (loss), comprehensive income (loss), shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Willis Lease Finance Corporation s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 18, 2013 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP
San Francisco, California
March 18, 2013

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Willis Lease Finance Corporation:

We have audited Willis Lease Finance Corporation s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Willis Lease Finance Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting, appearing under Item 9A. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Willis Lease Finance Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Willis Lease Finance Corporation and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements

of income (loss), comprehensive income (loss), shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and our report dated March 18, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
San Francisco, California
March 18, 2013

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 5,379	$ 6,440
Restricted cash	24,591	76,252
Equipment held for operating lease, less accumulated depreciation of $242,529 and $228,708 at December 31, 2012 and 2011, respectively	961,459	981,505
Equipment held for sale	23,607	20,648
Operating lease related receivable, net of allowances of $980 and $477 at December 31, 2012 and 2011, respectively	12,916	8,434
Notes receivable, net of allowances of $654 and $840 at December 31, 2012 and 2011, respectively		542
Investments	21,831	15,239
Property, equipment & furnishings, less accumulated depreciation of $7,087 and $4,957 at December 31, 2012 and 2011, respectively	5,989	6,901
Equipment purchase deposits	1,369	1,369
Other assets	21,574	15,875
Total assets	$ 1,078,715	$ 1,133,205
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 15,374	$ 16,833
Liabilities under derivative instruments	1,690	12,341
Deferred income taxes	90,248	84,706
Notes payable, net of discount of $0 and $2,085 at December 31, 2012 and 2011, respectively	696,988	718,134
Maintenance reserves	63,313	54,509
Security deposits	6,956	6,278
Unearned lease revenue	4,593	3,743
Total liabilities	879,162	896,544
Shareholders equity:		
Preferred stock ($0.01 par value, 5,000,000 shares authorized; 0 and 3,475,000 shares issued and outstanding at December 31, 2012 and 2011, respectively)		31,915
Common stock ($0.01 par value, 20,000,000 shares authorized; 8,715,580 and 9,109,663 shares issued and outstanding at December 31, 2012 and 2011, respectively)	87	91
Paid-in capital in excess of par	47,785	56,842
Retained earnings	152,911	156,704
Accumulated other comprehensive loss, net of income tax benefit of $651 and $5,249 at December 31, 2012 and 2011, respectively	(1,230)	(8,891)
Total shareholders equity	199,553	236,661
Total liabilities and shareholders equity	$ 1,078,715	$ 1,133,205

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Income (Loss)

(In thousands, except per share data)

	Years Ended December 31,		
	2012	**2011**	**2010**
REVENUE			
Lease rent revenue	$ 94,591	$ 104,663	$ 102,133
Maintenance reserve revenue	41,387	39,161	34,776
Gain on sale of leased equipment	5,499	11,110	7,990
Other revenue	6,613	1,719	3,403
Total revenue	148,090	156,653	148,302
EXPENSES			
Depreciation expense	52,591	51,250	48,704
Write-down of equipment	5,874	3,341	2,874
General and administrative	34,551	35,701	29,302
Technical expense	7,006	8,394	8,118
Net finance costs:			
Interest expense	31,749	35,201	40,945
Interest income	(80)	(167)	(212)
Loss on debt extinguishment and derivatives termination	15,462	343	
Total net finance costs	47,131	35,377	40,733
Total expenses	147,153	134,063	129,731
Earnings from operations	937	22,590	18,571
Earnings from joint ventures	1,759	1,295	1,109
Income before income taxes	2,696	23,885	19,680
Income tax expense	(1,161)	(9,377)	(7,630)
Net income	$ 1,535	$ 14,508	$ 12,050
Preferred stock dividends	2,493	3,128	3,128
Preferred stock redemption costs	2,835		
Net income (loss) attributable to common shareholders	$ (3,793)	$ 11,380	$ 8,922
Basic earnings (loss) per common share:	$ (0.45)	$ 1.35	$ 1.03
Diluted earnings (loss) per common share:	$ (0.43)	$ 1.28	$ 0.96
Average common shares outstanding	8,490	8,423	8,681
Diluted average common shares outstanding	8,791	8,876	9,251

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Twelve Months Ended December 31		
	2012	**2011**	**2010**
Net income	$ 1,535	$ 14,508	$ 12,050
Other comprehensive income (loss):			
Derivative instruments			
Unrealized losses on derivative instruments	(4,311)	(8,933)	(22,057)
Reclassification adjustment for losses included in termination of derivative instruments	10,143		
Reclassification adjustment for losses included in net income	6,427	11,349	18,633
Net gain (loss) recognized in other comprehensive income	12,259	2,416	(3,424)
Tax benefit (expense) related to items of other comprehensive income (loss)	(4,598)	(838)	1,242
Other comprehensive income (loss)	7,661	1,578	(2,182)
Total comprehensive income	$ 9,196	$ 16,086	$ 9,868

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity

Years Ended December 31, 2012, 2011 and 2010

(In thousands)

	Preferred Stock	Issued and Outstanding Shares of Common Stock	Common Stock	Paid-in Capital in Excess of par	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders Equity
Balances at December 31, 2009	$ 31,915	9,182	$ 92	$ 60,671	$ (8,287)	$ 136,402	$ 220,793
Net income						12,050	12,050
Unrealized loss from derivative instruments, net of tax benefit of $1,242					(2,182)		(2,182)
Preferred stock dividends paid						(3,128)	(3,128)
Shares repurchased		(367)	(4)	(4,152)			(4,156)
Shares issued under stock compensation plans		429	5	1,264			1,269
Cancellation of restricted stock units in satisfaction of withholding tax		(63)	(1)	(775)			(776)
Stock-based compensation, net of forfeitures				2,678			2,678
Excess tax benefit from stock-based compensation				422			422
Balances at December 31, 2010	$ 31,915	9,181	$ 92	$ 60,108	$ (10,469)	$ 145,324	$ 226,970
Net income						14,508	14,508
Unrealized gain from derivative instruments,					1,578		1,578

net of tax expense of $838							
Preferred stock dividends paid						(3,128)	(3,128)
Shares repurchased		(435)	(4)	(5,657)			(5,661)
Cash settlement of stock options		(172)	(2)	(1,260)			(1,262)
Shares issued under stock compensation plans		614	6	666			672
Cancellation of restricted stock units in satisfaction of withholding tax		(78)	(1)	(967)			(968)
Stock-based compensation, net of forfeitures				3,173			3,173
Excess tax benefit from stock-based compensation				779			779
Balances at December 31, 2011	$ 31,915	9,110	$ 91	$ 56,842	$ (8,891)	$ 156,704	$ 236,661
Net income						1,535	1,535
Net unrealized loss from derivative instruments, net of tax expense of $4,598					7,661		7,661
Preferred stock dividends paid						(2,493)	(2,493)
Preferred stock redemption	(31,915)					(2,835)	(34,750)
Shares repurchased		(928)	(9)	(12,727)			(12,736)
Shares issued under stock compensation plans		627	6	1,719			1,725
Cancellation of restricted stock units in satisfaction of withholding tax		(93)	(1)	(1,193)			(1,194)
Stock-based compensation, net of forfeitures				3,144			3,144
Balances at December 31, 2012	$	8,716	$ 87	$ 47,785	$ (1,230)	$ 152,911	$ 199,553

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands)

	Years Ended December 31,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income	$ 1,535	$ 14,508	$ 12,050
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation expense	52,591	51,250	48,704
Write-down of equipment	5,874	3,341	2,874
Stock-based compensation expenses	3,144	3,173	2,678
Amortization of deferred costs	3,982	4,544	5,246
Amortization of loan discount	341	532	594
Amortization of interest rate derivative cost	(236)	483	2,956
Allowances and provisions	503	54	(44)
Gain on sale of leased equipment	(5,499)	(11,110)	(7,990)
Gain on non-monetary exchange	(1,961)		
Gain on insurance settlement	(173)		
Gain on sale of interest in joint venture			(2,020)
Other non-cash items		(1,113)	
Income from joint ventures, net of distributions	(957)	(485)	(160)
Non-cash portion of loss on debt extinguishment and derivatives termination	7,164	343	
Deferred income taxes	1,161	9,377	7,630
Changes in assets and liabilities:			
Receivables	(4,985)	385	(3,045)
Notes receivable	542	205	196
Other assets	(1,256)	(4,507)	(3,108)
Accounts payable and accrued expenses	(5,936)	(2,021)	3,733
Restricted cash	1,694	2,515	(17,383)
Maintenance reserves	8,804	4,067	3,690
Security deposits	678	552	245
Unearned lease revenue	301	569	(213)
Net cash provided by operating activities	67,311	76,662	56,633
Cash flows from investing activities:			
Proceeds from sale of equipment held (net of selling expenses)	34,607	110,777	63,777
Proceeds from sale of interest in joint venture			3,500
Restricted cash for investing activities	1,754	(1,754)	
Investment in joint ventures	(5,636)	(8,943)	
Purchase of equipment held for operating lease	(61,464)	(144,334)	(121,509)
Purchase of property, equipment and furnishings	(1,219)	(904)	(399)
Net cash used in investing activities	(31,958)	(45,158)	(54,631)
Cash flows from financing activities:			
Proceeds from issuance of notes payable	603,693	132,409	174,841
Debt issuance cost	(11,949)	(3,691)	(268)

Preferred stock dividends	(2,493)	(3,128)	(3,128)
Proceeds from shares issued under stock compensation plans	1,725	672	1,269
Cancellation of restricted stock units in satisfaction of withholding tax	(1,194)	(968)	(776)
Excess tax benefit from stock-based compensation		779	422
Redemption of preferred stock	(34,750)		
Repurchase of common stock	(12,736)	(5,661)	(4,156)
Cash settlement of stock options		(1,262)	
Principal payments on notes payable	(626,923)	(146,439)	(170,037)
Decrease in restricted cash	48,213		
Net cash used in financing activities	(36,414)	(27,289)	(1,833)
Increase/(Decrease) in cash and cash equivalents	(1,061)	4,215	169
Cash and cash equivalents at beginning of period	6,440	2,225	2,056
Cash and cash equivalents at end of period	$ 5,379	$ 6,440	$ 2,225
Supplemental disclosures of cash flow information:			
Net cash paid for:			
Interest	$ 21,528	$ 20,063	$ 17,629
Income Taxes	$ 105	$ 155	$ 549
Supplemental disclosures of non-cash investing activities:			
During the years ended December 31, 2012, 2011, 2010, a liability of $2,402, $0 and $6,099, respectively, was incurred but not paid in connection with our purchase of aircraft and engines.			
During the years ended December 31, 2012, 2011, 2010, engines and equipment totaling $22,935, $17,067 and $70,000, respectively, were transferred from Held for Operating Lease to Held for Sale but not settled.			

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Willis Lease Finance Corporation (Willis or the Company) is a provider of aviation services whose primary focus is providing operating leases of commercial aircraft engines and other aircraft-related equipment to air carriers, manufacturers and overhaul/repair facilities worldwide. Willis also engages in the selective purchase and resale of commercial aircraft engines. WLFC (Ireland) Limited, WLFC Funding (Ireland) Limited and WLFC Lease (Ireland) Limited are wholly-owned Irish subsidiaries of Willis formed to facilitate certain of Willis international leasing activities. Willis Aviation Finance Limited in Ireland is a wholly-owned subsidiary formed to facilitate the leasing and technical support of worldwide activities. Willis Lease France is a wholly-owned French subsidiary of Willis formed to facilitate sales and marketing activities in Europe. Willis Lease (China) Limited is a wholly-owned subsidiary of Willis formed to facilitate the acquisition and leasing of assets in China.

Willis Engine Securitization Trust II (WEST II) is a bankruptcy remote special purpose vehicle which was established for the purpose of financing aircraft engines through an asset-backed securitization. WEST Engine Acquisition LLC and Facility Engine Acquisition LLC are wholly-owned subsidiaries of WEST II and own the engines which secure the notes issued by WEST II. Willis Engine Securitization (Ireland) Limited is another wholly-owned subsidiary of WEST II and was established to facilitate certain international leasing activities by WEST II.

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

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Willis, WEST Engine Funding LLC, WEST Engine Funding (Ireland) Limited, WEST Engine Acquisition LLC, Facility Engine Acquisition LLC, WLFC (Ireland) Limited, Willis Lease (Ireland) Limited, WLFC (Ireland) Limited, WLFC Funding (Ireland) Limited, Willis Aviation Finance Limited, Willis Lease France, Willis Lease (China) Limited, WEST Engine Securitization Trust II, Willis Engine Securitization (Ireland) Limited (together, the Company). All intercompany balances and transactions have been eliminated in consolidation.

(c) Revenue Recognition

Revenue from leasing of aircraft equipment is recognized as operating lease revenue on a straight-line basis over the terms of the applicable lease agreements. Revenue is not recognized when cash collection is not reasonably assured. When collectability is not reasonably assured, the customer is placed on non-accrual status and revenue is recognized when cash payments are received.

We regularly sell equipment from our lease portfolio. This equipment may or may not be subject to a lease at the time of sale. The gain or loss on such sales is recognized as revenue and consists of proceeds associated with the sale less the net book value of the asset sold and any direct costs associated with the sale. To the extent that deposits associated with the engine are not included in the sale we include any such amount in our calculation of gain or loss.

In the years ended December 31, 2011 and 2010, the Company sold three and four engines to an investor group for $29.0 million and $32.9 million, respectively. After the date of each sale, the Company retains responsibility to manage the engines that were sold to the investor group. Because the arrangements have multiple deliverables, the Company evaluated the arrangements under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-25, *Revenue Recognition: Multiple Element Arrangements (FASB ASC 605-25),* formerly Emerging Issues Task Force Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, which addresses accounting for multiple element arrangements. The Company has determined that the two deliverables under the arrangements, the sale of the engines and the management services, are separate units of accounting. Therefore, revenue is recognized in accordance with FASB ASC 605-10-S99, *Revenue Recognition: Overall: SEC Materials,* formerly SAB 104, for each unit. There were no such sales recorded in the year ended December 31, 2012.

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One requirement of FASB ASC 605-25 for the two deliverables to be accounted for as separate units of accounting is that management can determine the fair value of the undelivered item (the management services), when the first item (the sale of engines) is delivered. Assessing fair value evidence requires judgment. In determining fair value, the Company has reviewed information from management agreements entered into by other parties on a standalone basis, compared it to the management agreements entered into with the investor group and determined that the fees charged on a standalone basis were comparable to the fees charged when the Company entered into the management agreement concurrent with the sale of the portfolio of engines. Accordingly, the Company determined that the fees charged for its management services were comparable to those charged by other asset managers for the same service. As such, the Company has concluded that evidence exists to support its assessment of the fair value of the management services.

Based on the conclusion that the sale of engines and the management services can be accounted for separately, the Company recognized a $5.0 million gain on sale of the three engines in the year ended December 31, 2011 and recognized a $7.2 million gain on sale of the four engines in the year ended December 31, 2010. The gains recorded were the difference between the sales price and the net book value of the engines sold.

The Company recognizes revenue from management fees under equipment management agreements as earned on a monthly basis. Management fees are based upon a percentage of net lease rents of the investor group s engine portfolio calculated on an accrual basis and recorded in Other revenue.

Under the terms of some of our leases, the lessees pay use fees (also known as maintenance reserves) to us based on usage of the leased asset, which are designed to cover expected future maintenance costs. Some of these amounts are reimbursable to the lessee if they make specifically defined maintenance expenditures. Use fees received are recognized in revenue as maintenance reserve revenue if they are not reimbursable to the lessee. Use fees that are reimbursable are recorded as a maintenance reserve liability until they are reimbursed to the lessee or the lease terminates, at which time they are recognized in revenue as maintenance reserve revenue.

Certain lessees may be significantly delinquent in their rental payments and may default on their lease obligations. As of December 31, 2012, we had an aggregate of approximately $2.9 million in lease rent and $2.7 million in maintenance reserve payments more than 30 days past due. Our inability to collect receivables or to repossess engines or other leased equipment in the event of a default by a lessee could have a material adverse effect on us. The Company estimates an allowance for doubtful accounts for lease receivables it does not consider fully collectible. The allowance for doubtful accounts includes the following: (1) specific reserves for receivables which are impaired for which management believes full collection is doubtful; and (2) a general reserve for estimated losses based on historical experience.

Our largest customer accounted for approximately 7.4% of total revenue during 2012. This customer had $106,000 in past due rents as of December 31, 2012. No other customer accounted for greater than 10% of total revenue in 2012, 2011 and 2010.

(d) Equipment Held for Operating Lease

Aircraft assets held for operating lease are stated at cost, less accumulated depreciation. Certain costs incurred in connection with the acquisition of aircraft assets are capitalized as part of the cost of such assets. Major overhauls paid for by us, which improve functionality or extend the original useful life, are capitalized and depreciated over the shorter of the estimated period to the next overhaul (deferral method) or the remaining useful life of the equipment. We do not accrue for planned major maintenance. The cost of overhauls of aircraft assets under long

term leases, for which the lessee is responsible for maintenance during the period of the lease, are paid for by the lessee or from reimbursable maintenance reserves paid to the Company in accordance with the lease, and are not capitalized.

Based on specific aspects of the equipment, we generally depreciate engines on a straight-line basis over a 15-year period from the acquisition date to a 55% residual value. We believe that this methodology accurately reflects our typical holding period for the assets and, that the residual value assumption reasonably approximates the selling price of the assets 15 years from date of acquisition.

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

The spare parts packages owned by us are depreciated on a straight-line basis over an estimated useful life of 15 years to a 25% residual value. The aircraft owned by us are depreciated on a straight-line basis over an estimated useful life of 13 to 20 years to a 15% to 17% residual value.

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The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed are reported at the lower of carrying amount or fair value less cost to sell. Impairment is identified by comparison of undiscounted forecasted cash flows, including estimated sales proceeds, over the life of the asset with the assets book value. If the forecasted undiscounted cash flows are less than the book value the asset is written down to its fair value. Fair value is determined per individual asset by reference to independent appraisals, quoted market prices (e.g. an offer to purchase) and other factors considered relevant by Management. We conduct a formal annual review of the carrying value of long-lived assets and also evaluate assets during the year if we note a triggering event indicating impairment is possible. No impairment charges were recorded in 2012 as a result of our review. Such reviews resulted in impairment charges for engines and aircraft of $1.0 million and $0.2 million in 2011 and 2010, respectively (disclosed separately as Write-down of equipment in the Consolidated Statements of Income).

(e) Debt Issuance Costs and Related Fees

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

(f) Maintenance and Repair Costs

Maintenance and repair costs under our leases are generally the responsibility of the lessees. Under many of our leases, lessees pay periodic use fees (often called maintenance reserves) to us based on the usage of the asset. Under the terms of some of our leases, the lessees pay amounts to us based on usage, which are designed to cover the expected maintenance cost. Some of these amounts are reimbursable to the lessee if they make specifically defined maintenance expenditures.

Use fees billed are recognized in maintenance reserve revenue if they are not reimbursable to the lessee. Use fees that are reimbursable are included in maintenance reserve liability until they are reimbursed to the lessee or the lease terminates, at which time they are recognized in maintenance reserve revenue. Our expenditures for maintenance are expensed as incurred. Expenditures that meet the criteria for capitalization are recorded as an addition to equipment recorded on the balance sheet. Major overhauls paid for by us, which improve functionality or extend the original useful life, are capitalized and depreciated over the shorter of the estimated period to the next overhaul (deferral method) or the remaining useful life of the equipment. We do not accrue for planned major maintenance.

(g) Interest Rate Hedging

We have entered into various derivative instruments to mitigate our exposure on our variable rate borrowings. The derivative instruments are fixed-rate interest swaps and are recorded at fair value as either an asset or liability.

While substantially all our derivative transactions are entered into for the purposes described above, hedge accounting is only applied where specific criteria have been met and it is practicable to do so. In order to apply hedge accounting, the transaction must be designated as a hedge

and it must be highly effective. The hedging instrument s effectiveness is assessed utilizing regression analysis at the inception of the hedge and on at least a quarterly basis throughout its life. All of the transactions that we have designated as hedges are cash flow hedges. The effective portion of the change in fair value on a derivative instrument designated as a cash flow hedge is reported as a component of other comprehensive income and is reclassified into earnings in the period during which the transaction being hedged affects earnings. The ineffective portion of the hedges is recorded in earnings in the current period.

(h) Income Taxes

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

The Company recognizes in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs (See Note 7).

The Company files income tax returns in various states and countries which may have different statutes of limitations. The open tax years for federal and state tax purposes are from 2009-2011 and 2008-2011, respectively. The Company records penalties and accrued interest related to uncertain tax positions in income tax expense. Such adjustments have historically been minimal and immaterial to our financial results.

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(i) Property, Equipment and Furnishings

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

(j) Cash and Cash Equivalents

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

(k) Restricted Cash

We have certain bank accounts that are subject to restrictions in connection with our WEST II borrowings. Under WEST II, cash is collected in a restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Under WEST II, cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of $9.0 million. Security deposits are held until the end of the lease, at which time provided return conditions have been met, the deposit will be returned to the lessee. To the extent return conditions are not met, these deposits may be retained by us.

(l) Notes Receivable

Notes receivable are recorded net of any unamortized fees and incremental direct costs. Amortization of any fees is recorded over the term of the related loan. As applicable, interest income on the notes receivable is accrued as earned. We evaluate the collectability of both interest and principal for each note receivable to determine whether it is impaired, based on current information and events. Once collectability is not reasonably assured, interest income is recognized on a cash basis, unless we determine the note should be on the cost recovery method, and any cash payments received would then be reflected as a reduction of principal.

(m) Management Estimates

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

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

Management believes that the accounting policies on revenue recognition, maintenance reserves and expenditures, useful life of equipment, asset residual values, asset impairment and allowance for doubtful accounts are critical to the results of operations.

If the useful lives or residual values are lower than those estimated by us, upon sale of the asset a loss may be realized. Significant management judgment is required in the forecasting of future operating results, which are used in the preparation of projected undiscounted cash-flows and should different conditions prevail, material impairment write-downs may occur.

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(n) Per share information

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

	Years Ended December 31,		
	2012	2011	2010
		(in thousands)	
Shares:			
Weighted-average number of common shares outstanding	8,490	8,423	8,681
Potentially dilutive common shares	301	453	570
Total shares	8,791	8,876	9,251
Potential common stock excluded as anti-dilutive in period			4

(o) Investments

We have two investments in joint ventures where we own 50% of the equity of the venture and account for these investments using the equity method of accounting. These investments are recorded at the amount invested plus or minus our 50% share of net income or loss less any distributions or return of capital received from the entity.

We also had an investment in a non-marketable security, which was recorded at cost. The investment was sold in November 2010 for $3.5 million resulting in a gain of $2.0 million that was recorded as Other revenue in 2010.

(p) Stock Based Compensation

We recognize compensation expense in the financial statements for share-based awards based on the grant-date fair value of those awards. Additionally, stock-based compensation expense includes an estimate for pre-vesting forfeitures and is recognized over the requisite service periods of the awards on a straight-line basis, which is generally commensurate with the vesting term.

(q) Initial Direct Costs associated with Leases

We account for the initial direct costs, including sales commission and legal fees, incurred in obtaining a new lease by deferring and amortizing those costs over the term of the lease. The amortization of these costs is recorded under General and Administrative expenses in the

Consolidated Statements of Income. The amounts amortized were $1.6 million, $1.4 million and $1.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(r) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible. We use a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value which are the following:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

As of December 31, 2012, we measure the fair value of our interest rate swaps of $100.0 million (notional amount) based on Level 2 inputs, due to the usage of inputs that can be corroborated by observable market data. The Company estimates the fair value of derivative instruments using a discounted cash flow technique and, at December 31, 2012, has used creditworthiness inputs that corroborate observable market data evaluating the Company s and counterparties risk of non-performance. We have interest rate swap agreements which have a net liability fair value of $1.7 million and $12.3 million as of December 31, 2012 and December 31, 2011, respectively. In 2012 and 2011, $6.4 million and $11.3 million, respectively, were realized through the income statement as an increase in interest expense, and in 2012, $10.2 million was realized through the income statement as a net loss on debt extinguishment and derivatives termination.

The following table shows by level, within the fair value hierarchy, the Company s assets and liabilities at fair value as of December 31, 2012 and 2011:

	Assets and (Liabilities) at Fair Value							
	December 31, 2012				December 31, 2011			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	(in thousands)							
Derivatives	$ (1,690)	$	$ (1,690)	$	$ (12,341)	$	$ (12,341)	$
Total	$ (1,690)	$	$ (1,690)	$	$ (12,341)	$	$ (12,341)	$

In 2012 and 2011, all hedges were effective and no change in fair value was recorded in earnings.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

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

The following table shows by level, within the fair value hierarchy, the Company s assets measured at fair value on a nonrecurring basis as of December 31, 2012 and 2011, and the gains (losses) recorded as of December 31, 2012 and 2011 on those assets:

	Assets at Fair Value								Total Losses	
	December 31, 2012				December 31, 2011				December 31,	
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	2012	2011
	(in thousands)								(in thousands)	
Equipment held for operating lease	$	$	$	$	$ 8,302	$	$ 8,302	$	$	$ (1,035)
Equipment held for sale	6,281		6,281	$	2,501		1,862	639	(5,874)	(2,306)
Total	$ 6,281	$	$ 6,281	$	$ 10,803	$	$ 10,164	$ 639	$ (5,874)	$ (3,341)

We determine fair value of long-lived assets held and used by reference to independent appraisals, quoted market prices (e.g., an offer to purchase) and other factors. During 2011, the Company used Level 2 inputs to measure impairment of long-lived assets held and used that had been identified as impaired. These assets, with a carrying amount of $9.3 million, were written down to their fair value of $8.3 million, resulting in an impairment charge of $1.0 million, which was included in earnings in 2011. At each of December 31, 2012 and December 31, 2011, the Company used Level 2 inputs and, due to a portion of the valuations requiring management judgment due to the absence of quoted market prices, Level 3 inputs to measure the fair value of engines that were held as consignment inventory with third parties. An asset write-down of $5.9 million and $2.3 million was recorded in 2012 and 2011, respectively, based upon a comparison of the asset net book values with the revised net proceeds expected from part sales arising from consignment of the engines.

*(s) Recent Accounting Pronouncement*s

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income (ASU 2011-05). This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the Statement of Shareholder s Equity and Comprehensive Income. The guidance provided in ASU 2011-05 is effective for interim and annual period beginning on or after December 15, 2011 and should be applied retrospectively. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

In November 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). This ASU requires companies to provide information about trading financial instruments and related derivatives in expanded disclosures. This ASU is the result of a joint project conducted by the FASB and the IASB to enhance disclosures and provide converged disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. The guidance provided in ASU 2011-11 is effective for interim and annual period beginning on or after January 1, 2013 and should be applied retrospectively. We do not expect the adoption of this ASU to have a material impact on our Consolidated Financial Statements.

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In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12, Comprehensive Income Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). This ASU defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. The amendments are being made to allow the Board time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. All other requirements in ASU 2011-05 are not affected by this ASU, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. The guidance provided in ASU 2011-12 is effective for interim and annual period beginning on or after December 15, 2011 and should be applied retrospectively. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements.

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

(t) Subsequent Events

On February 26, 2013, the stock of Hawaii Island Air, a lessee and related party of the Company as of December 31, 2012, was sold to an unrelated third party.

On February 27, 2013, we entered into a transaction to purchase and lease back a total of 19 aircraft engines with SAS Group subsidiary Scandinavian Airlines (SAS) for $119.5 million. We will purchase 11 of the engines for $65.0 million and our joint venture, Willis Mitsui & Company Engine Support Limited (WMES) will purchase the remaining 8 engines for $54.5 million. We will fund this transaction through our revolving credit facility and WMES will fund its purchases through its own borrowing capacity.

(2) Equipment Held for Lease

At December 31, 2012, we had 184 aircraft engines and related equipment with a cost of $1,156.7 million, 4 spare parts packages with a cost of $5.9 million and 7 aircraft with a cost of $37.2 million, in our lease portfolio. At December 31, 2011, we had 194 aircraft engines and related equipment with a cost of $1,171.4 million, 3 spare parts packages with a cost of $5.1 million and 13 aircraft with a cost of $30.7 million, in our lease portfolio.

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

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

Lease rent revenue	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Region			
United States	$ 11,693	$ 20,790	$ 22,662
Mexico	6,075	6,806	6,367
Canada	5,206	3,183	1,662
Europe	35,001	38,626	32,604
South America	9,196	9,818	14,380
Asia	18,585	18,635	18,413
Africa	2,307	2,084	432
Middle East	6,528	4,721	5,613
Totals	$ 94,591	$ 104,663	$ 102,133

Lease rent revenue less applicable depreciation and interest	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Region			
United States	$ 5,875	$ 9,663	$ 11,371
Mexico	2,472	3,609	3,686
Canada	3,015	1,731	957
Europe	11,162	13,844	13,313
South America	4,482	5,266	6,812
Asia	6,212	7,162	7,014
Africa	746	1,180	246
Middle East	3,011	1,727	2,859
Off-lease and other	(15,130)	(10,539)	(9,923)
Totals	$ 21,845	$ 33,643	$ 36,335

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Net book value of equipment held for operating lease	Years Ended December 31, 2012	2011	2010
		(in thousands)	
Region			
United States	$ 68,845	$ 128,989	$ 170,742
Mexico	59,694	66,317	59,869
Canada	17,658	30,987	14,786
Europe	299,505	305,154	345,256
South America	87,660	86,301	84,238
Asia	229,946	159,022	180,936
Africa	5,280	11,844	12,268
Middle East	74,644	49,208	46,791
Off-lease and other	118,227	143,683	83,115
Totals	$ 961,459	$ 981,505	$ 998,001

As of December 31, 2012 and 2011, the lease status of the equipment held for operating lease was as follows:

Lease Term	December 31, 2012 Net Book Value (in thousands)
Off-lease and other	$ 118,227
Month-to-month leases	149,585
Leases expiring 2013	339,598
Leases expiring 2014	76,485
Leases expiring 2015	43,243
Leases expiring 2016	79,600
Leases expiring 2017	58,583
Leases expiring thereafter	96,138
	$ 961,459

Lease Term	December 31, 2011 Net Book Value (in thousands)
Off-lease and other	$ 143,683
Month-to-month leases	151,828
Leases expiring 2012	301,385
Leases expiring 2013	84,393
Leases expiring 2014	49,149
Leases expiring 2015	36,571
Leases expiring 2016	75,510
Leases expiring thereafter	138,986
	$ 981,505

As of December 31, 2012, minimum future payments under non-cancelable leases were as follows:

Year	(in thousands)
2013	$ 56,492
2014	38,655
2015	30,436

2016		23,172
2017		14,620
Thereafter		18,133
	$	181,508

(3) Notes Receivable

At December 31, 2012, we had one Note Receivable of $0.7 million relating to settlement agreements for the payment of outstanding balances from one lessee for two aircraft and one engine. This note had an original principal balance of $1.0 million and is payable monthly over five years with interest of 5.0% per annum, with a final payment due in April 2016. Due to concerns regarding collectability, we have fully reserved for the amount owing under this unsecured note.

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(4) Investments

On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company Willis Mitsui & Company Engine Support Limited (WMES) for the purpose of acquiring and leasing jet engines. Each partner holds a fifty percent interest in the joint venture. The initial capital contribution by the Company for its investment in WMES was $8.0 million. The Company provided the initial lease portfolio by transferring 7 engines to the joint venture in June 2011. In addition, the Company made $1.0 million and $5.6 million capital contributions to WMES in the years ended December 31, 2011 and December 31, 2012, respectively, for the purchase of 8 engines from third parties, increasing the number of engines in the lease portfolio to 15. The $14.6 million of capital contributions has been partially offset by $3.6 million, resulting in a net investment of $11.0 million, which has increased to $11.8 million as a result of the Company s share of WMES reported earnings to date. The $3.6 million reduction in investment represents 50% of the $7.2 million gain related to the sale by the Company of the 7 engines to WMES.

WMES has a loan agreement with JA Mitsui Leasing, Ltd. which provides a credit facility of up to $180.0 million to support the funding of future engine acquisitions. Funds are available under the loan agreement through March 31, 2013. WMES also established a separate credit facility for $8.0 million to fund the purchase of an engine, which is repayable over the 7 year term of the facility. Our investment in the joint venture is $11.8 million and $5.4 million as of December 31, 2012 and December 31, 2011, respectively.

We hold a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (WOLF). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. The purchase was funded by four term notes with one financial institution totaling $76.8 million, with interest payable at LIBOR plus 1.0% to 2.5% and maturing in 2013. These aircraft are currently on lease to Emirates until March and May 2013. Our investment in the joint venture is $10.1 million and $9.9 million as of December 31, 2012 and December 31, 2011, respectively.

Year Ending December 31, 2012 and 2011 (in thousands)	WOLF	WMES	Total
Investment in joint ventures as of December 31, 2010	$ 9,381	$	$ 9,381
Investment		5,373	5,373
Earnings from joint ventures	1,292	3	1,295
Distribution	(810)		(810)
Investment in joint ventures as of December 31, 2011	$ 9,863	$ 5,376	$ 15,239
Investment		5,635	5,635
Earnings from joint ventures	1,004	755	1,759
Distribution	(802)		(802)
Investment in joint ventures as of December 31, 2012	$ 10,065	$ 11,766	$ 21,831

In July 1999, we entered into an agreement to participate in a joint venture formed as a limited company - Sichuan Snecma Aero-engine Maintenance Co. Ltd. (Sichuan Snecma) for the purpose of providing airlines in the Asia Pacific area with modern maintenance, leased engines and spare parts. Sichuan Snecma focuses on providing maintenance services for CFM56 series engines and is located in Chengdu, China. The investment of $1.48 million represented a 4.6% interest in the joint venture. On November 8, 2010, the sale of the Company s interest in Sichuan Snecma was completed. The sales proceeds totaled $3.5 million, resulting in a gain of $2.0 million on the sale which was recorded as Other revenue in 2010.

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(5) Notes Payable

Notes payable consisted of the following:

	As of December 31,	
	2012	2011
	(in thousands)	
Credit facility at a floating rate of interest of LIBOR plus 2.75%, secured by engines. The facility has a committed amount of $430.0 million and $345.0 million at December 31, 2012 and 2011, respectively, which revolves until the maturity date of November 2016.	$ 282,000	$ 228,000
WEST II Series 2012-A term notes payable at a fixed rate of interest of 5.50%, maturing in September 2037. Secured by engines.	386,724	
WEST Series 2005-A1 term notes payable at a floating rate of interest based on LIBOR plus 1.25%, maturing in July 2018. Secured by engines. Repaid in September 2012.		99,763
WEST Series 2008-A1 term notes payable at a floating rate of interest based on LIBOR plus 1.50%, maturing in March 2021. Secured by engines. Repaid in September 2012.		151,120
WEST Series 2007-A2 warehouse notes payable of $0 million (2011, $162.5 million) payable at a floating rate of interest based on LIBOR plus 2.25%, maturing in January 2024; and $0 million (2011, $23.5 million) Series 2007-B2 warehouse notes payable at LIBOR plus 4.75%, maturing in January 2026. Secured by engines. Repaid in September 2012.		185,937
Note payable at a floating rate of LIBOR plus 3.00%. Secured by Series 2005-B1 notes. Repaid in September 2012.		16,180
Note payable at a floating rate of LIBOR plus 4.00%. Secured by Series 2008-B1 notes. Repaid in September 2012.		15,212
Note payable at a fixed interest rate of 8.00%, unsecured. Repaid in September 2012.		1,500
Note payable at a fixed interest rate of 4.50%, maturing in January 2014. Secured by engines.	17,338	18,840
Note payable at a fixed rate of 5.50%, maturing in September 2017. Secured by one engine.	8,593	
Note payable at a fixed interest rate of 3.94%, maturing in September 2014. Secured by an aircraft.	2,333	3,667
Total notes payable before discount	$ 696,988	$ 720,219
WEST Series 2005-A1 term notes discount, $3,000 at issuance, and WEST Series 2008-A1 term notes discount, $2,888 at issuance, net of amortization		(2,085)

Total notes payable	$	696,988	$	718,134

At December 31, 2012, one-month LIBOR was 0.21%. At December 31, 2011, the one-month LIBOR rate was 0.30%.

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Principal outstanding at December 31, 2012, is repayable as follows:

Year		(in thousands)
2013	$	19,237
2014		36,160
2015		20,934
2016 (includes $282.0 million outstanding on revolving credit facility)		304,215
2017		29,373
Thereafter		287,069
	$	696,988

Certain of the debt instruments above have covenant requirements such as minimum tangible net worth, maximum balance sheet leverage and various interest coverage ratios. The Company also has certain negative financial covenants such as liens, advances, change in business, sales of assets, dividends and stock repurchase. These covenants are tested quarterly and the Company was in full compliance with all covenant requirements at December 31, 2012.

At December 31, 2012, we are in compliance with the covenants specified in the revolving credit facility Credit Agreement, including the Interest Coverage Ratio requirement of at least 2.25 to 1.00, and the Total Leverage Ratio requirement to remain below 4.50 to 1.00. At December 31, 2012, the Company s calculated Minimum Consolidated Tangible Net Worth exceeded the minimum required amount of $182.1 million. As defined in the revolving credit facility Credit Agreement, the Interest Coverage Ratio is the ratio of Earnings before Interest, Taxes, Depreciation and Amortization and other one-time charges (EBITDA) to Consolidated Interest Expense and the Total Leverage Ratio is the ratio of Total Indebtedness to Tangible Net Worth. At December 31, 2012, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

At December 31, 2012, notes payable consists of loans totaling $697.0 million payable over periods of approximately 1 to 10 years with interest rates varying between approximately 3.0% and 5.5% (excluding the effect of our interest rate derivative instruments). At December 31, 2012, we had a revolving credit facility totaling approximately $430.0 million compared to $345.0 million at December 31, 2011. At December 31, 2012, and December 31, 2011, respectively, approximately $148.0 million and $117.0 million were available under these facilities. The significant facilities are described below.

At December 31, 2012, we had a $430.0 million revolving credit facility to finance the acquisition of aircraft engines for lease as well as for general working capital purposes. We closed on this facility on November 18, 2011 and the proceeds of the new facility, net of $3.3 million in debt issuance costs, was used to pay off the balance remaining from our prior revolving facility. On September 7, 2012, we increased this revolving credit facility to $430.0 million from $345.0 million. As of December 31, 2012, $148.0 million was available under this facility. The revolving credit facility ends in November 2016. Based on the Company s debt to equity ratio of 3.20 as calculated under the terms of the revolving credit facility at September 30, 2012, the interest rate on this facility is LIBOR plus 2.75% as of December 31, 2012. Under the revolving credit facility, all subsidiaries except WEST II jointly and severally guarantee payment and performance of the terms of the loan agreement. The guarantee would be triggered by a default under the agreement.

On September 17, 2012, we closed an asset-backed securitization (ABS) through a newly-created, bankruptcy-remote, Delaware statutory trust, WEST II, of which the Company is the sole beneficiary. WEST II issued and sold $390 million aggregate principal amount of Class 2012-A Term Notes (the Notes) and received $384.9 million in net proceeds. We used these funds, net of transaction expenses and swap termination costs in combination with our revolving credit facility, to pay off the prior WEST notes totaling $435.9 million. At closing, the net book value of

22 engines were pledged as collateral from WEST to the Company s revolving credit facility.

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

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

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As a result of this transaction the Company recorded a loss on extinguishment of debt and derivative instruments of $15.5 million in the year ended December 31, 2012 as a result of the write-off of $5.3 million of unamortized debt issuance costs and unamortized note discount associated with the full repayment of WEST notes on September 17, 2012 and the termination of interest rate swaps totaling $10.2 million.

At December 31, 2012, $386.7 million of WEST II term notes were outstanding. The assets of WEST II are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II s ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II s maintenance of adequate reserves and capital. Under WEST II, cash is collected in a restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of $9.0 million. These terms resulted in the release of excess cash which had been held in our restricted cash accounts generating greater liquidity.

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

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

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

(6) Derivative Instruments

As discussed in Note 5, we terminated six interest rate swaps with a notional value of $215.0 million on September 17, 2012. The originally specified hedged forecasted transactions were terminated upon the closing of WEST II on September 17, 2012. The effective portion of the loss on these cash flow hedges was $10.2 million and was reclassified out of accumulated other comprehensive income and recorded in 2012 earnings. As of December 31, 2012, we have one interest rate swap related to our revolving credit facility.

We hold interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with $282.0 million of our borrowings at December 31, 2012 at variable rates. As a matter of policy, we do not use derivatives for speculative purposes. At December 31, 2012, we were a party to one interest rate swap agreement with a notional outstanding amount of $100.0 million, with a remaining term of eleven months and a fixed rate of 2.10%. At December 31, 2011, we were a party to interest rate swap agreements with notional outstanding amounts of $375.0 million, remaining terms of between three and forty months and fixed rates of between 2.10% and 5.05%. The net fair value of the swaps at December 31, 2012 and 2011 was negative $1.7 million and negative $12.3 million, respectively, representing a net

liability for us. These amounts represent the estimated amount we would be required to pay if we terminated the swaps.

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and, as of December 31, 2012, has used creditworthiness inputs that corroborate observable market data evaluating the Company s and counterparties risk of non-performance. Valuation of the derivative instruments requires certain assumptions for underlying variables and the use of different assumptions would result in a different valuation. Management believes it has applied assumptions consistently during the period. We apply hedge accounting and account for the change in fair value of our cash flow hedges through other comprehensive income for all derivative instruments.

Based on the implied forward rate for LIBOR at December 31, 2012, we anticipate that net finance costs will be increased by approximately $1.7 million for the year ending December 31, 2013 due to the interest rate derivative contracts currently in place.

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We terminated three swaps with a notional value of $105.0 million on November 18, 2009. The originally specified hedged forecasted transactions remain probable to occur as the debt remains in place. The effective portion of the loss on these hedges at the termination date was $2.6 million and is being reclassified into earnings over the original term of the swaps.

Fair Values of Derivative Instruments in the Consolidated Balance Sheets

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

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Derivatives Fair Value Years Ended December 31, 2012	2011
		(in thousands)	
Interest rate contracts	Liabilities under derivative instruments	$ 1,690	$ 12,341

Earnings Effects of Derivative Instruments on the Statements of Income

The following table provides information about the income effects of our cash flow hedging relationships for the years ended December 31, 2012, 2011 and 2010:

Derivatives in Cash Flow Hedging Relationships	Location of Loss (Gain) Recognized on Derivatives in the Statements of Income	Amount of Loss (Gain) Recognized on Derivatives in the Statements of Income Years Ended December 31, 2012	2011	2010
		(in thousands)		
Interest rate contracts	Interest expense	$ 6,427	$ 11,349	$ 18,633
Reclassification adjustment for losses included in termination of derivative instruments	Loss on debt extinguishment and derivative termination	$ 10,143	$	$
Total		$ 16,570	$ 11,349	$ 18,633

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

Effect of Derivative Instruments on Cash Flow Hedging

The following tables provide additional information about the financial statement effects related to our cash flow hedges for the years ended December 31, 2012, 2011 and 2010:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Years Ended December 31, 2012	2011	2010	Location of Loss (Gain) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Loss (Gain) Reclassified from Accumulated OCI into Income (Effective Portion) Years Ended December 31, 2012	2011	2010
	(in thousands)				(in thousands)		
Interest rate contracts*	$ 508	$ 1,933	$ (6,380)	Interest expense	$ 6,427	$ 11,349	$ 18,633
Total	$ 508	$ 1,933	$ (6,380)	Total	$ 6,427	$ 11,349	$ 18,633

* These amounts are shown net of $6.7 million, $10.9 million and $15.7 million of interest payments reclassified to the income statement during the years ended December 31, 2012, 2011 and 2010, respectively.

The effective portion of the change in fair value on a derivative instrument designated as a cash flow hedge is reported as a component of other comprehensive income and is reclassified into earnings in the period during which the transaction being hedged affects earnings. The ineffective portion of the hedges is recorded in earnings in the current period. However, these are highly effective hedges and no significant ineffectiveness occurred in either of the periods presented.

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Counterparty Credit Risk

The Company evaluates the creditworthiness of the counterparties under its hedging agreements. The swap counterparty for the interest rate swap in place at December 31, 2012 is a large financial institution in the United States that possesses an investment grade credit rating. Based on this rating, the Company believes that the counterparty is currently creditworthy and that their continuing performance under the hedging agreement is probable, and has not required the counterparty to provide collateral or other security to the Company.

(7) Income Taxes

The components of income tax expense for the years ended December 31, 2012, 2011 and 2010, included in the accompanying consolidated statements of income were as follows:

	Federal	State	Total
		(in thousands)	
December 31, 2012			
Current	$ 175	$ 37	$ 212
Deferred	707	242	949
Total 2012	$ 882	$ 279	$ 1,161
December 31, 2011			
Current	$ 1,373	$ (331)	$ 1,042
Deferred	9,783	(1,448)	8,335
Total 2011	$ 11,156	$ (1,779)	$ 9,377
December 31, 2010			
Current	$ (458)	$ 321	$ (137)
Deferred	7,609	158	7,767
Total 2010	$ 7,151	$ 479	$ 7,630

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

	Years Ended December 31,					
	2012		2011		2010	
			(in thousands and % of pre-tax income)			
	$	%	$	%	$	%
Statutory federal income tax expense	916	34.0	8,147	34.0	6,690	34.0
State taxes, net of federal benefit	185	6.9	(38)	(0.2)	713	3.7
State income tax apportionment adjustment			(1,137)	(4.7)	(396)	(2.0)
Extraterritorial income exclusion			(7)		(101)	(0.5)

Tax consequesnces of the sale of engines to WMES	(46)	(1.7)	1,214	5.1		
Uncertain tax positions	97	3.6	195	0.8	113	0.6
Permanent differences-162(m)	385	14.3	737	3.1	406	2.1
Permanent differences and other	(376)	(14.1)	266	1.0	205	0.9
Effective income tax expense	1,161	43.0	9,377	39.1	7,630	38.8

In 2011 and 2010, we determined that a number of assets and their associated leases qualify for exclusion from federal taxable income under the Extraterritorial Income Exclusion rules, resulting in a reduction in the federal effective tax rate in those years. In 2012, these assets and their associated leases no longer qualify for exclusion from federal taxable income under the Extraterritorial Income Exclusion rules.

For the years ended December 31, 2011 and 2010, the Company s effective tax rate was reduced by $1.1 million and $0.4 million, respectively, related to a change in California state tax law enacted during 2009 regarding state apportionment of income which became effective in 2011.

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The following table summarizes the activity related to the Company s unrecognized tax benefits:

	(in thousands)
Balance as of December 31, 2010	$ 113
Increases related to current year tax positions	195
Balance as of December 31, 2011	308
Increases related to current year tax positions	98
Balance as of December 31, 2012	$ 406

As of December 31, 2012 and 2011, we reserved $0.1 million and $0.2 million, respectively, for tax exposure in Europe. If the Company is able to eventually recognize these uncertain tax positions, all of the unrecognized benefit would reduce the Company s effective tax rate. We carried $0.1 million in specified tax reserves as of December 31, 2010.

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

	As of December 31,	
	2012	2011
	(in thousands)	
Deferred tax assets:		
Unearned lease revenue	$ 1,550	$ 1,274
State taxes	706	603
Reserves and allowances	1,596	1,595
Other accruals	962	1,795
Alternative minimum tax credit	542	527
Net operating loss carry forward	32,470	21,805
Charitable contributions	18	16
Total deferred tax assets	37,844	27,615
Deferred tax liabilities:		
Depreciation and impairment on aircraft engines and equipment	(124,292)	(113,956)
Other deferred tax liabilities	(4,451)	(3,612)
Net deferred tax liabilities	(128,743)	(117,568)
Other comprehensive income, deferred tax asset	651	5,247
Net deferred tax liabilities	$ (90,248)	$ (84,706)

As of December 31, 2012, we had net operating loss carry forwards of approximately $91.1 million for federal tax purposes and $18.3 million for state tax purposes. The federal net operating loss carry forwards will expire at various times from 2022 to 2032 and the state net operating loss carry forwards will expire at various times from 2016 to 2022. The Company s ability to utilize the net operating loss and tax credit carry forwards in the future may be subject to restriction in the event of past or future ownership changes as defined in Section 382 of the Internal Revenue Code and similar state tax law. As of December 31, 2012, we also had alternative minimum tax credit of approximately $0.5 million for federal income tax purposes which has no expiration date and which should be available to offset future regular tax liabilities. Management believes that no valuation allowance is required on deferred tax assets, as it is more likely than not that all amounts are recoverable through future taxable income.

Deferred tax assets relating to tax benefits of employee stock option grants have been reduced to reflect exercises in 2012. Some exercises resulted in tax deductions in excess of previously recorded benefits based on the option value at the time of grant (windfall). Although these additional tax benefits are reflected in net operating tax loss carryforwards, pursuant to SFAS 123R, in the amount of $2.2 million as of December 31, 2012, the additional tax benefit associated with the windfall is not recognized until the deduction reduces taxes payable. The tax effect of windfalls included in net operating loss carryforwards but not reflected in deferred tax assets for 2012 are $0.8 million and will be recorded to paid in capital when recognized.

(8) Fair Value of Financial Instruments

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

The carrying amount of the Company s outstanding balance on its Notes Payable as of December 31, 2012 and 2011 was estimated to have a fair value of approximately $697.3 million and $634.5 million, respectively, based on the fair value of estimated future payments calculated using the prevailing interest rates at each year end.

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(9) Risk Management Risk Concentrations and Interest Rate Risk

Risk Concentrations

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash deposits, lease receivables and interest rate swaps.

We place our cash deposits with financial institutions and other creditworthy institutions such as money market funds and limit the amount of credit exposure to any one party. We opt for security of principal as opposed to yield. In late 2008, we moved substantial deposits to U.S. treasury securities to avoid risk of loss. Concentrations of credit risk with respect to lease receivables are limited due to the large number of customers comprising our customer base, and their dispersion across different geographic areas. Some lessees are required to make payments for maintenance reserves at the end of the lease however, risk is considered limited due to the relatively few lessees which have this provision in the lease. We enter into interest rate swap agreements with counterparties that are investment grade financial institutions.

Interest Rate Risk Management

To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of December 31, 2012, one swap agreement had a notional outstanding amount of $100.0 million, a remaining term of eleven months at a fixed rate of 2.10%. In 2012, 2011 and 2010, $6.4 million, $11.3 million and $18.6 million was realized through the income statement as an increase in interest expense, respectively.

(10) Commitments, Contingencies, Guarantees and Indemnities

Our principal offices are located in Novato, California. We occupy space in Novato under a lease that covers approximately 20,534 square feet of office space and expires September 30, 2018. The remaining lease rental commitment is approximately $3.2 million. Equipment leasing, financing, sales and general administrative activities are conducted from the Novato location. We also sub-lease office and warehouse space for our operations at San Diego, California. This lease expires October 31, 2013, and the remaining lease commitment is approximately $0.1 million. We also lease office and warehouse space in Shanghai, China. The office lease expires December 31, 2013 and the warehouse lease expires July 31, 2017 and the remaining lease commitments are approximately $64,800 and $28,000, respectively. We also lease office space in London, United Kingdom. The lease expires December 21, 2015 and the remaining lease commitment is approximately $219,000. We also lease office space in Blagnac, France. The lease expires December 31, 2013 and the remaining lease commitment is approximately $17,000. We lease office space in Dublin, Ireland. The lease expires May 15, 2017 and the remaining lease commitment is approximately $0.2 million.

We have made purchase commitments to secure the purchase of four engines and related equipment for a gross purchase price of $38.5 million, for delivery in 2013 to 2015. As at December 31, 2012, non-refundable deposits paid related to this purchase commitment were $1.4 million. In October 2006, we entered into an agreement with CFM International (CFM) to purchase new spare aircraft engines. The agreement specifies that, subject to availability, we may purchase up to a total of 45 CFM56-7B and CFM56-5B spare engines over a five year period, with options to acquire up to an additional 30 engines. Our outstanding purchase orders with CFM for three engines represent deferral of engine deliveries

originally scheduled for 2009 and are included in our commitments to purchase in 2013 to 2015.

(11) Shareholders Equity

(a) Preferred Stock

On February 7, 2006 we completed a public offering of 3,475,000 shares of our 9.0% Series A Cumulative Redeemable Preferred Stock (Nasdaq: WLFCP) with a liquidation preference of $10.00 per share, or approximately $34.8 million in total. After underwriting commissions and expenses of issuance, we received net proceeds of approximately $31.9 million. The preferred stock accrued cash dividends from the date of issuance at a rate of 9.0% per annum, or approximately $260,625 per month.

On November 2, 2012, the Company redeemed all outstanding shares of its 9.0% Series A Cumulative Redeemable Preferred Stock for approximately $34.8 million in cash. The shares were redeemed at a redemption price of $10.00 per share. Accrued dividends of $147,687 were also paid on the redemption date. In conjunction with the redemption, we recognized a $2.8 million charge representing the original issuance costs that were paid in 2006, which reduced net income available to common shareholders for the year ended December 31, 2012.

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(b) Common Stock Repurchase

On September 27, 2012, the Company announced that its Board of Directors has authorized a plan to repurchase up to $100.0 million of its common stock over the next 5 years. This plan extends the previous plan authorized on December 8, 2009, and increases the number of shares authorized for repurchase to up to $100.0 million. During 2012, the Company repurchased 928,261 shares of common stock for approximately $12.7 million under this program, at a weighted average price of $13.72 per share. Of the total shares repurchased, 150,000 shares were repurchased from an executive officer for approximately $2.1 million at a five-day trailing average price of $14.06 per share. The repurchased shares were subsequently retired. As of December 31, 2012, the total number of common shares outstanding was 8.7 million.

(12) Stock-Based Compensation Plans

The components of stock compensation expense for the years ended December 31, 2012, 2011 and 2010, included in the accompanying consolidated statements of income were as follows:

	2012	2011	2010
		(in thousands)	
2007 Stock Incentive Plan	$ 3,092	$ 3,108	$ 2,603
1996 Stock Option/Stock Issuance Plan			14
Employee Stock Purchase Plan	52	65	61
Total Stock Compensation Expense	$ 3,144	$ 3,173	$ 2,678

The significant stock compensation plans are described below.

Our 2007 Stock Incentive Plan (the 2007 Plan) was adopted on May 24, 2007. Under this 2007 Plan, a total of 2,000,000 shares are authorized for stock based compensation in the form of either restricted stock or stock options. There have been 1,728,156 shares of restricted stock awarded to date. The fair value of the restricted stock awards equaled the stock price at the date of grants. The following table summarizes restricted stock activity during the years ended December 31:

	Shares
Restricted stock at December 31, 2009	558,304
Granted in 2010 (vesting over 4 years)	190,375
Granted in 2010 (vesting on first anniversary from date of issuance)	21,635
Cancelled in 2010	
Vested in 2010	(194,523)
Restricted stock at December 31, 2010	575,791
Granted in 2011 (vesting over 4 years)	324,924
Granted in 2011 (vesting on first anniversary from date of issuance)	22,100
Cancelled in 2011	(27,477)
Vested in 2011	(244,044)
Restricted stock at December 31, 2011	651,294

Granted in 2012 (vesting over 4 years)	283,000
Granted in 2012 (vesting on first anniversary from date of issuance)	28,040
Cancelled in 2012	(8,988)
Vested in 2012	(270,692)
Restricted Stock at December 31, 2012	682,654

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

Our accounting policy is to recognize the associated expense of such awards on a straight-line basis over the vesting period. At December 31, 2012 the stock compensation expense related to the restricted stock awards that will be recognized over the average remaining vesting period of 2.5 years totals $6.6 million. At December 31, 2012, the intrinsic value of unvested restricted stock awards is $9.8 million. The Plan terminates on May 24, 2017.

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A summary of activity under the 2007 Plan for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Number Outstanding	Weighted Average Grant Date Fair Value	Aggregate Value
Balance as of January 1, 2010	558,304	$ 11.14	$ 6,217,214
Shares granted	212,010	11.19	2,371,619
Shares cancelled			
Shares vested	(194,523)	11.89	(2,312,649)
Balance as of December 31, 2010	575,791	$ 10.90	$ 6,276,184
Shares granted	347,024	12.45	4,318,920
Shares cancelled	(27,477)	11.34	(311,596)
Shares vested	(244,044)	11.14	(2,719,232)
Balance as of December 31, 2011	651,294	$ 11.61	$ 7,564,276
Shares granted	311,040	8.55	2,659,170
Shares cancelled	(8,988)	12.52	(112,521)
Shares vested	(270,692)	11.33	(3,067,357)
Balance as of December 31, 2012	682,654	$ 11.61	$ 7,043,568

Employee Stock Purchase Plan: Under our Employee Stock Purchase Plan (ESPP), as amended and restated effective May 20, 2010, 250,000 shares of common stock have been reserved for issuance. The Purchase Plan was effective in September 1996. Eligible employees may designate not more than 10% of their cash compensation to be deducted each pay period for the purchase of common stock under the Purchase Plan. Participants may purchase not more than 1,000 shares or $25,000 of common stock in any one calendar year. Each January 31 and July 31 shares of common stock are purchased with the employees payroll deductions from the immediately preceding six months at a price per share of 85% of the lesser of the market price of the common stock on the purchase date or the market price of the common stock on the date of entry into an offering period. In 2012 and 2011, 18,482 and 19,983 shares of common stock, respectively, were issued under the Purchase Plan. We issue new shares through our transfer agent upon employee stock purchase. The weighted average per share fair value of the employee s purchase rights under the Purchase Plan for the rights granted was $3.19, $3.40 and $3.40 for 2012, 2011 and 2010, respectively.

1996 Stock Option/Stock Issuance Plan: We granted stock options under our 1996 Stock Option/Stock Issuance Plan (the 1996 Plan), as amended and restated as of March 1, 2003, until the plan terminated in June 2006. Under this Plan, a total of 3,025,000 shares were authorized for grant. These options have a contractual term of ten years and vest at a rate of 25% annually commencing on the first anniversary of the date of grant. For shares outstanding with graded vesting, our accounting policy is to value the options as one award and recognize the associated expense on a straight-line basis over the vesting period. We issue new shares through our transfer agent upon stock option exercise. In the year ended December 31, 2011, 369,310 options were exercised with a total intrinsic value at exercise date of approximately $2.1 million and no options were cancelled. In the year ended December 31, 2012, 306,653 options were exercised with a total intrinsic value at exercise date of approximately $2.4 million and no options were cancelled. There are 136,928 stock options vested and expected to vest under the 1996 Stock Option/Stock Issuance Plan which have an intrinsic value of $0.7 million.

A summary of the activity under the 1996 Plan for the years ended December 31, 2012, 2011 and 2010 is as follows:

	Options Available for Grant	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value

Outstanding as of January 1, 2010	1,019,788	$	6.68	2.53	$	8,486,579
Options exercised	(206,146)		6.20			
Options cancelled	(751)		6.50			
Outstanding as of December 31, 2010	812,891	$	6.80	1.81	$	5,064,940
Options exercised	(369,310)		7.34			
Options cancelled						
Outstanding as of December 31, 2011	443,581	$	6.35	1.82	$	2,484,009
Options exercised	(306,653)		5.34			
Options cancelled						
Outstanding as of December 31, 2012	136,928	$	8.60	2.23	$	781,692
Vested and expected to vest at: December 31, 2012	136,928	$	8.60	2.23	$	781,692
Options exercisable at:						
December 31, 2010	812,891	$	6.80	1.81	$	5,064,940
December 31, 2011	443,581	$	6.35	1.82	$	2,484,009
December 31, 2012	136,928	$	8.60	2.23	$	781,692

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The following table summarizes information concerning outstanding and exercisable options at December 31, 2012:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
From $4.92 to $4.92	3,850	0.41	4.92	3,850	4.92
From $5.01 to $5.01	18,875	0.17	5.01	18,875	5.01
From $8.40 to $8.40	3,921	2.38	8.40	3,921	8.40
From $8.49 to $8.49	3,890	1.40	8.49	3,890	8.49
From $8.70 to $8.70	4,281	3.40	8.70	4,281	8.70
From $9.20 to $9.20	91,516	2.59	9.20	91,516	9.20
From $11.24 to $11.24	10,595	3.25	11.24	10,595	11.24
From $4.50 to $11.24	136,928	2.23	$ 8.60	136,928	$ 8.60

(13) Employee 401(k) Plan

We adopted The Willis 401(k) Plan (the 401(k) Plan) effective as of January 1997. The 401(k) Plan provides for deferred compensation as described in Section 401(k) of the Internal Revenue Code. The 401(k) Plan is a contributory plan available to all our full-time and part-time employees in the United States. In 2012, employees who participated in the 401(k) Plan could elect to defer and contribute to the 401(k) Plan up to 20% of pretax salary or wages up to $17,000 (or $22,500 for employees at least 50 years of age). We match 50% of employee contributions up 8% of the employee s salary which totaled $334,122 in 2012, $306,837 in 2011 and $303,000 in 2010.

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(14) Quarterly Consolidated Financial Information (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2012, 2011 and 2010 (in thousands, except per share data).

Fiscal 2012	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Full Year**
Total revenue	$ 35,739	$ 35,153	$ 37,506	$ 39,692	$ 148,090
Net income (loss)	3,289	3,229	(7,194)	2,211	1,535
Net income (loss) attributable to common shareholders	2,507	2,447	(7,976)	(771)	(3,793)
Basic earnings (loss) per common share	0.30	0.29	(0.94)	(0.09)	(0.45)
Diluted earnings (loss) per common share	0.29	0.28	(0.91)	(0.09)	(0.43)
Average common shares outstanding	8,404	8,585	8,667	8,277	8,490
Diluted average common shares outstanding	8,756	8,848	8,889	8,525	8,791

Fiscal 2011	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Full Year**
Total revenue	$ 40,812	$ 38,692	$ 39,480	$ 37,669	$ 156,653
Net income	5,063	3,481	2,316	3,648	14,508
Net income attributable to common shareholders	4,281	2,699	1,534	2,866	11,380
Basic earnings per common share	0.50	0.33	0.18	0.34	1.35
Diluted earnings per common share	0.47	0.31	0.17	0.33	1.28
Average common shares outstanding	8,552	8,322	8,397	8,425	8,423
Diluted average common shares outstanding	9,048	8,796	8,811	8,758	8,876

Fiscal 2010	**1st Quarter**	**2nd Quarter**	**3rd Quarter**	**4th Quarter**	**Full Year**
Total revenue	$ 35,699	$ 32,778	$ 40,191	$ 39,634	$ 148,302
Net income	3,050	1,907	3,083	4,010	12,050
Net income attributable to common shareholders	2,268	1,125	2,301	3,228	8,922
Basic earnings per common share	0.26	0.13	0.27	0.37	1.03
Diluted earnings per common share	0.24	0.12	0.25	0.35	0.96

Average common shares outstanding	8,660	8,729	8,683	8,654	8,681
Diluted average common shares outstanding	9,303	9,255	9,080	9,199	9,251

(**15) Related Party and Similar Transactions**

Island Air: Charles F. Willis, IV, our CEO and Chairman of our Board of Directors and the owner of approximately 31% of our common stock, was the sole owner of Island Air, a lessee of the Company since 2004. On February 26, 2013 the stock of Hawaii Island Air was sold to an unrelated third party. While under common ownership, the independent members of our Board of Directors approved transactions between the Company and Island Air.

The Company and Island Air entered into a series of transactions over the past several years through which the Company provided equipment to Island Air in return for lease payments. The terms of the agreements have been amended from time to time with the Company accepting lower lease payments in some circumstances.

As of December 31, 2012, Island Air leased from the Company one DeHaviland DHC-8-100 aircraft under an operating lease and two DeHaviland DHC-8-100 aircraft and one spare engine under a finance lease. As of December 31, 2012, Island Air owed $4.5 million and $0.65 million under the finance lease and note payable, respectively. The Company received lease payments and recorded revenue from Island Air totaling $0.6 million, $1.6 million and $0.4 million in the years ended December 31, 2012, 2011 and 2010.

In connection with the sale of its stock to an unrelated third party, on February 26, 2013, Island Air prepaid the note payable at a 45% discount of $0.4 million, conditioned on the other large creditors accepting similar reductions in the amounts due to them. The assets under lease to Island Air have a combined net book value of $4.0 million as of December 31, 2012. Future lease rent revenue from Island Air totaling $6.2 million under the finance and operating leases is expected to be recorded through December 2015.

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J.T. Power: The Company entered into two Consignment Agreements dated January 22, 2008 and November 17, 2008, with J.T. Power, LLC (J.T. Power), an entity whose sole shareholder, Austin Willis, is the son of our Chief Executive Officer, and directly and indirectly, a shareholder and a Director of the Company. According to the terms of the Consignment Agreement, J.T. Power was responsible to market and sell parts from the teardown of four engines with a book value of $5.2 million. During the twelve months ended December 31, 2012, sales of consigned parts were $18,100. Under these agreements, J.T. Power provided a minimum guarantee of net consignment proceeds of $4.0 million as of February 22, 2012. Based on current consignment proceeds, J.T. Power was obligated to pay $1.3 million under the guarantee in February 2012. On March 7, 2012, this guarantee was restructured as follows - quarterly payments of $45,000 over five years at an interest rate of 6% with a balloon payment at the end of this five year term. The Agreement provides an option to skip one

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quarterly payment and apply it to the balloon payment at an interest rate of 12%. As a December 31, 2012, J.T. Power is current and the principal amount owing under the note is $1.2 million.

On July 31, 2009, the Company entered into Consignment Agreements with J.T. Power, without guaranties of consignment proceeds, in which they are responsible to market and sell parts from the teardown of one engine with a book value of $23,000. During the twelve months ended December 31, 2012, sales of consigned parts were $52,600.

On July 27, 2006, the Company entered into an Aircraft Engine Agency Agreement with J.T. Power, in which the Company will, on a non-exclusive basis, provides engine lease opportunities with respect to available spare engines at J.T. Power. J.T. Power will pay the Company a fee based on a percentage of the rent collected by J.T. Power for the duration of the lease including renewals thereof. The Company earned no revenue during the twelve months ended December 31, 2012 under this program.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

SCHEDULE II VALUATION ACCOUNTS

December 31, 2012, 2011 and 2010

(In thousands)

	Balance at Beginning of Period	Additions Charged (Credited) to Expense	Net (Deductions) Recoveries	Balance at End of Period
December 31, 2010				
Accounts receivable, allowance for doubtful accounts	467	(35)	(9)	423
December 31, 2011				
Accounts receivable, allowance for doubtful accounts	423	350	(296)	477
December 31, 2012				
Accounts receivable, allowance for doubtful accounts	477	503		980

Deductions in allowance for doubtful accounts represent uncollectible accounts written off, net of recoveries.

	Balance at Beginning of Period	Additions	Net (Deductions) Recoveries	Balance at End of Period
December 31, 2010				
Notes receivable, allowance for doubtful accounts				
December 31, 2011				
Notes receivable, allowance for doubtful accounts		940	(100)	840
December 31, 2012				
Notes receivable, allowance for doubtful accounts	840		(186)	654