

WILLIS LEASE FINANCE CORP

Form 10-K

March 11, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

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

Commission File Number: 001-15369

WILLIS LEASE FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

68-0070656
(IRS Employer Identification No.)

773 San Marin Drive, Suite 2215, Novato, CA
(Address of principal executive offices)

94998
(Zip Code)

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

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 No

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 No

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

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

Indicate by check mark 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.

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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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, 2015) was approximately \$97.4 million (based on a closing sale price of \$18.37 per share as reported on the NASDAQ National Market).

The number of shares of the registrant's Common Stock outstanding as of March 7, 2016 was 7,624,891.

The Company's Proxy Statement for the 2016 Annual Meeting of Stockholders is incorporated by reference into Part III of this Form 10-K.

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WILLIS LEASE FINANCE CORPORATION
2015 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, 2015, we had a total lease portfolio consisting of 201 engines and related equipment, 10 aircraft and 5 spare parts packages with 85 lessees in 46 countries and an aggregate net book value of \$1,122.9 million. As of December 31, 2015, we managed a total lease portfolio of 40 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. In 2013, we launched Willis Aeronautical Services, Inc. (“Willis Aero”), a wholly-owned subsidiary, whose primary focus is the sale of aircraft engine parts and materials through the acquisition or consignment from third parties of aircraft and 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, proxies and information statements, and other information at <http://www.sec.gov>.

We separate our business into two reportable segments, Equipment Leasing and Spare Parts Sales. Our business activities by reportable segment are described below.

Equipment Leasing

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).

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Spare Parts Sales

Our wholly owned subsidiary Willis Aero primarily engages in the sale of aircraft engine parts and materials through the acquisition or consignment from third parties of aircraft and engines. The launch of this business segment in November 2013 positioned our Company to provide end-of-life solutions for the growing supply of surplus aircraft and engines. With the establishment of Willis Aero, we are able to manage the full lifecycle of our lease assets, enhance the returns on our engine portfolio and create incremental value for our shareholders.

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 Willis 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 63 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 no assets outside of the WEST II trust 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 our long term asset lives.

INDUSTRY BACKGROUND - THE DEMAND FOR LEASED AIRCRAFT ENGINES

Historically, commercial aircraft operators owned rather than leased their spare 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 spare 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.

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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 22,000 aircraft as of 2014 and projects this will grow to approximately 44,000 aircraft by 2034. 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;
- 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, 2015, all 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 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

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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 is 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.

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, 2015, we had a total lease portfolio of 201 aircraft engines and related equipment, 5 spare parts packages, 10 aircraft and various parts and other engine-related equipment with a cost of \$1,439.4 million in our lease portfolio. As of December 31, 2014, we had a total lease portfolio of 207 aircraft engines and related equipment, 5

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spare parts packages, 5 aircraft and various parts and other engine-related equipment with a cost of \$1,347.5 million in our lease portfolio.

As of December 31, 2015, minimum future rentals under non-cancelable operating leases of these engines, parts and aircraft assets were as follows:

Year	(in thousands)
2016	\$ 74,133
2017	47,513
2018	35,467
2019	27,434
2020	21,914
Thereafter	24,689
	\$ 231,150

As of December 31, 2015, we had 85 lessees of commercial aircraft engines, aircraft, and other aircraft-related equipment in 46 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.

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 \$27.3 million as of December 31, 2015.

On June 3, 2014 we entered into an agreement with China Aviation Supplies Import & Export Corporation Limited (“CASC”) to participate in a joint venture named CASC Willis Engine Lease Company Limited (“CASC Willis”), a new joint venture based in Shanghai, China. Each partner holds a fifty percent interest in the joint venture. In October 2014, we made a \$15.0 million initial capital contribution representing the up-front funding for the new joint venture. The new company will acquire and lease jet engines to Chinese airlines and will concentrate on meeting the fast growing demand for leased commercial aircraft engines and aviation assets in the People’s Republic of China. CASC Willis owns a lease portfolio of 2 engines with a net book value of \$39.5 million as of December 31, 2015. Our investment in the joint venture is \$14.0 million as of December 31, 2015.

AIRCRAFT LEASING

As of December 31, 2015, we owned four Boeing 737 aircraft, four ATR72-202 turboprop, and two Embraer E-190LR aircraft with an aggregate net book value of \$112.6 million.

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.

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Prior to September 18, 2013, we held a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (“WOLF”). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of \$96.0 million. Since their purchase, these two aircraft had been leased to Emirates, with the leases terminating in March and May 2013. The return of both aircraft from the prior lessee, Emirates, was completed by June 2013, with the airframes being disassembled and parted out and the eight engines being marketed for lease separately to airline customers.

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

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

SPARE PARTS SALES

The sale of spare parts is managed by the Company’s wholly owned subsidiary, Willis Aero. Willis Aero primarily engages in the sale of aircraft engine parts and materials through the acquisition or consignment from third parties of aircraft and engines. The launch of this new business segment in November 2013 positioned our Company to provide end-of-life solutions for the growing supply of surplus aircraft and engines. With the establishment of Willis Aero, we are able to manage the full lifecycle of our lease assets, enhance the returns on our engine portfolio and create incremental value for our shareholders. As of December 31, 2015, spare parts inventory had a carrying value of \$20.5 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 senior management, 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.

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- 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.
- 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, 2015, we had a total lease portfolio consisting of 201 engines and related equipment, 10 aircraft and 5 spare parts packages with 85 lessees in 46 countries and an aggregate net book value of \$1,122.9 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 and aircraft engine 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 MROs 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

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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.

While our leasing and reselling business is not regulated, the aircraft, engines and related parts that we purchase, lease and sell 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, 2015, 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 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 90% 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 2015, 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, 2015, 2014 and 2013. The country that accounted for more than 10% of our lease rent revenue was the United States in each of 2014 and 2013. No country accounted for more than 10% of our lease rent revenue in 2015. The tables include

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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,		2014		2013		
	2015		Lease Rent		Lease Rent		
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage	
	(dollars in thousands)						
Europe	\$ 43,577	41	% \$ 37,990	37	% \$ 37,788	\$ 37	%
Asia	31,534	29	21,796	21	21,407	21	
South America	9,688	9	9,907	10	8,794	9	
United States	9,177	8	11,880	12	14,258	14	
Mexico	6,906	6	7,771	8	7,387	7	
Canada	2,789	3	4,997	5	2,947	3	
Middle East	2,223	2	4,143	4	6,547	6	
Africa	1,972	2	3,264	3	2,609	3	
Total	\$ 107,866	100	% \$ 101,748	100	% \$ 101,737	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 85% 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 and market demand with the expectation that we can lease or sell such engines.

EMPLOYEES

As of December 31, 2015, we had 104 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 and adversely affected.

RISKS RELATING TO OUR BUSINESS

We are affected by the risks faced by commercial aircraft operators and maintenance, repair and overhaul companies (“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;

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- demand for air travel and air cargo shipments;
- increased competition;
- 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;
- inclement weather and natural disasters, including but not limited to volcanic eruptions;
- environmental compliance and other regulatory costs;
- labor contracts, labor costs and strikes or 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 corresponding 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.

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.

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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 or a buyer 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 our 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 four Boeing 737 aircraft, four ATR72-202 turboprop, and two E-190LR aircraft. We may buy other aircraft or interests in aircraft in the future primarily to seek opportunities to realize value from the engines or related parts. 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, part-out companies 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 above entitled “We are affected by the risks faced by commercial aircraft operators and MROs because they are our customers”);
- 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 and aircraft leases, the lessee makes monthly maintenance reserve payments to us based on the asset'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. Thirty-four of our leases comprising approximately 20.2% of the net book value of our on-lease assets at December 31, 2015 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 and aircraft repossessions, we may decide to pay for refurbishments or repairs if the accumulated use fees are inadequate.

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

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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 depends 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 amounts 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;

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- the operating history of any particular engine or engine model;
- the length of our operating leases; and
- the timing of necessary overhauls of engines and aircraft.

These risks may reduce our engine utilization rates, lease margins, maintenance reserve revenues, and proceeds from engine sales, and result in higher legal, technical, maintenance, storage and insurance costs related to repossession and the cost 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.

Certain lessees may be significantly delinquent in their rental payments and may default on their lease obligations. As of December 31, 2015, we had an aggregate of approximately \$5.3 million in lease rent and \$2.9 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.

Following the September 11, 2001 terrorist attacks and the global recession that began in 2008, the commercial aviation industry was negatively affected. The airline industry recovered in the years thereafter and has returned to profitability with some carriers even posting record profits. 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.

Various airlines have filed for bankruptcy in the United States and in foreign jurisdictions, with some seeking to restructure their operations and others 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 laws often allow these airlines to terminate leases early and to return our engines without

meeting the contractual return conditions. 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, remarketing and leasing of the engine.

When a lessee defaults and such default is not cured in a timely manner 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

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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.

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. Similarly, sanctions issued by the United Nations, the U.S. government, the European Union or other governments could prohibit or restrict us from doing business in certain countries or with certain persons, and we must monitor our operations and existing and potential lessees for compliance with such sanctions.

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 combating 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 influencing any official act or decision or securing any improper advantage. 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 and aircraft are subject to general civil aviation authorities, including the FAA and the EASA, who regulate the maintenance of engines and issue airworthiness directives. Airworthiness directives typically set forth special maintenance actions or modifications to certain engine and aircraft 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, aircraft or particular engine parts. Each lessee of an engine or aircraft generally is responsible for complying with all airworthiness directives. However, if the engine or aircraft is off lease, we may be forced to bear the cost of compliance with such airworthiness directives, and if the engine or aircraft 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

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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 imposing 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. In 2005, the European Union launched an Emissions Trading System limiting greenhouse gas emissions by various industries and persons, including aircraft operators. 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.

Our consolidated financial statements are prepared in accordance with GAAP. 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.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases” (topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

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 lessees' 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.

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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 our engines and aircraft. We have not experienced any significant aviation-related claims or any product liability claims related to our engines, aircraft 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 for which there may not be sufficient insurance coverage.

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

The relatively 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 fund our continued growth. Although we have adequate debt commitments from our lenders, assuming they are willing and able to meet their contractual obligation to lend to us, 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 waivers and amendments to our financing agreements in the past, but we cannot provide any assurance that we will receive such waivers or amendments in the future if we require 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.

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We are exposed to interest rate risk on our 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. From time to time, 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 was approximately 0.43% and 0.17% on December 31, 2015 and December 31, 2014, respectively.

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.

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;

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- our financial condition, performance and prospects;
- changes in financial estimates by us;
- the level, direction and volatility of interest rates and expectations of changes in rates;
- the 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, 2015, 92% 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, those 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.

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, 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

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can give no assurance that Section 1110 will protect our investment in 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 lessee bankruptcy or 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 Ltd., Pratt &Whitney, Rolls-Royce Partners Finance and Engine Lease Finance Corporation.

Our primary competitors generally have significantly greater financial, personnel and other resources, as well as 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, offer maintenance and repair services 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.

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

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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 current and 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 may 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 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. 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 our internal controls over financial reporting. Such compliance requires us to incur additional costs on audit and consulting fees and requires additional management time that may 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, 2015, 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 2,837,028 shares of our

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common stock, representing approximately 38% of the outstanding shares of our common stock. As a result, Mr. Willis 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 the 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 affect the rights of WEST II;
- We cease to be engaged in the aircraft engine leasing business;
 - We become subject to an insolvency or bankruptcy proceeding, either voluntarily or involuntarily; and
- 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, 2015, 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 Junior Participating 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

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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 under a lease that covers 20,534 square feet of office space. We sub-lease 7,124 square feet of office and warehouse space for our operations in San Diego, California. We lease 30,000 square feet of office and warehouse space in Boynton Beach, Florida. We also lease facilities for sales and operations in London, UK; Shanghai, China; Singapore; Blagnac, France; and Dublin, Ireland.

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 2015.

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 2, 2016 there were approximately 3,662 shareholders of our Common Stock.

The high and low closing sales price of the Common Stock for each quarter of 2015 and 2014, as reported by NASDAQ, are set forth below:

	2015		2014	
	High	Low	High	Low
First Quarter	\$ 21.62	\$ 17.96	\$ 20.59	\$ 16.32
Second Quarter	19.27	18.20	24.99	18.30
Third Quarter	18.50	15.21	24.83	20.52
Fourth Quarter	20.27	15.18	22.81	19.88

During the years ended December 31, 2015 and 2014, 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.

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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 Shareholders:			
None	n/a	n/a	n/a
Plans Approved by Shareholders:			
Employee Stock Purchase Plan	—	n/a	19,912
2007 Stock Incentive Plan	—	n/a	671,656
Total	—	n/a	691,568

The 2007 Stock Incentive Plan was approved by shareholders. The 2007 Stock Incentive Plan authorized 2,000,000 shares of common stock. On May 28, 2015, the Company's shareholders authorized an increase in the number of shares of Common Stock available for grant by 800,000 shares bringing the total to 2,800,000 shares authorized. 2,263,712 shares of restricted stock were granted under the 2007 Stock Incentive Plan by December 31, 2015. Of this amount, 135,368 shares of restricted stock were cancelled and returned to the pool of shares which could be granted under the 2007 Stock Incentive Plan resulting in a net number of 671,656 shares which were available as of December 31, 2015 for future issuance under the 2007 Stock 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. The Board of Directors reaffirmed the repurchase plan on April 21, 2015. The repurchased shares are to be subsequently retired. During 2015, the Company repurchased 912,247 shares totaling \$16.5 million under our authorized plan, which included the repurchase of 643,821 shares under a modified "Dutch auction" tender offer that was completed in December 2015. As of December 31, 2015, the total number of common shares outstanding was approximately 7.5 million.

On November 17, 2015, the Company announced the commencement of a modified "Dutch auction" tender offer to repurchase shares of its common stock at a price not less than \$15.50 per share nor greater than \$18.00 per share. The tender offer expired on December 16, 2015 resulting in the Company repurchasing 643,821 shares of the Company's common stock at a purchase price of \$18.00 per share, for an aggregate cost of approximately \$11.6 million,

excluding fees and expenses relating to the tender offer.

Common stock repurchases, under our authorized plan, in the quarter ended December 31, 2015 were as follows:

Period	Total Number of Shares Purchased (in thousands, except	Average Price Paid per Share per share data)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans
October	51	\$ 15.66	51	\$ 73,516
November	9	15.99	9	73,368
December	644	18.00	644	61,779
Total	704	\$ 17.80	704	\$ 61,779

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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,				
	2015	2014	2013	2012	2011
	(dollars in thousands, except per share data)				
Revenue:					
Lease rent revenue	\$ 107,866	\$ 101,748	\$ 101,737	\$ 94,591	\$ 104,663
Maintenance reserve revenue	55,064	53,363	46,694	41,387	39,161
Spare parts and equipment sales	25,608	8,917	—	—	—
Gain on sale of leased equipment	8,354	5,753	5,675	5,499	11,110
Other revenue	2,718	4,506	4,306	6,613	1,719
Total revenue	\$ 199,610	\$ 174,287	\$ 158,412	\$ 148,090	\$ 156,653
Net income	\$ 7,356	\$ 7,247	\$ 15,626	\$ 1,535	\$ 14,508
Net income (loss) attributable to common shareholders	\$ 7,356	\$ 7,247	\$ 15,626	\$ (3,793)	\$ 11,380
Basic earnings (loss) per common share	\$ 0.94	\$ 0.92	\$ 1.95	\$ (0.45)	\$ 1.35
Diluted earnings (loss) per common share	\$ 0.92	\$ 0.89	\$ 1.89	\$ (0.45)	\$ 1.28
Balance Sheet Data:					
Total assets	\$ 1,308,577	\$ 1,261,626	\$ 1,199,229	\$ 1,078,715	\$ 1,133,205
Debt	\$ 878,684	\$ 840,956	\$ 787,614	\$ 696,988	\$ 718,134
Shareholders’ equity	\$ 210,332	\$ 216,861	\$ 212,605	\$ 199,163	\$ 236,271
Lease Portfolio:					
Engines at end of the period	201	207	202	184	194
Aircraft at end of the period	10	5	4	7	13
Spare parts packages at the end of the period	5	5	5	4	3

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; and the market value of engines and other assets in our portfolio. These risks and uncertainties, as well as other risks and uncertainties

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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 commercial aircraft engines and related aircraft equipment pursuant to operating leases, and the selective sale of such engines, all of which we sometimes refer to as "equipment." As of December 31, 2015, all of our leases were operating leases. As of December 31, 2015, we had 85 lessees in 46 countries. Our portfolio is continually changing due to acquisitions and sales. As of December 31, 2015, our lease portfolio consisted of 201 engines and related equipment, 10 aircraft and 5 spare engine parts packages with an aggregate net book value of \$1,122.9 million. As of December 31, 2015, we also managed 40 engines and related equipment on behalf of other parties. In 2013, we launched Willis Aeronautical Services, Inc. ("Willis Aero"), a wholly-owned subsidiary, whose primary focus is the sale of aircraft engine parts and materials through the acquisition or consignment of aircraft and engines from third parties.

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 a lease portfolio of 28 engines with a net book value of \$251.7 million at December 31, 2015.

On June 3, 2014 we entered into an agreement with China Aviation Supplies Import & Export Corporation Limited ("CASC") to participate in a joint venture named CASC Willis Engine Lease Company Limited ("CASC Willis"), a new joint venture based in Shanghai, China. Each partner holds a fifty percent interest in the joint venture. In October 2014, we made a \$15.0 million initial capital contribution representing the up-front funding for the new joint venture. The new company will acquire and lease jet engines to Chinese airlines and will concentrate on meeting the fast growing demand for leased commercial aircraft engines and aviation assets in the People's Republic of China. CASC Willis owns a lease portfolio of 2 engines with a net book value of \$39.5 million as of December 31, 2015. Our investment in the joint venture is \$14.0 million as of December 31, 2015.

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, 2015 all of our engine 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. Aircraft are generally depreciated on a straight-line basis over 13-20 years to a 15%-17% residual value. Spare parts packages are generally depreciated on a straight-line basis over 14-15 years to a 25% 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. As of December 31, 2015, 52 engines and 5 aircraft having a net book value of \$129.6 million were depreciated under this policy with estimated useful lives ranging from 3 to 78 months.

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.

On a quarterly basis, management monitors the lease portfolio for events which may indicate that a particular asset may need to be evaluated for potential impairment. These events may include a decision to part-out or sell an asset, knowledge of specific damage to an asset, or supply/ demand events which may impact the Company’s ability to lease an asset in the future. On an annual basis, even absent any such ‘triggering event’, we evaluate the carrying value of all assets in our lease portfolio to determine if any impairment exists, by performing an undiscounted cash flow test for each asset.

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. When evaluating for impairment, we group assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In our portfolio, this is at the individual asset level (e.g., engine or aircraft), as each asset generates its own stream of cash flows, including lease rents, maintenance reserves and repair costs.

We must make assumptions which underlie the most significant and subjective estimates in determining whether any impairment exists. Those estimates, and the underlying assumptions, are as follows:

- Fair value – we determine fair value by reference to independent appraisals, quoted market prices (e.g., an offer to purchase) and other factors. We rely on leading accredited third-party appraisers for independent appraisals of current fair value. These appraisers are engine/ aircraft experts and rely on current data from airlines, engine manufacturers and Maintenance, Repair and Overhaul (“MRO”) providers as well as specific market sales and repair

cost data in generating their appraisals.

- Future cash flows – when evaluating the future cash flows that an asset will generate, we make assumptions regarding the lease market for specific engine models, including estimates of market lease rates and future demand. These assumptions are based upon lease rates that we are obtaining in the current market as well as our expectation of future demand for the specific engine/ aircraft model.

If the undiscounted forecasted cash flows and fair value of our long-lived assets decrease in the future we may incur impairment charges.

Management continuously monitors the aviation industry and evaluates any trends, events or uncertainties involving airlines, individual aircraft and engine models, as well as the engine leasing and sale market which would materially affect the methodology or assumptions employed by WLFC. We do not consider there to be any trends, events or uncertainties that currently exist or that are reasonably likely to occur that would materially affect our methodology or assumptions. However, should any arise, we will adjust our methodology and our disclosure accordingly.

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Spare parts inventory is stated at lower of cost or net realizable value. An impairment charge for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, future sales expectations and salvage value.

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, 2015 COMPARED TO THE YEAR ENDED DECEMBER 31, 2014

Revenue is summarized as follows:

	Years Ended December 31,			
	2015		2014	
	Amount	%	Amount	%
	(dollars in thousands)			
Lease rent revenue	\$ 107,866	54.0 %	\$ 101,748	58.4 %
Maintenance reserve revenue	55,064	27.6 %	53,363	30.6 %
Spare parts and equipment sales	25,608	12.8 %	8,917	5.1 %
Gain on sale of leased equipment	8,354	4.2 %	5,753	3.3 %
Other revenue	2,718	1.4 %	4,506	2.6 %
Total revenue	\$ 199,610	100.0%	\$ 174,287	100.0%

Lease Rent Revenue. Our lease rent revenue for the year ended December 31, 2015 increased by 6.0% over the comparable period in 2014. This increase primarily reflects an increase in the average size of the lease portfolio and higher average portfolio utilization in the current period, which translated into a higher amount of equipment on lease.

The aggregate of net book value of equipment held for lease at December 31, 2015 and 2014, was \$1,122.9 million and \$1,066.4 million, respectively, an increase of 5.3%. Portfolio utilization is defined as the net book value of on-lease assets as a percentage of the net book value of total lease assets. As of December 31, 2015 and 2014, approximately 90% and 79%, respectively, of equipment by net book value was on-lease. The average utilization for the year ended December 31, 2014 was 87% compared to 83% in the prior year. During the year ended December 31, 2015, 12 engines and 6 aircraft were added to our lease portfolio at a total cost of \$172.7 million (including capitalized costs). During the year ended December 31, 2014, 21 engines and one aircraft were added to our lease portfolio at a total cost of \$137.4 million (including capitalized costs).

Maintenance Reserve Revenue. Our maintenance reserve revenue for the year ended December 31, 2015 increased 3.2% to \$55.1 million from \$53.4 million for the comparable period in 2014. The increase was due to higher maintenance reserves billed reflecting increased usage of engines under lease resulting from higher portfolio utilization in 2015 compared to 2014.

Spare Parts and Equipment Sales. Spare parts and equipment sales for the year ended December 31, 2015 was \$25.6 million compared to \$8.9 million in 2014. The increase was due to the sale of two airframes and other related equipment in the current period related to recent aircraft purchases as well as growth in spare parts sales due to an increase in inventory acquisitions in late 2014 at Willis Aero.

Gain on Sale of Leased Equipment. During the year ended December 31, 2015, we sold 8 engines and sold various engine-related equipment from the lease portfolio for a net gain of \$8.4 million. During the year ended December 31, 2014, we sold 7 engines, exchanged 2 engines and sold various engine-related equipment from the lease portfolio for a net gain of \$5.8 million.

Other Revenue. Our other revenue consists primarily of management fee income, lease administration fees and third party consignment commissions earned by Willis Aero. Other revenue decreased \$1.8 million from the prior year

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primarily due to a decrease in fees earned related to engines managed on behalf of third parties and lower commissions on third party spare parts sales.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$4.1 million or 6.3% to \$69.6 million for the year ended December 31, 2015, from the comparable period in 2014 due to growth in the lease portfolio and changes in estimates of useful lives and residual values on certain older engine types.

Cost of Spare Parts and Equipment Sales. Cost of spare parts and equipment sales for the year ended December 31, 2015 was \$17.9 million an increase of 139.0% from the comparable period in 2014. Gross margin on spare parts sales for 2015 was 22.4% compared to 16.2% for 2014 primarily due to a change in the mix of parts sold in 2015. Cost of equipment sales increased to \$5.7 million in 2015 from Nil in 2014 due to the sale two airframes and other related equipment in 2015 related to recent aircraft purchases.

Write-down of Equipment. Write-down of equipment to their estimated fair values totaled \$9.2 million for the year ended December 31, 2015, an increase of \$3.6 million from the \$5.6 million recorded in the comparable period in 2014. A write-down of equipment totaling \$5.5 million was recorded in the year ended December 31, 2015 due to a management decision to consign four engines for part-out and sale, in which the assets' net book value exceeded the estimated proceeds from part-out. Write-downs on held for use equipment to their estimated fair values totaled \$0.6 million for the year ended December 31, 2015 due to an adjustment of carrying values for certain impaired parts packages within the portfolio to reflect estimated market values. A further write-down of \$2.8 million was recorded in the year ended December 31, 2015 to adjust the carrying value of engine parts for which market conditions for the sale of parts has changed. An additional write-down of \$0.3 million was recorded in the year ended December 31, 2015 based on a comparison of the inventory values with the revised net proceeds expected from part sales.

A write-down of equipment totaling \$5.6 million was recorded in the year ended December 31, 2014. This amount includes a write-down of equipment totaling \$2.6 million due to a management decision to consign six engines for part-out and sale, in which the assets' net book value exceeded the estimated proceeds from part-out. Write-downs on held for use equipment to their estimated fair values totaled \$2.4 million for the year ended December 31, 2014, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values. A further write-down of \$0.6 million was recorded in the year ended December 31, 2014 to adjust the carrying value of engine parts for which market conditions for the sale of parts has changed.

General and Administrative Expenses. General and administrative expenses increased 19.2% to \$42.7 million for the year ended December 31, 2015, from the comparable period in 2014 due primarily to increases in contingency bonus (\$2.5 million) resulting from improved operating results (pre-tax earnings and utilization) as well as increases in salary expense (\$1.6 million), corporate aircraft expense (\$1.4 million), bad debt expense (\$0.7 million), stock based compensation (\$0.6 million) and other selling expenses (\$0.5 million), which was partially offset by lower legal expenses (\$0.7 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 23.8% to \$9.4 million for the year ended December 31, 2015, from the comparable period in 2014 due primarily to a decrease in engine maintenance costs due to lower engine repair activity (\$3.6 million) and decreased engine storage fees (\$0.2 million), which was partially offset by higher thrust rental fees due to an increase in the number of engines operated at higher thrust levels under the CFM thrust rental program (\$0.5 million) and increased third party technical service fees (\$0.3 million).

Net Finance Costs. Net finance costs include interest expense and gain on debt extinguishment. Net finance costs increased 2.2% to \$37.9 million for 2015, from the comparable period in 2014, due primarily to higher average debt balances in the current period compared to the year ago period partially offset by the recording of a gain on debt extinguishment of \$1.2 million in the current period. The average notes payable balances for the years ended December 31, 2015 and 2014 were \$878.7 million and \$769.2 million, respectively, an increase of 14.2%. As of December 31, 2015, \$562.1 million of our debt is tied to one-month U.S. dollar LIBOR which increased from an average of 0.16% for 2014 to an average of 0.21% for 2015 (average of month-end rates). At December 31, 2015 and 2014, one-month LIBOR was 0.43% and 0.17%, respectively. To mitigate exposure to interest rate changes, we periodically enter into

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interest rate swap agreements. The last of our interest rate swap agreements matured in November 2013. For 2014, interest expense was reduced by \$0.5 million resulting from interest rate swaps.

Income Taxes. Income tax expense for the year ended December 31, 2015, increased to \$6.8 million from \$4.6 million for the comparable period in 2014. The effective tax rate for the years ended December 31, 2015 and December 31, 2014 were 48.0% and 38.8%, respectively. This increase was primarily due to the impact of state and foreign taxes and the IRS code 162(m) calculation for executive compensation during the year ended December 31, 2015. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California, the amount of executive compensation exceeding \$1.0 million as defined in IRS code 162(m) and numerous other factors, including changes in tax law.

YEAR ENDED DECEMBER 31, 2014 COMPARED TO THE YEAR ENDED DECEMBER 31, 2013

Revenue is summarized as follows:

	Years Ended December 31,			
	2014		2013	
	Amount	%	Amount	%
	(dollars in thousands)			
Lease rent revenue	\$ 101,748	58.4 %	\$ 101,737	64.2 %
Maintenance reserve revenue	53,363	30.6 %	46,694	29.5 %
Spare parts and equipment sales	8,917	5.1 %	—	— %
Gain on sale of leased equipment	5,753	3.3 %	5,675	3.6 %
Other revenue	4,506	2.6 %	4,306	2.7 %
Total revenue	\$ 174,287	100.0 %	\$ 158,412	100.0 %

Lease Rent Revenue. Our lease rent revenue for the years ended December 31, 2014 and December 31, 2013 was flat. An increase in the average size of the lease portfolio in the current period was offset by lower average portfolio utilization compared to the year ago period. The aggregate of net book value of equipment held for lease at December 31, 2014 and 2013, was \$1,066.4 million and \$1,033.0 million, respectively, an increase of 3.2%. Portfolio utilization is defined as the net book value of on-lease assets as a percentage of the net book value of total lease assets. As of December 31, 2014 and 2013, approximately 79% and 86%, respectively, of equipment by net book value was on-lease. The average utilization for the year ended December 31, 2014 was 83% compared to 84% in the prior year. During the year ended December 31, 2014, 21 engines and one aircraft were added to our lease portfolio at a total cost of \$137.4 million (including capitalized costs). During the year ended December 31, 2013, 40 engines were added to

our lease portfolio at a total cost of \$172.2 million (including capitalized costs).

Maintenance Reserve Revenue. Our maintenance reserve revenue for the year ended December 31, 2014 increased 14.3% to \$53.4 million from \$46.7 million for the comparable period in 2013. This increase was primarily due to higher maintenance reserve revenues recognized related to the termination of long term leases in 2014 compared to 2013.

Spare Parts and Equipment Sales. Spare parts sales and equipment for the year ended December 31, 2014 was \$8.9 million. During the third quarter of 2014, we began recording spare parts sales and cost of spare parts sales for the inventory sold by our engine part sales subsidiary, Willis Aero as separate line items in our consolidated income statement. Spare parts sales for the year ended December 31, 2013 were zero due to the launch of our engine part sales subsidiary, Willis Aero, during the fourth quarter of 2013.

Gain on Sale of Leased Equipment. During the year ended December 31, 2014, we sold 7 engines, exchanged 2 engines and sold various engine-related equipment from the lease portfolio for a net gain of \$5.8 million. During the year ended December 31, 2013, we sold 24 engines, 3 aircraft and various engine-related equipment from the lease portfolio for a net gain of \$5.7 million.

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Other Revenue. Our other revenue consists primarily of management fee income, lease administration fees and third party consignment commissions earned by Willis Aero. Other revenue increased \$0.1 million from the prior year. The increase was primarily due to an increase in commissions earned by Willis Aero on third party spare parts sales and an increase in fees earned related to engines managed on behalf of third parties. These increases were partially offset by the recording of a gain of \$0.4 million in the year ago period related to an insurance settlement.

Depreciation and Amortization Expense. Depreciation and amortization expense increased \$6.7 million or 11.4% to \$65.4 million for the year ended December 31, 2014, from the comparable period in 2013 due to growth in the lease portfolio and changes in estimates of useful lives and residual values on certain older engine types. On July 1, 2013 and again on July 1, 2014, we adjusted the depreciation for certain older engine types within the portfolio. It is our policy to review estimates regularly to accurately expense the cost of equipment over the useful life of the engines. The 2014 change in depreciation estimate resulted in a \$2.9 million increase in depreciation for 2014. The net effect of the 2014 change in depreciation estimate is a reduction in 2014 net income of \$1.7 million or \$0.21 in diluted earnings per share over what net income would have otherwise been had the change in depreciation estimate not been made.

Cost of Spare Parts and Equipment Sales. Cost of spare parts and equipment sales for the year ended December 31, 2014 was \$7.5 million. During 2014, we began recording spare parts sales and cost of spare parts sales for the inventory sold by our engine part sales subsidiary, Willis Aero, as separate line items in our consolidated income statement. Cost of spare parts sales for the year ended December 31, 2013 was zero due to the launch of our engine part sales subsidiary, Willis Aero, during the fourth quarter of 2013.

Write-down of Equipment. Write-down of equipment to their estimated fair values totaled \$5.6 million for the year ended December 31, 2014, a decrease of \$0.9 million from the \$6.5 million recorded in the comparable period in 2013. A write-down of equipment totaling \$2.6 million was recorded in the year ended December 31, 2014 due to a management decision to consign six engines for part-out and sale, in which the assets' net book value exceeded the estimated proceeds from part-out. Write-downs on held for use equipment to their estimated fair values totaled \$2.4 million for the year ended December 31, 2014, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values. A further write-down of \$0.6 million was recorded in the year ended December 31, 2014 to adjust the carrying value of engine parts for which market conditions for the sale of parts has changed. A write-down of \$3.7 million was recorded in the year ended December 31, 2013 due to a management decision to consign four engines for part out and sale, in which the assets' net book value exceeds the estimated proceeds from part-out. A further write-down of \$2.8 million was recorded in the year ended December 31, 2013 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed.

General and Administrative Expenses. General and administrative expenses increased 5.9% to \$35.9 million for the year ended December 31, 2014, from the comparable period in 2013 due primarily to increases in employment related costs (\$1.3 million), corporate aircraft expenses (\$0.6 million), travel and entertainment expenses (\$0.5 million), and accounting services (\$0.3 million), which was partially offset by decreased legal fees (\$0.4 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 4.1% to \$4.6 million for the year ended December 31, 2014, from the comparable period in 2013 due primarily to a decrease in engine maintenance costs due to lower engine repair activity (\$0.3 million) and decreased engine storage fees (\$0.2 million).

Net Finance Costs. Net finance costs include interest expense. Interest expense decreased 4.3% to \$37.1 million for the year ended December 31, 2014, from the comparable period in 2013, due primarily to \$1.5 million of interest expense recorded a year ago related to interest rate swaps in place for much of 2013, which terminated in November 2013. As of December 31, 2014, \$468.5 million of our debt is tied to one-month U.S. dollar LIBOR which was 0.16% and 0.19% for the years ended December 31, 2014 and 2013 (average of month-end rates), respectively. At December 31, 2014 and 2013, one-month LIBOR was 0.17%. To mitigate exposure to interest rate changes, we periodically enter into interest rate swap agreements. The last of our interest rate swap agreements matured in November 2013. In 2014 and 2013, (\$0.5 million) and \$1.5 million were realized through the income statement as an (decrease) increase in interest expense, respectively, as a result of the swap agreements.

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Income Taxes. Income tax expense (benefit) for the year ended December 31, 2014, increased to \$4.6 million from (\$4.3 million) for the comparable period in 2013. During 2014, a valuation allowance of \$1.3 million was established for the net operating losses expiring in California for the periods 2016 to 2024, resulting in a 7.3% increase in our effective tax rate in the year. The effective rate for the year ended December 31, 2013 differs from the U.S. federal statutory rate primarily due to an income tax benefit of \$8.7 million related to an extraterritorial income (“ETI”) adjustment recorded in the year ago period for certain of our engines. We recognized this income tax benefit in the year ended December 31, 2013 resulting from adjustments made to the tax basis of certain of our engines due to a decision in a court case on behalf of another company in which our circumstances are similar. The overall effective tax rate for the year ended December 31, 2014 was 38.8% compared to 38.9% (excluding the ETI benefit) 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, the amount of executive compensation exceeding \$1.0 million as defined in IRS code 162(m) and numerous other factors, including changes in tax law.

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases” (topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU, Simplifying the Measurement of Inventory, which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and for interim periods therein. We are evaluating the impact that this new guidance will have on our consolidated financial position.

In April 2015, the FASB issued ASU, Simplifying the Presentation of Debt Issuance Costs, which will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS standards by requiring that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, similar to the presentation of debt discounts or premiums. This accounting guidance is effective for us beginning in the first quarter of 2016. The unamortized debt issuance cost balances were \$12.6 million and \$15.5 million as of December 31, 2015 and December 31, 2014, respectively, and would reduce our Notes Payable balances accordingly on our Consolidated Balance Sheet for those periods under this ASU.

In May 2014, the FASB issued an ASU, Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for

those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

We finance our growth through borrowings secured by our equipment lease portfolio. Cash of approximately \$192.7 million, \$154.4 million and \$130.0 million, in the years ended December 31, 2015, 2014, and 2013, respectively, was derived from this activity. In these same time periods \$153.8 million, \$101.1 million and \$70.9 million, respectively,

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was used to pay down related debt. Cash flow from operating activities generated \$109.1 million, \$62.7 million and \$80.3 million in the years ended December 31, 2015, 2014, and 2013, respectively.

At December 31, 2015, \$4.1 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 \$183.6 million, \$128.1 million and \$136.2 million for the years ended December 31, 2015, 2014, and 2013, respectively.

On February 27, 2013, we entered into a transaction to purchase and lease back a total of 19 aircraft engines with SAS Group subsidiary Scandinavian Airlines (“SAS”) for \$119.5 million. We purchased 11 of the engines for \$65.0 million and our joint venture, Willis Mitsui & Company Engine Support Limited (“WMES”) purchased the remaining 8 engines for \$54.5 million. We funded our portion of this transaction with available funds from our revolving credit facility. As part of this transaction, we made a \$5.5 million capital contribution to WMES to support its purchase of the 8 SAS engines. During the remainder of 2013, we made additional capital contributions of \$5.7 million to our investment in WMES. During 2014, we made capital contributions of \$2.6 million to our investment in WMES. During 2015, we made \$0.6 million of capital contributions to our investment in WMES and received \$1.3 million in distributions.

On June 3, 2014 we entered into an agreement with China Aviation Supplies Import & Export Corporation Limited (“CASC”) to participate in a joint venture named CASC Willis Engine Lease Company Limited (“CASC Willis”), a new joint venture based in Shanghai, China. Each partner holds a fifty percent interest in the joint venture and the Company uses the equity method in recording investment activity. In October 2014, we made a \$15.0 million initial capital contribution representing the up-front funding for the new joint venture.

Cash flows from operations are driven significantly by payments made under our lease agreements, which comprise lease revenue, security deposits 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 90% and 79%, by book value, of our assets were on-lease as of December 31, 2015 and December 31, 2014, respectively. The average utilization rate for the year ended December 31, 2015 was 87% compared to 83% 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.

At December 31, 2015, notes payable consists of loans totaling \$878.7 million payable over periods of approximately 2.6 years to 8.6 years with interest rates varying between approximately 2.5% and 5.5%. Substantially all of our assets are pledged to secure our obligations to creditors. Our significant debt instruments are discussed below:

At December 31, 2015, we had a revolving credit facility to finance the acquisition of equipment for lease as well as for general working capital purposes, with the amounts drawn under the facility not to exceed that which is allowed under the borrowing base as defined by the credit agreement. On June 4, 2014, we entered into a Second Amended and Restated Credit Agreement which increased this revolving credit facility to \$700.0 million from \$450.0 million and extended the maturity date by five years to June 2019. Debt issuance costs totaling \$4.9 million were incurred related to the new facility. As of December 31, 2015 and December 31, 2014, \$151.0 million and \$270.0 million were available under this facility, respectively. On a quarterly basis, the interest rate is adjusted based on the Company's leverage ratio, as calculated under the terms of the revolving credit facility. Based on the Company's leverage ratio of 4.46 at December 31, 2015, the interest rate on this facility is one-month LIBOR plus 2.75% as of December 31, 2015. 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.

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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, 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. The current portfolio of 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’ repayment 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 Company entered into a Servicing Agreement and Administrative Agency Agreement with WEST II to provide certain engine, lease management and reporting functions for WEST II in return for fees based on a percentage of collected lease revenues and asset sales. Because WEST II is consolidated for financial statement reporting purposes, all fees eliminate upon consolidation.

At December 31, 2015 and 2014, \$300.5 million and \$351.9 million of WEST II term notes were outstanding, respectively. The assets of WEST II are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II’s ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II’s maintenance of adequate reserves and capital. Under WEST II, cash is collected in a restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of \$9.0 million.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF, with the transaction being accounted for as an asset acquisition. With this acquisition, WOLF is consolidated for financial statement presentation purposes. We recorded the WOLF assets at the cost basis, which represents the allocation of our prior investment basis plus the cash paid to the third party investor. The purchase price was allocated to the eight aircraft engines and two airframes. The fair value of the net assets acquired

from this transaction is estimated to be \$12.6 million, which is comprised of \$27.0 million of equipment, \$1.6 million of cash and receivables, offset by \$16.0 million of debt and other liabilities. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF assets and liabilities and the results of operations related to the WOLF assets have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013.

Two term notes with an original principal amount of \$36.0 million, with a balance outstanding of \$24.0 million as of December 31, 2014, are included in Notes payable. The two term notes are non-recourse, have a maturity date of May 2017 and interest is payable at one-month LIBOR plus 4.0%. On March 25, 2015, we paid off the \$23.1 million balance of the two term notes associated with the WOLF assets at a 5% discount. This transaction resulted in the recording of a \$1.2 million gain on debt extinguishment which has been included in our statement of income for the year ended December 31, 2015.

On July 16, 2014, we closed on a loan for a ten year term totaling \$13.4 million. During the second quarter of 2015, we closed on two additional loans totaling \$4.7 million, repayable over the same ten year term. The interest is payable at fixed rates ranging from 2.60% to 2.97% for the initial five years of the loan term and principal and interest is paid monthly. The loans provided 100% of the funding for the purchase of a corporate aircraft and subsequent

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modifications and upgrades. The balance outstanding on these loans is \$16.1 million and \$12.9 million as of December 31, 2015 and December 31, 2014, respectively.

On January 10, 2014, we extended the term of an existing loan that was scheduled to mature on January 11, 2014. The loan has a term of 4 years with a maturity date of January 11, 2018. Interest is payable at one-month LIBOR plus 2.25% and principal and interest is paid quarterly. The loan is secured by three engines. The balance outstanding on this loan is \$13.1 million and \$14.5 million as of December 31, 2015 and December 31, 2014, respectively.

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. On July 10, 2015, we paid off the \$7.4 million loan balance. The balance outstanding on this loan was \$7.7 million as of December 31, 2014.

One-month LIBOR was 0.43% and 0.17% as of December 31, 2015 and December 31, 2014, respectively.

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 up to 85% of an engine's net book value and 65% 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, 2015, we are in compliance with the covenants specified in the revolving credit facility, including the Interest Coverage Ratio requirement of at least 2.25 to 1.00, and the Total Leverage Ratio requirement to remain below 5.00 to 1.00. 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, 2015, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

Approximately \$22.7 million of our debt is repayable during 2016. 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, 2015:

	Total	Payment due by period (in thousands)			More than 5 Years
		Less than 1 Year	1-3 Years	3-5 Years	
Long-term debt obligations	\$ 878,684	\$ 22,702	\$ 57,109	\$ 595,656	\$ 203,217
Interest payments under long-term debt obligations	155,540	35,963	68,095	34,024	17,458
Operating lease obligations	2,973	1,202	1,529	242	—
Purchase obligations	31,584	31,584	—	—	—
Total	\$ 1,068,781	\$ 91,451	\$ 126,733	\$ 629,922	\$ 220,675

We have estimated the interest payments due under long-term debt by applying the interest rates applicable at December 31, 2015 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 a purchase commitment to secure the purchase of four engines and related equipment for a gross purchase price of \$31.6 million, for delivery in 2016.

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The following table lists our properties and their remaining lease commitments:

Location	Property Type	Lease Expiration	Remaining Lease Commitment (in thousands)
Novato, California	Principal Office	09/30/18	\$ 1,445
Boynton Beach, Florida	Warehouse and office	10/29/19	1,112
San Diego, California	Warehouse and office	10/31/16	141
Singapore	Office	12/31/16	112
Shanghai, China	Office	12/31/16	65
Shanghai, China	Warehouse	07/31/17	11
Dublin, Ireland	Office	05/31/17	44
London, United Kingdom	Office	07/31/16	27
Blagnac, France	Office	12/31/16	16
Total			\$ 2,973

We believe our equity base, internally generated funds and existing debt facilities are sufficient to maintain our level of operations through 2016. A decline in the level of internally generated funds, such as could result if the amount of equipment off-lease increases or there is a decrease in availability under our existing debt facilities, would impair our ability to sustain our level of operations. We are discussing additions to our capital base with our commercial and investment banks. If we are not able to access additional capital, our ability to continue to grow our asset base consistent with historical trends will be impaired and our future growth limited to that which can be funded from internally generated capital.

Management of Interest Rate Exposure

At December 31, 2015, \$562.1 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 periodically enter 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 no interest rate swap agreements in place.

We record derivative instruments at fair value as either an asset or liability. We have used 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 last of our interest rate derivatives terminated on November 25, 2013, at which time the liabilities under derivative instruments decreased to nil. The hedge accounting for these derivative instrument arrangements (decreased)/ increased interest expense by Nil, (\$0.5 million) and \$1.5 million for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, respectively. This incremental cost (benefit) for the swaps effective for hedge accounting was included in interest expense for the respective periods.

For any interest rate swaps that we enter into, 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 in the future.

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Related Party Transactions

“Other revenue” on the Consolidated Statement of Income includes management fees earned of \$1.7 million, \$2.0 million and \$1.6 million for the years ended December 31, 2015, 2014 and 2013, respectively, related to the servicing of engines for the WMES lease portfolio.

Prior to 2014, the Company leased equipment to an airline owned by our CEO and Chairman. The Company received lease payments from the airline and recorded revenue totaling \$2.1 million in the year ended December 31, 2013. Our CEO and Chairman no longer owns the airline. In connection with the 2013 sale of its stock to an unrelated third party, the airline prepaid a note to us at a 45% discount of \$0.4 million, similar to reductions received by other large creditors. The Company subsequently sold four engines and three aircraft, which had an aggregate net book value of \$3.4 million, to the third party for \$4.9 million. The \$4.9 million proceeds were included in 2013 revenue as follows: Gain on Sale \$0.8 million (net of the asset’s \$3.4 million net book value), Maintenance Reserve Revenue \$0.4 million, Lease Rent Revenue \$0.4 million and Other Revenue \$0.3 million.

J.T. Power, LLC (“J.T. Power”): In the ordinary course of business, the Company uses a number of consignment vendors to sell engine parts. Prior to 2014, the Company consigned equipment for part-out to J.T. Power, an entity owned by Austin Willis, the son of our CEO and Chairman, and directly and indirectly, a shareholder and a Director of the Company. Sales of consigned parts under the Consignment agreements was \$22,200 for the year ended December 31, 2013.

On November 6, 2013, the Company purchased certain assets of J.T. Power for \$5.6 million. A net cash payment of \$4.5 million was made to fund the transaction, after deducting amounts owed to the Company, including \$0.7 million related to the minimum guarantee remaining under the note and cash received of \$0.4 million. Of the \$4.5 million cash payment, \$1.2 million was paid to various creditors and \$3.3 million was paid to the shareholders of J.T. Power.

As part of the acquisition of certain assets of J.T. Power, we launched Willis Aeronautical Services, Inc. (“Willis Aero”), a wholly-owned subsidiary, whose primary focus is the sale of aircraft engine parts and materials through the acquisition or consignment from third parties of aircraft and engines.

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, 2015, \$562.1 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, would increase or decrease \$5.6 million (in 2014, \$4.7 million).

We previously hedged a portion of our borrowings from time to time, effectively fixing the rate of these borrowings. This hedging activity helps protect us against reduced margins on longer term fixed rate leases. In November 2013, the last of our swap agreements matured. For any interest rate swaps entered into, 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 in the future.

We are also exposed to currency devaluation risk. During the years ended December 31, 2015, 2014, and 2013, respectively, 92%, 88% and 86% 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 46.

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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 Interim Chief Financial Officer (CFO)), as of the end of the period covered by this report, our CEO and Interim 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 interim 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 accounting principles.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. 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 (2013). Based on this assessment our management believes that, as of December 31, 2015, 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 48.

(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, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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ITEM 9B.OTHER INFORMATION

As previously disclosed in a Form 8-K filed on November 13, 2015, our President, Donald A. Nunemaker, announced his decision to retire as President of the Company, effective March 31, 2016 or shortly thereafter. Following a professionally conducted search, the Company has decided to promote its current Chief Investment Officer, Brian R. Hole, to the office of President commencing on April 1, 2016.

As previously disclosed in a Form 8-K filed on January 25, 2016, our Chief Financial Officer, Bradley S. Forsyth, announced his resignation from the Company effective as of February 18, 2016. While searching for a permanent replacement, the Company has retained the temporary services of Ernest J. Furtado, who is serving as our Interim Chief Financial Officer. Mr. Furtado recently retired from Textainer Group Holdings Limited, where he had served as Senior Vice President, Chief Financial Officer, Chief Accounting Officer and Secretary. Mr. Furtado is signing this Form 10-K as he is currently performing the function of the Company's principal financial officer.

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:

	2015	2014
Audit fees	\$ 1,095,997	\$ 926,654
Audit-related fees	132,635	272,142
Tax fees	43,640	72,256
Total	\$ 1,272,272	\$ 1,271,052

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

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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 46.

(a) (2) Financial Statement Schedule

Schedule I, Parent Company Financial Statements, and Schedule II, Valuation Accounts, is submitted as a separate section of this report starting on page 80.

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, (3) Amendment to Bylaws, dated September 28, 2010, and (4) Amendment to Bylaws, dated August 5, 2013 (incorporated by reference to Exhibit 3.1 to our report on Form 8-K filed on August 9, 2013).
4.1	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).
4.2	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).
4.3	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).
4.4	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).
4.5	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	Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to the Registrant’s Proxy Statement for 2015 Annual Meeting of Stockholders filed on April 28, 2015).
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 Bradley S. Forsyth dated February 20, 2007 (incorporated by reference to Exhibit 10.2 to Form 8-K filed on February 21, 2007).
10.8	Amendment to Employment Agreement between Registrant and Bradley S. Forsyth dated December 31, 2008 (incorporated by reference to Exhibit 10.10 to our report on Form 10-Q filed on May 9, 2011).
10.9	Employment Agreement between the Registrant and Dean M. Poulakidas dated March 31, 2013 (incorporated by reference to Exhibit 10.23 to Form 8-K filed on June 19, 2013).
10.10	

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 10.11 to our report on Form 10-Q filed on November 9, 2012).

10.11* 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).

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10.12*	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).
10.13*	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).
10.14*	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).
10.15*	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).
10.16*	Second Amended and Restated Credit Agreement, dated as of June 4, 2014, among the Company, Union Bank, N.A., as administrative agent and security agent, and certain lenders and financial institutions named therein (incorporated by reference to Exhibit 10.16 to our report on Form 10-Q filed on August 11, 2014).
10.17	Employment Agreement between the Company and Brian R. Hole dated January 14, 2016 (incorporated by reference to Exhibit 10.1 filed on February 16, 2016).
10.18	Employment Agreement between the Company and Austin C. Willis dated February 9, 2016 (incorporated by reference to Exhibit 10.1 filed on February 16, 2016).
11.1	Statement re Computation of Per Share Earnings.
12.1	Statement re Computation of Ratios.
14.1	Code of Ethics
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 Ernest J. Furtado, 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, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Shareholder's Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Consolidated Financial Statements.

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

(d)Financial Statements

Financial Statements are submitted as a separate section of this report beginning on page 46.

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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, duly authorized officers and directors.

Dated: March 10, 2016

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 10, 2016	Chief Executive Officer and Director (Principal Executive Officer)	/s/ CHARLES F. WILLIS, IV Charles F. Willis, IV
Date: March 10, 2016	Interim Chief Financial Officer (Principal Finance and Accounting Officer)	/s/ ERNEST J. FURTADO Ernest J. Furtado
Date: March 10, 2016	Director	/s/ ROBERT T. MORRIS Robert T. Morris
Date: March 10, 2016	Director	/s/ HANS JOERG HUNZIKER Hans Joerg Hunziker
Date: March 10, 2016	Director	/s/ ROBERT J. KEADY Robert J. Keady
Date: March 10, 2016	Director	/s/ AUSTIN C. WILLIS Austin C. Willis

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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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules I and II. These consolidated financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Willis Lease Finance Corporation and subsidiaries’ internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2016 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

/s/ KPMG LLP

San Francisco, California
March 10, 2016

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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 and subsidiaries' (the Company's) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Willis Lease Finance Corporation and subsidiaries' 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 in 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 and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control — Integrated Framework (2013) 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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated March 10, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Francisco, California
March 10, 2016

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 9,732	\$ 13,493
Restricted cash	33,026	51,258
Equipment held for operating lease, less accumulated depreciation of \$316,532 and \$281,087 at December 31, 2015 and 2014, respectively	1,122,859	1,066,448
Equipment held for sale	23,454	18,114
Operating lease related receivables, net of allowances of \$912 and \$215 at December 31, 2015 and 2014, respectively	14,072	8,912
Spare parts inventory	20,526	18,593
Investments	41,295	41,590
Property, equipment & furnishings, less accumulated depreciation of \$11,102 and \$9,420 at December 31, 2015 and 2014, respectively	20,247	17,955
Intangible assets, net	932	1,164
Other assets	22,434	24,099
Total assets (1)	\$ 1,308,577	\$ 1,261,626
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,665	\$ 21,614
Deferred income taxes	96,742	90,510
Notes payable	878,684	840,956
Maintenance reserves	71,054	66,474
Security deposits	25,010	20,869
Unearned lease revenue	5,090	4,342
Total liabilities (2)	1,098,245	1,044,765
Shareholders' equity:		
Common stock (\$0.01 par value, 20,000,000 shares authorized; 7,548,395 and 8,346,304 shares issued and outstanding at December 31, 2015 and 2014, respectively)	75	83
Paid-in capital in excess of par	28,720	42,076
Retained earnings	182,058	174,702
Accumulated other comprehensive loss, net of income tax benefit of \$275	(521)	—
Total shareholders' equity	210,332	216,861
Total liabilities and shareholders' equity	\$ 1,308,577	\$ 1,261,626

- (1) Total assets at December 31, 2015 and December 31, 2014 include the following assets of a variable interest entity (VIE) that can only be used to settle the liabilities of the VIE: Cash, \$33,776 and \$50,053; Equipment, \$335,327 and \$371,526; and Other, \$11,490 and \$11,095, respectively.
- (2) Total liabilities at December 31, 2015 and December 31, 2014 include the following liabilities of a VIE for which the VIE creditors do not have recourse to Willis Lease Finance Corporation: Notes payable, \$300,467 and \$351,899, respectively.

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share data)

	Years Ended December 31,		
	2015	2014	2013
REVENUE			
Lease rent revenue	\$ 107,866	\$ 101,748	\$ 101,737
Maintenance reserve revenue	55,064	53,363	46,694
Spare parts and equipment sales	25,608	8,917	—
Gain on sale of leased equipment	8,354	5,753	5,675
Other revenue	2,718	4,506	4,306
Total revenue	199,610	174,287	158,412
EXPENSES			
Depreciation and amortization expense	69,586	65,441	58,727
Cost of spare parts and equipment sales	17,866	7,474	—
Write-down of equipment	9,181	5,602	6,461
General and administrative	42,744	35,859	33,868
Technical expense	9,403	12,336	12,863
Net finance costs:			
Interest expense	39,012	37,062	38,719
Gain on debt extinguishment	(1,151)	—	—
Total net finance costs	37,861	37,062	38,719
Total expenses	186,641	163,774	150,638
Earnings from operations	12,969	10,513	7,774
Earnings from joint ventures	1,175	1,329	3,526
Income before income taxes	14,144	11,842	11,300
Income tax expense (benefit)	6,788	4,595	(4,326)
Net income	\$ 7,356	\$ 7,247	\$ 15,626
Basic earnings per common share:	\$ 0.94	\$ 0.92	\$ 1.95
Diluted earnings per common share:	\$ 0.92	\$ 0.89	\$ 1.89
Average common shares outstanding	7,811	7,917	8,029
Diluted average common shares outstanding	7,982	8,141	8,289

See accompanying notes to the consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands)

	Years Ended December 31,		
	2015	2014	2013
Net income	\$ 7,356	\$ 7,247	\$ 15,626
Other comprehensive income (loss):			
Currency translation adjustment	(796)	—	—
Unrealized losses on derivative instruments	—	—	(187)
Reclassification adjustment for losses (gains) included in net income	—	(499)	1,485
Net gain (loss) recognized in other comprehensive income	(796)	(499)	1,298
Tax benefit (expense) related to items of other comprehensive income	275	174	(435)
Other comprehensive income (loss)	(521)	(325)	863
Total comprehensive income	\$ 6,835	\$ 6,922	\$ 16,489

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, 2015, 2014, and 2013

(In thousands)

	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, 2012	8,716	\$ 87	\$ 47,785	\$ (538)	\$ 151,829	\$ 199,163
Net income	—	—	—	—	15,626	15,626
Net unrealized gain from derivative instruments, net of tax expense of \$435	—	—	—	863	—	863
Shares repurchased	(395)	(4)	(5,914)	—	—	(5,918)
Shares issued under stock compensation plans	160	2	678	—	—	680
Cancellation of restricted stock units in satisfaction of withholding tax	(81)	(1)	(1,247)	—	—	(1,248)
Stock-based compensation, net of forfeitures	—	—	3,439	—	—	3,439
Balances at December 31, 2013	8,400	\$ 84	\$ 44,741	\$ 325	\$ 167,455	\$ 212,605
Net income	—	—	—	—	7,247	7,247

Net unrealized loss from derivative instruments, net of tax benefit of \$174	—	—	—	(325)	—	(325)
Shares repurchased	(249)	(2)	(5,350)	—	—	(5,352)
Shares issued under stock compensation plans	272	2	408	—	—	410
Cancellation of restricted stock units in satisfaction of withholding tax	(77)	(1)	(1,543)	—	—	(1,544)
Stock-based compensation, net of forfeitures	—	—	3,509	—	—	3,509
Tax benefit on disqualified disposition of shares	—	—	311	—	—	311
Balances at December 31, 2014	8,346	\$ 83	\$ 42,076	\$ —	\$ 174,702	\$ 216,861
Net income	—	—	—	—	7,356	7,356
Net unrealized loss from currency translation adjustment, net of tax benefit of \$275	—	—	—	(521)	—	(521)
Shares repurchased	(912)	(9)	(16,491)	—	—	(16,500)
Shares issued under stock compensation plans	205	2	516	—	—	518
Cancellation of restricted stock units in satisfaction of withholding tax	(91)	(1)	(1,557)	—	—	(1,558)
Stock-based compensation, net of forfeitures	—	—	4,150	—	—	4,150

Tax benefit on disqualified disposition of shares	—	—	26	—	—	26
Balances at December 31, 2015	7,548	\$ 75	\$ 28,720	\$ (521)	\$ 182,058	\$ 210,332

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,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 7,356	\$ 7,247	\$ 15,626
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	69,586	65,441	58,727
Write-down of equipment	9,181	5,602	6,461
Stock-based compensation expenses	4,150	3,509	3,439
Amortization of deferred costs	4,307	4,319	4,113
Amortization of interest rate derivative cost	—	(499)	(404)
Allowances and provisions	697	(81)	(684)
Gain on sale of leased equipment	(8,354)	(5,753)	(5,675)
Gain on insurance settlement	—	—	(351)
Income from joint ventures	(1,175)	(1,329)	(3,526)
Gain on debt extinguishment	(1,151)	—	—
Deferred income taxes	6,508	3,996	(4,389)
Changes in assets and liabilities:			
Receivables	(5,857)	4,454	2,269
Spare parts inventory	4,128	(5,964)	—
Other assets	(2,635)	(590)	(3,158)
Accounts payable and accrued expenses	1,669	(1,881)	(23)
Restricted cash	9,636	(6,831)	(5,701)
Maintenance reserves	4,580	(10,861)	14,022
Security deposits	5,747	1,159	614
Unearned lease revenue	748	793	(1,064)
Net cash provided by operating activities	109,121	62,731	80,296
Cash flows from investing activities:			
Proceeds from sale of equipment (net of selling expenses)	45,701	43,632	38,706
Restricted cash for investing activities	(16,763)	6,366	(20,502)
Capital contribution to joint ventures	(630)	(17,623)	(11,219)
Distributions received from joint ventures	1,304	847	—
Acquisition of J.T. Power, net of cash acquired	—	—	(4,171)
Investment in WOLF, net of cash acquired	—	—	2,020
Purchase of equipment held for operating lease and for sale	(183,616)	(128,075)	(136,231)
Purchase of property, equipment and furnishings	(3,988)	(13,831)	(453)
Net cash used in investing activities	(157,992)	(108,684)	(131,850)

Cash flows from financing activities:			
Proceeds from issuance of notes payable	192,700	154,395	130,000
Debt issuance cost	(13)	(5,074)	(1,252)
Interest bearing security deposits	(1,606)	4,553	7,588
Proceeds from shares issued under stock compensation plans	518	410	680
Cancellation of restricted stock units in satisfaction of withholding tax	(1,558)	(1,544)	(1,248)
Repurchase of common stock	(16,500)	(5,352)	(5,918)
Excess tax benefit from stock-based compensation	26	311	—
Principal payments on notes payable	(153,816)	(101,054)	(70,874)
Restricted cash for financing activities	25,359	—	—
Net cash provided by financing activities	45,110	46,645	58,976
Increase/(Decrease) in cash and cash equivalents	(3,761)	692	7,422
Cash and cash equivalents at beginning of period	13,493	12,801	5,379
Cash and cash equivalents at end of period	\$ 9,732	\$ 13,493	\$ 12,801
Supplemental disclosures of cash flow information:			
Net cash paid for:			
Interest	\$ 35,568	\$ 33,132	\$ 33,931
Income Taxes	\$ 353	\$ 210	\$ 111

Supplemental disclosures of non-cash investing activities:

During the years ended December 31, 2015, 2014, 2013, a liability of \$4,662, \$8,188 and \$63, respectively, was incurred but not paid in connection with our purchase of aircraft and engines.

During the years ended December 31, 2015, 2014, 2013, engines and equipment totaling \$22,079, \$3,071, and \$15,166, respectively, were transferred from Held for Operating Lease to Held for Sale.

During the years ended December 31, 2015 and December 31, 2014, engines and equipment totaling \$6,061 and \$9,649 were transferred from Held for Sale to Spare Parts Inventory, respectively.

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. WEST II is a variable interest entity which the Company owns 100% of the equity and consolidates in our financial statements.

Prior to September 18, 2013, we held a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (“WOLF”). On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF assets and liabilities and the results of operations have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013. During 2015 we dissolved WOLF and the associated entities.

In 2013, the Company launched Willis Aeronautical Services, Inc. (“Willis Aero”), a wholly-owned subsidiary, whose primary focus is the sale of aircraft engine parts and materials through the acquisition or consignment from third parties of aircraft and engines.

(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 Funding (Ireland) Limited, Willis Aviation Finance Limited, Willis Lease France, Willis Lease (China) Limited, WEST Engine Securitization Trust II, Willis Engine Securitization (Ireland) Limited, Willis Aero and Willis Lease Singapore Pte. Ltd. (together, the “Company”).

We evaluate all entities in which we have an economic interest firstly to determine whether for accounting purposes the entity is a variable interest entity or voting interest entity. If the entity is a variable interest entity we consolidate the financial statements of that entity if we are the primary beneficiary of the entities’ activities. If the entity is a voting interest entity we consolidate the entity when we have a majority of voting interests. All inter-company balances are eliminated upon consolidation.

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(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.

The Company evaluates sales arrangements under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 605-25, Revenue Recognition: Multiple Element Arrangements (“FASB ASC 605-25”), which addresses accounting for multiple element arrangements. The Company has determined that two deliverables, the sale of equipment 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.

For multiple deliverable revenue arrangements, the Company allocates revenue to equipment sales and management services using the relative selling price method to recognize revenue when the revenue recognition criteria for each deliverable are met. The selling price of a deliverable is based on a hierarchy and if the Company is unable to establish vendor-specific objective evidence of selling price (“VSOE”) it uses third-party evidence of selling price (“TPE”), and if no such data is available, it uses a best estimated selling price (“BSP”). When VSOE cannot be established, the Company attempts to establish the selling price of each element based on TPE. When the Company is unable to establish selling price using VSOE or TPE, the Company uses BSP. The objective of BSP is to determine the price at which the Company would transact a sale if the equipment or service were sold on a stand-alone basis. The selling price of the service elements is based on TPE and is determined by reviewing 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.

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, 2015, we had an aggregate of approximately \$5.3 million in lease rent and \$2.9 million in maintenance reserve receivables 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.

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We recognize sales of spare parts upon shipping and the amount reported as cost of sales is recorded at specific cost.

Our largest customer accounted for approximately 8.4% of total lease rent revenue during 2015. This customer had no past due receivables as of December 31, 2015. No customer accounted for greater than 10% of total lease rent revenue in 2014 and 2013.

(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. Our typical 15 year holding period is the estimated useful life of our engines based on our business model and plans, and represents how long we anticipate holding a newly acquired engine. The technical useful life of a new engine can be in excess of 25 years. We review the useful life and residual values of all engines periodically as demand changes to accurately depreciate the cost of equipment over the useful life of the engines.

The useful life of older generation engines and aircraft may be significantly less than 15 years, based upon the technical status of the engine, as well as supply and demand factors. For these older generation engines and aircraft, the remaining useful life and our remaining expected holding period are typically the same. For older generation 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. As of December 31, 2015, 52 engines and 5 aircraft having a net book value of \$129.6 million were depreciated under this policy with estimated useful lives ranging from 3 to 78 months. We adjust our estimates annually for these older generation assets, including updating our estimates of an engine’s or aircraft’s remaining operating life as well as future residual value expected from part-out based on the current technical status of the engine or aircraft.

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 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. The spare parts packages owned by us are depreciated on a straight-line basis over an estimated useful life of 14-15 years to a 25% residual value.

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. Such review resulted in an impairment charge of \$0.6 million and \$2.4 million in 2015 and 2014, respectively (Included in "Write-down of equipment" in the Consolidated Statements of Income). No impairment charges were recorded in 2013 as a result of our review.

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(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, included in Other Assets on the Consolidate Balance Sheet, 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 remaining 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 enter into various derivative instruments periodically to mitigate the exposure on our variable rate borrowings. The derivative instruments are fixed-rate interest swaps that are recorded at fair value as either an asset or liability. The last of our hedge instruments matured in November 2013.

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 9).

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 2012-2014 and 2011-2014, 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 fifteen 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) Spare Parts Inventory

Inventory consists of spare aircraft and engine parts and is stated at lower of cost or net realizable value. An impairment charge for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, future sales expectations and salvage value.

(m) Intangible Assets

Intangible assets include customer relationships and goodwill arising from the Company's acquisition of J.T. Power (see Footnote 6. Acquisition). Intangible assets are accounted for in accordance with FASB ASC 350, "Intangibles — Goodwill and Other."

Goodwill is assessed for impairment annually. Customer relationships are amortized on a straight line basis over their estimated useful life of five years. The Company has no intangible assets with indefinite useful lives.

(n) Management Estimates

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

The preparation of consolidated financial statements requires 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.

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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.

(o) Per share information

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

	Years Ended December		
	31,		
	2015	2014	2013
	(in thousands)		
Shares:			
Weighted-average number of common shares outstanding	7,811	7,917	8,029
Dilutive and potentially dilutive common shares	171	224	260
Total shares	7,982	8,141	8,289

(p) Investments

Our investment in the WMES and CASC Willis joint ventures, where we own 50% of the equity of the ventures, are accounted for using the equity method of accounting. The 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 entities.

Prior to September 18, 2013, we held a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (“WOLF”). On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF. Prior to that date, the investment in the WOLF joint venture was accounted for using the equity method of accounting. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF assets and liabilities and the results of operations have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013.

(q) 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.

(r) 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, \$1.5 million and \$1.5 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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(s) 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.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

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

The following table shows by level, within the fair value hierarchy, the Company's assets measured at fair value on a nonrecurring basis during the years ended December 31, 2015 and 2014, and the losses recorded during the years ended December 31, 2015 and 2014 on those assets:

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	Assets at Fair Value							Total Losses		
	December 31, 2015			December 31, 2014				December 31,		
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	2015	2014
	(in thousands)								(in thousands)	
Equipment held for lease	\$ 2,154	\$ —	\$ 2,154	\$ —	\$ 10,787	\$ —	\$ 10,787	\$ —	\$ (2,536)	\$ (2,420)
Equipment held for sale	4,932	—	4,932	—	3,364	—	3,364	—	(6,645)	(3,074)
Spare parts inventory	—	—	—	—	2,371	—	2,371	—	—	(108)
Total	\$ 7,086	\$ —	\$ 7,086	\$ —	\$ 16,522	\$ —	\$ 16,522	\$ —	\$ (9,181)	\$ (5,602)

At December 31, 2015, the Company used Level 2 inputs to measure equipment held for lease, equipment held for sale, and spare parts inventory. Level 2 inputs include quoted prices for similar assets in inactive markets.

An impairment charge is recorded when the carrying value of the asset exceeds its fair value. Write-downs of equipment to their estimated fair values totaled \$9.2 million for the year ended December 31, 2015 compared to \$5.6 million recorded in the year ago period. A write-down of equipment totaling \$5.5 million was recorded in the year ended December 31, 2015 due to a management decision to consign four engines for part-out and sale, in which the assets' net book value exceeded the estimated proceeds from part-out. Write-downs on held for use equipment to their estimated fair values totaled \$0.6 million for the year ended December 31, 2015 due to an adjustment of carrying values for certain impaired parts packages within the portfolio to reflect estimated market values. A further write-down of \$2.8 million was recorded in the year ended December 31, 2015 to adjust the carrying value of engine parts for which market conditions for the sale of parts has changed. An additional write-down of \$0.3 million was recorded in the year ended December 31, 2015 based on a comparison of the inventory values with the revised net proceeds expected from part sales.

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A write-down of equipment totaling \$5.6 million was recorded in the year ended December 31, 2014. This amount includes a write-down of equipment totaling \$2.6 million due to a management decision to consign six engines for part-out and sale, in which the assets' net book value exceeded the estimated proceeds from part-out. Write-downs on held for use equipment to their estimated fair values totaled \$2.4 million for the year ended December 31, 2014, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values. A further write-down of \$0.6 million was recorded in the year ended December 31, 2014 to adjust the carrying value of engine parts for which market conditions for the sale of parts has changed.

(t) Foreign Currency Translation

The Company's foreign investments have been converted at rates of exchange at December 31, 2015. The changes in exchange rates in our foreign investments reported under the equity method are included in stockholders' equity as accumulated other comprehensive income.

(u) Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, "Leases" (topic 842). The FASB issued this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The updated guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is evaluating the impact of the adoption of this update on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU, Simplifying the Measurement of Inventory, which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and for interim periods therein. We are evaluating the impact that this new guidance will have on our consolidated financial position.

In April 2015, the FASB issued ASU, Simplifying the Presentation of Debt Issuance Costs, which will more closely align the presentation of debt issuance costs under U.S. GAAP with the presentation under comparable IFRS standards by requiring that debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, similar to the presentation of debt discounts or premiums. This accounting guidance is effective for us beginning in the first quarter of 2016. The unamortized debt issuance cost balances were \$12.6 million and \$15.5 million as of December 31, 2015 and December 31, 2014, respectively, and would reduce our Notes Payable balances accordingly on our Consolidated Balance Sheet for those periods under this

ASU.

In May 2014, the FASB issued an ASU, Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date of periods beginning after December 15, 2016 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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(2) Equipment Held for Operating Lease

At December 31, 2015, we had 201 aircraft engines and related equipment with a cost of \$1,310.7 million, 5 spare parts packages with a cost of \$5.2 million and 10 aircraft with a cost of \$123.5 million, in our lease portfolio. At December 31, 2014, we had 207 aircraft engines and related equipment with a cost of \$1,303.3 million, 5 aircraft with a cost of \$38.1 million and 5 spare parts packages with a cost of \$6.1 million in our lease portfolio.

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

We lease our equipment to lessees domiciled in eight geographic regions. The tables below set forth geographic information about our leased 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,		
	2015	2014	2013
	(in thousands)		
Region			
Europe	\$ 43,577	\$ 37,990	\$ 37,788
Asia	31,534	21,796	21,407
South America	9,688	9,907	8,794
United States	9,177	11,880	14,258
Mexico	6,906	7,771	7,387
Canada	2,789	4,997	2,947
Middle East	2,223	4,143	6,547
Africa	1,972	3,264	2,609
Totals	\$ 107,866	\$ 101,748	\$ 101,737

Lease rent revenue less applicable depreciation and interest	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Region			
United States	\$ 634	\$ 2,577	\$ 6,055
Mexico	2,310	2,157	1,641

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Canada	(123)	(100)	747
Europe	11,074	6,988	5,061
South America	1,929	3,503	2,995
Asia	8,867	5,891	5,652
Africa	206	1,041	837
Middle East	474	1,277	1,664
Off-lease and other	(19,713)	(19,525)	(13,973)
Totals	\$ 5,658	\$ 3,809	\$ 10,679

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Net book value of equipment held for operating lease	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Region			
United States	\$ 103,492	\$ 61,521	\$ 103,515
Mexico	42,246	64,770	75,628
Canada	18,893	11,026	12,500
Europe	389,721	344,833	368,381
South America	112,718	107,080	78,486
Asia	310,292	232,448	219,123
Africa	9,612	12,063	3,734
Middle East	18,937	17,125	58,509
Off-lease and other	116,948	215,582	113,146
Totals	\$ 1,122,859	\$ 1,066,448	\$ 1,033,022

As of December 31, 2015 and 2014, the lease status of the equipment held for operating lease was as follows:

Lease Term	December 31,
	2015
	Net Book Value
	(in thousands)
Off-lease and other	\$ 116,948
Month-to-month leases	90,173
Leases expiring 2016	434,658
Leases expiring 2017	113,879
Leases expiring 2018	87,916
Leases expiring 2019	60,022
Leases expiring 2020	88,634
Leases expiring thereafter	130,629
	\$ 1,122,859

Lease Term	December 31,
	2014
	Net Book Value
	(in thousands)
Off-lease and other	\$ 215,582
Month-to-month leases	97,951
Leases expiring 2015	331,757

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Leases expiring 2016	151,444
Leases expiring 2017	73,387
Leases expiring 2018	62,972
Leases expiring 2019	24,001
Leases expiring thereafter	109,354
	\$ 1,066,448

As of December 31, 2015, minimum future payments under non-cancelable leases were as follows:

Year	(in thousands)
2016	\$ 74,133
2017	47,513
2018	35,467
2019	27,434
2020	21,914
Thereafter	24,689
	\$ 231,150

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(3) Equipment Held for Sale

Equipment held for sale includes engines being marketed for sale as well as engines removed from our lease portfolio that are being parted out, with our investment in the long lived asset being recovered through the sale of spare parts. The assets to be disposed are reported at the lower of carrying amount or fair value less costs to sell.

(4) Spare Parts Inventory

Inventory consists of spare aircraft and engine parts and is stated at lower of cost or net realizable value. An impairment charge for excess or inactive inventory is recorded based upon an analysis that considers current inventory levels, historical usage patterns, future sales expectations and salvage value.

(5) 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 and the Company uses the equity method in recording investment activity. 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 \$21.0 million capital contributions to WMES from 2011 through 2015 for the purchase of 21 engines from third parties, increasing the number of engines in the lease portfolio to 28. The \$29.0 million of capital contributions has been partially offset by \$3.6 million, resulting in a net investment of \$25.4 million, which has been reduced by \$2.1 million in distributions and increased further to \$27.3 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. During 2015, the Company recorded \$0.6 million of capital contributions, \$1.3 million in distributions, \$1.2 million as a result of the Company’s share of WMES reported earnings for the period and \$0.1 million of amortization of deferred gain.

Our investment in the joint venture is \$27.3 million and \$26.7 million as of December 31, 2015 and December 31, 2014, respectively.

Prior to September 18, 2013, we held a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (“WOLF”), which was accounted for as an investment under the equity method of

accounting. 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. Since their purchase, these two aircraft had been leased to Emirates, with the leases terminating in March and May 2013. The return of both aircraft from the prior lessee, Emirates, was completed by June 2013, with the airframes being disassembled and parted out and the eight engines being marketed for lease separately to airline customers.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF for a purchase price of \$1.0 million, with the purchase price representing a \$12.7 million discount from the JV partner's equity interest. The transaction has been accounted for as an asset acquisition. We recorded the assets at the cost basis, which represents the allocation of our prior investment basis plus the cash paid to the third party investor. The purchase price was allocated to the eight aircraft engines and two airframes. The fair value of the net assets acquired from this transaction is estimated to be \$12.6 million, which is comprised of \$27.0 million of equipment, \$1.6 million of cash and receivables, offset by \$16.0 million of debt and other liabilities. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF assets and liabilities and the results of operations have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013.

On June 3, 2014 we entered into an agreement with China Aviation Supplies Import & Export Corporation Limited ("CASC") to participate in a joint venture named CASC Willis Engine Lease Company Limited ("CASC Willis"), a new joint venture based in Shanghai, China. Each partner holds a fifty percent interest in the joint venture and

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the Company uses the equity method in recording investment activity. In October 2014, we made a \$15.0 million initial capital contribution representing the up-front funding for the new joint venture. The new company will acquire and lease jet engines to Chinese airlines and will concentrate on meeting the fast growing demand for leased commercial aircraft engines and aviation assets in the People's Republic of China. The investment has been reduced to \$14.0 million as of December 31, 2015 as a result of a foreign currency translation adjustment of \$0.8 million and the Company's share of CASC Willis' reported losses to date of \$0.2 million.

Years Ending December 31, 2015 and 2014 (in thousands)	CASC		Total
	WMES	Willis	
Investment in joint ventures as of December 31, 2013	\$ 23,485	\$ —	\$ 23,485
Investment	2,623	15,000	17,623
Earnings (losses) from joint ventures	1,303	(82)	1,221
Amortization of deferred gain	108	—	108
Distribution	(847)	—	(847)
Investment in joint ventures as of December 31, 2014	\$ 26,672	\$ 14,918	\$ 41,590
Investment	630	—	630
Earnings (losses) from joint ventures	1,167	(99)	1,068
Amortization of deferred gain	107	—	107
Distribution	(1,304)	—	(1,304)
Foreign Currency Translation Adjustment	—	(796)	(796)
Investment in joint ventures as of December 31, 2015	\$ 27,272	\$ 14,023	\$ 41,295

“Other revenue” on the Consolidated Statement of Income includes management fees earned of \$1.7 million, \$2.0 million and \$1.6 million during the years ended December 31, 2015, 2014 and 2013, respectively, related to the servicing of engines for the WMES lease portfolio. During 2015, WMES consigned an engine for part out and sale to our Willis Aero subsidiary. The value of the engine is \$0.2 million as of December 31, 2015.

Summarized financial information for 100% of WMES is presented in the following table:

	Years Ended December 31,		
	2015	2014	2013
	(in thousands)		
Revenue	\$ 26,909	\$ 25,757	\$ 16,312
Expenses	24,574	23,150	15,538
WMES net income	\$ 2,335	\$ 2,607	\$ 774
	December 31,	December 31,	
	2015	2014	

	(in thousands)	
Total assets	\$ 256,126	\$ 268,924
Total liabilities	195,258	209,044
Total WMES net equity	\$ 60,868	\$ 59,880

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(6) Acquisition

On November 6, 2013, the Company purchased certain assets of J.T. Power, an 'end-of-life' solution provider for aircraft engines and parts, for \$5.6 million. A cash payment of \$4.5 million was made to fund the transaction, after deducting amounts owed to the Company, \$0.7 million related to the minimum guarantee of an existing consignment program and cash received of \$0.4 million. The major classes of assets to which we allocated the purchase price were spare parts inventory of \$3.4 million, accounts receivable of \$1.7 million, identifiable intangible assets of \$1.2 million and goodwill of \$0.3 million.

(7) Notes Payable

Notes payable consisted of the following:

	As of December 31,	
	2015	2014
	(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 \$700.0 million at December 31, 2015, which	\$ 549,000	\$ 430,000

revolves until the maturity date of June 2019.

WEST II Series 2012-A term notes payable at a fixed rate of interest of 5.50%, maturing in September 2037. Secured by engines.	300,467	351,899
Note payable at fixed interest rates ranging from 2.60% to 2.97%, maturing in July 2024. Secured by an aircraft.	16,135	12,909
Note payable at a variable interest rate of LIBOR plus 2.25%, maturing in January 2018. Secured by engines.	13,082	14,455
Note payable at a variable interest rate of LIBOR plus 4.00%, repaid in March 2015. Secured by engines.	—	24,000
Note payable at a fixed interest rate of 5.50%, repaid in July 2015. Secured by one engine.	—	7,693
Total notes payable	\$ 878,684	\$ 840,956

One-month LIBOR was 0.43% and 0.17% as of December 31, 2015 and December 31, 2014, respectively.

Principal outstanding at December 31, 2015, is repayable as follows:

Year	(in thousands)
2016	\$ 22,702
2017	23,718
2018	33,391
2019 (includes \$549.0 million outstanding on revolving credit facility)	572,529
2020	23,127
Thereafter	203,217
	\$ 878,684

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. The Company also has certain negative financial

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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, 2015.

At December 31, 2015, we are in compliance with the covenants specified in the revolving credit facility, including the Interest Coverage Ratio requirement of at least 2.25 to 1.00, and the Total Leverage Ratio requirement to remain below 5.00 to 1.00. 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, 2015, we are in compliance with the covenants specified in the WEST II indenture and servicing agreement.

At December 31, 2015, notes payable consists of loans totaling \$878.7 million payable over periods of approximately 2.0 years to 8.6 years with interest rates varying between approximately 2.6% and 5.5%. Substantially all of our assets are pledged to secure our obligations to creditors. Our significant debt instruments are discussed below:

At December 31, 2015, we had a revolving credit facility to finance the acquisition of equipment for lease as well as for general working capital purposes, with the amounts drawn under the facility not to exceed that which is allowed under the borrowing base as defined by the credit agreement. On June 4, 2014, we entered into a Second Amended and Restated Credit Agreement which increased this revolving credit facility to \$700.0 million from \$450.0 million and extended the maturity date by five years to June 2019. Debt issuance costs totaling \$4.9 million were incurred related to the new facility. As of December 31, 2015 and December 31, 2014, \$151.0 million and \$270.0 million were available under this facility, respectively. On a quarterly basis, the interest rate is adjusted based on the Company's leverage ratio, as calculated under the terms of the revolving credit facility. Based on the Company's leverage ratio of 4.46 at December 31, 2015, the interest rate on this facility is one-month LIBOR plus 2.75% as of December 31, 2015. 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, 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. The current portfolio of 63 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 Company entered into a Servicing Agreement and Administrative Agency Agreement with WEST II to provide certain engine, lease management and reporting functions for WEST II in return for fees based on a percentage of collected lease revenues and asset sales. Because WEST II is consolidated for financial statement reporting purposes, all fees eliminate upon consolidation.

At December 31, 2015 and 2014, \$300.5 million and \$351.9 million of WEST II term notes were outstanding, respectively. The assets of WEST II are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II's ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II's maintenance of adequate reserves and capital. Under WEST II, cash is collected in a

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restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of \$9.0 million.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF, with the transaction being accounted for as an asset acquisition. As a result of the transaction, we now own one hundred percent of WOLF. The WOLF assets and liabilities and the results of operations related to the WOLF assets have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013. Two term notes with an original principal amount of \$36.0 million, with a balance outstanding of \$24.0 million as of December 31, 2014, are included in Notes payable. On March 25, 2015, we paid off the \$23.1 million balance of the two term notes associated with the WOLF assets at a 5% discount. This transaction resulted in the recording of a \$1.2 million gain on debt extinguishment which has been included in our statement of income for the year ended December 31, 2015.

On July 16, 2014, we closed on a loan for a ten year term totaling \$13.4 million. During the second quarter of 2015, we closed on two additional loans totaling \$4.7 million, repayable over the same ten year term. The interest is payable at fixed rates ranging from 2.60% to 2.97% for the initial five years of the loan term and principal and interest is paid monthly. The loans provided 100% of the funding for the purchase of a corporate aircraft and subsequent modifications and upgrades. The balance outstanding on these loans is \$16.1 million and \$12.9 million as December 31, 2015 and December 31, 2014, respectively.

On January 10, 2014, we extended the term of an existing loan that was scheduled to mature on January 11, 2014. The loan has a term of 4 years with a maturity date of January 11, 2018. Interest is payable at one-month LIBOR plus 2.25% and principal and interest is paid quarterly. The loan is secured by three engines. The balance outstanding on this loan is \$13.1 million and \$14.5 million as of December 31, 2015 and December 31, 2014, respectively.

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. On July 10, 2015, we paid off the \$7.4 million loan balance that was secured by one engine.

(8) Derivative Instruments

We periodically hold interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with \$562.1 million and \$468.5 million of our borrowings at December 31, 2015 and 2014, respectively, at variable rates. As a matter of policy, we do not use derivatives for speculative purposes. We currently have no interest rate swap agreements in place. During 2013 we were a party to one interest rate swap agreement with a notional outstanding amount of \$100.0 million with a fixed rate of 2.10%. The swap agreement expired in November 2013. The remaining effective portion of these hedges at the swap expiration date was amortized into earnings over the term of the underlying borrowings. There was no expense or benefit recorded related to derivative instruments for the year ended December 31, 2015. We recorded a (\$0.5 million) benefit and \$1.5 million expense to net finance costs during the years ended December 31, 2014 and December 31, 2013 respectively.

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and 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.

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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, 2015, 2014, and 2013:

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,		
		2015	2014	2013
		(in thousands)		
Interest rate contracts	Interest expense	\$ —	\$ (499)	\$ 1,485
Total		\$ —	\$ (499)	\$ 1,485

Our derivatives were 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, 2015, 2014, and 2013:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivatives (Effective Portion) Years Ended December 31,			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,		
	2015	2014	2013		2015	2014	2013
	(in thousands)				(in thousands)		
Interest rate contracts*	\$ —	\$ —	\$ 1,690	Interest expense	\$ —	\$ (499)	\$ 1,485
Total	\$ —	\$ —	\$ 1,690	Total	\$ —	\$ (499)	\$ 1,485

* These amounts are shown net of \$1.9 million of interest payments reclassified to the income statement during the year ended December 31, 2013. No interest payments were reclassified to the income statement in 2015 and 2014.

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 or it is probable that the forecasted transaction will not occur. The ineffective portion of the hedges is recorded in earnings in the current period. However, these are highly effective hedges and no significant ineffectiveness occurred in either of the periods presented.

Counterparty Credit Risk

The Company evaluates the creditworthiness of the counterparties under its hedging agreements. The swap counterparty for the interest rate swap in place during the first eleven months of 2013 was a large financial institution in the United States that possessed an investment grade credit rating. Based on this rating, the Company believes that the counterparty was creditworthy and that their continuing performance under the hedging agreement was probable, and did not require the counterparty to provide collateral or other security to the Company.

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(9) Income Taxes

The components of income from continuing operations before income taxes are as follows

	Years ended December 31,		
	2015	2014	2013
	(in thousands)		
U.S.	\$ 12,688	\$ 10,535	\$ 10,408
Non U.S.	1,456	1,307	892
Income from continuing operations before income taxes	\$ 14,144	\$ 11,842	\$ 11,300

The components of income tax expense for the years ended December 31, 2015, 2014, and 2013, included in the accompanying consolidated statements of income were as follows:

	Federal	State	Foreign	Total
	(in thousands)			
December 31, 2015				
Current	\$ (208)	\$ 13	\$ 476	\$ 281
Deferred	5,332	1,175	—	6,507
Total 2015	\$ 5,124	\$ 1,188	\$ 476	\$ 6,788
December 31, 2014				
Current	\$ 109	\$ 179	\$ 311	\$ 599
Deferred	3,832	164	—	3,996
Total 2014	\$ 3,941	\$ 343	\$ 311	\$ 4,595
December 31, 2013				
Current	\$ (155)	\$ 123	\$ 95	\$ 63
Deferred	(3,755)	(634)	—	(4,389)
Total 2013	\$ (3,910)	\$ (511)	\$ 95	\$ (4,326)

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,		
2015	2014	2013

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	(in thousands and % of pre-tax income)					
	\$	%	\$	%	\$	%
Statutory federal income tax expense	4,809	34.0	4,027	34.0	3,842	34.0
State taxes, net of federal benefit	784	5.5	117	1.0	(338)	(3.0)
Foreign tax paid	476	3.4	101	0.9	95	0.8
Tax consequences of the sale of engines to WMES	(306)	(2.1)	(36)	(0.3)	(36)	(0.3)
Uncertain tax positions	(195)	(1.4)	(101)	(0.9)	160	1.4
Permanent differences-nondeductible executive compensation	1,117	7.9	768	6.5	732	6.5
ETI basis restoration	—	—	—	—	(8,728)	(77.2)
Permanent differences and other	103	0.7	(281)	(2.4)	(53)	(0.5)
Effective income tax expense (benefit)	6,788	48.0	4,595	38.8	(4,326)	(38.3)

In 2013, we recorded an income tax benefit of \$8.7 million related to an extraterritorial income (“ETI”) adjustment for certain of our engines. We recognized this income tax benefit in 2013 resulting from adjustments made to the tax basis of certain of our engines due to a decision in a recent court case on behalf of another company in which our circumstances are similar. The Company records tax expense or benefit for unusual or infrequent items discretely in the period in which they occur.

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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, 2013	\$ 566
Increases related to current year tax positions	109
Decreases due to tax positions released	(211)
Balance as of December 31, 2014	464
Increases related to current year tax positions	5
Decreases due to tax positions expired	(195)
Balance as of December 31, 2015	\$ 274

As of December 31, 2013 we reserved \$0.2 million for the benefit resulting from the Extraterritorial Income Exclusion. No reserve was established as of December 31, 2015 and December 31, 2014 for the 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.

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,	
	2015	2014
	(in thousands)	
Deferred tax assets:		
Unearned lease revenue	\$ 1,511	\$ 1,368
State taxes	944	564
Reserves and allowances	898	938
Other accruals	1,767	582
Alternative minimum tax credit	377	377
Net operating loss carry forward	35,827	37,173
Charitable contributions	42	28
Total deferred tax assets	41,366	41,030
Less: valuation allowance	(1,280)	(1,310)
Net deferred tax assets	40,086	39,720
Deferred tax liabilities:		
Depreciation and impairment on aircraft engines and equipment	(138,084)	(129,332)
Other deferred tax assets (liabilities)	981	(898)
Net deferred tax liabilities	(137,103)	(130,230)

Other comprehensive loss deferred tax asset	275	—
Net deferred tax liabilities	\$ (96,742)	\$ (90,510)

As of December 31, 2015, we had net operating loss carry forwards of approximately \$100.5 million for federal tax purposes and \$3.9 million for state tax purposes. The federal net operating loss carry forwards will expire at various times from 2023 to 2034 and the state net operating loss carry forwards will expire at various times from 2016 to 2024. During 2014, a valuation allowance of \$1.3 million was established for the net operating losses expiring in California for the periods 2016 to 2024. 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, 2015, we also had alternative minimum tax credit of approximately \$0.4 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

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tax assets related to federal net operating loss carry forwards, 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 2015. 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 ASC 718, in the amount of \$3.0 million as of December 31, 2015, 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 2015 are \$1.0 million and will be recorded to paid-in capital when recognized.

(10) Fair Value of Financial Instruments

The carrying amount reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, operating lease related receivables, 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, 2015 and 2014 was estimated to have a fair value of approximately \$890.1 million and \$847.0 million, respectively, based on the fair value of estimated future payments calculated using the prevailing interest rates at each year end.

(11) 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. 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, our 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 periodically enter into interest rate swap agreements. We currently have no interest rate swap agreements in place. In 2015, 2014 and 2013, nil (\$0.5 million), and \$1.5 million was realized through the income statement as an increase (decrease) in interest expense, respectively.

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(12) Commitments, Contingencies, Guarantees and Indemnities

The following table lists our properties and their remaining lease commitments:

Location	Property Type	Lease Expiration	Remaining Lease Commitment (in thousands)
Novato, California	Principal Office	09/30/18	\$ 1,445
Boynton Beach, Florida	Warehouse and office	10/29/19	1,112
San Diego, California	Warehouse and office	10/31/16	141
Singapore	Office	12/31/16	112
Shanghai, China	Office	12/31/16	65
Shanghai, China	Warehouse	07/31/17	11
Dublin, Ireland	Office	05/31/17	44
London, United Kingdom	Office	07/31/16	27
Blagnac, France	Office	12/31/16	16
Total			\$ 2,973

We have made a purchase commitment to secure the purchase of four engines and related equipment for a gross purchase price of \$31.6 million, for delivery in 2016.

(13) Shareholders' Equity

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. The Board of Directors reaffirmed the repurchase plan on April 21, 2015. 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 2015, the Company repurchased 912,247 shares of common stock, including 643,821 shares repurchased under a modified "Dutch auction" tender offer completed in December 2015, for approximately \$16.5 million under this program, at a weighted average price of \$17.75 per share (excluding fees and expenses related to the tender offer). The repurchased shares were subsequently retired.

Share Repurchase - Modified "Dutch auction" Tender Offer

On November 17, 2015, the Company announced the commencement of a modified "Dutch auction" tender offer to repurchase shares of its common stock at a price not less than \$15.50 per share nor greater than \$18.00 per share. The tender offer expired on December 16, 2015 resulting in the Company repurchasing 643,821 shares of the Company's common stock at a purchase price of \$18.00 per share, for an aggregate cost of approximately \$11.6 million, excluding fees and expenses relating to the tender offer.

(14) Stock-Based Compensation Plans

The components of stock compensation expense for the years ended December 31, 2015, 2014, and 2013, included in the accompanying consolidated statements of income were as follows:

	2015	2014	2013
	(in thousands)		
2007 Stock Incentive Plan	\$ 4,102	\$ 3,459	\$ 3,393
Employee Stock Purchase Plan	48	50	46
Total Stock Compensation Expense	\$ 4,150	\$ 3,509	\$ 3,439

The significant stock compensation plans are described below.

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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 available in the form of either restricted stock or stock options. On May 28, 2015, the Company's shareholders authorized an increase in the number of shares of Common Stock available for grant by 800,000 shares bringing the total to 2,800,000 shares authorized. 2,263,712 shares of restricted stock were granted under the 2007 Stock Incentive Plan by December 31, 2015. Of this amount, 135,368 shares of restricted stock were cancelled and returned to the pool of shares which could be granted under the 2007 Stock Incentive Plan resulting in a net number of 671,656 shares which were available as of December 31, 2015 for future issuance under the 2007 Incentive Plan. 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, 2012	682,654
Granted in 2013 (vesting over 4 years)	130,000
Granted in 2013 (vesting on first anniversary from date of issuance)	21,408
Cancelled in 2013	(60,110)
Vested in 2013	(258,822)
Restricted stock at December 31, 2013	515,130
Granted in 2014 (vesting over 3 years)	174,500
Granted in 2014 (vesting over 4 years)	13,000
Granted in 2014 (vesting on first anniversary from date of issuance)	50,208
Cancelled in 2014	(5,750)
Vested in 2014	(221,732)
Restricted stock at December 31, 2014	525,356
Granted in 2015 (vesting over 3 years)	125,000
Granted in 2015 (vesting over 4 years)	5,000
Granted in 2015 (vesting on first anniversary from date of issuance)	16,440
Cancelled in 2015	—
Vested in 2015	(275,201)
Restricted stock at December 31, 2015	396,595

Our accounting policy is to recognize the associated expense of such awards on a straight-line basis over the vesting period. At December 31, 2015 the stock compensation expense related to the restricted stock awards that will be recognized over the average remaining vesting period of 1.6 years totals \$4.7 million. At December 31, 2015, the intrinsic value of unvested restricted stock awards is \$8.0 million. The Plan terminates on May 24, 2017.

A summary of activity under the 2007 Plan for the years ended December 31, 2015, 2014, and 2013 is as follows:

	Number Outstanding	Weighted Average Grant Date Fair Value	Aggregate Value
Balance as of December 31, 2012	682,654	\$ 12.83	\$ 8,756,990

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Shares granted	151,408		14.25	2,158,011
Shares cancelled	(60,110)		12.41	(745,876)
Shares vested	(258,822)		12.01	(3,108,651)
Balance as of December 31, 2013	515,130	\$	13.71	\$ 7,060,474
Shares granted	237,708		19.84	4,710,362
Shares cancelled	(5,750)		14.02	(80,630)
Shares vested	(221,732)		13.24	(2,903,595)
Balance as of December 31, 2014	525,356	\$	16.72	\$ 8,786,611
Shares granted	146,440		18.53	2,713,159
Shares cancelled	—		—	—
Shares vested	(275,201)		15.87	(4,367,983)
Balance as of December 31, 2015	396,595	\$	17.98	\$ 7,131,787

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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 2015 and 2014, 10,374 and 14,068 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 \$6.17, \$6.17 and \$3.19 for 2015, 2014 and 2013, 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, 2013, 54,991 options were exercised with a total intrinsic value at exercise date of approximately \$0.4 million and 6,500 options were cancelled. In the year ended December 31, 2014, 26,437 options were exercised with a total intrinsic value at exercise date of approximately \$0.2 million. In the year ended December 31, 2015, 49,000 options were exercised with a total intrinsic value at exercise date of approximately \$0.3 million. As of December 31, 2015, there are no options remaining under the 1996 Plan.

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A summary of the activity under the 1996 Plan for the years ended December 31, 2015, 2014, and 2013 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 December 31, 2012	—	136,928	\$ 8.60	2.23	\$ 781,692
Options exercised	—	(54,991)	7.96		
Options cancelled	—	(6,500)	5.01		
Outstanding as of December 31, 2013	—	75,437	\$ 9.38	1.49	\$ 601,991
Options exercised	—	(26,437)	9.71		
Options cancelled	—	—	—		
Outstanding as of December 31, 2014	—	49,000	\$ 9.20	0.59	\$ 622,300
Options exercised	—	(49,000)	9.20		
Options cancelled	—	—	—		
Outstanding as of December 31, 2015	—	—	\$ —	—	\$ —
Vested and expected to vest at: December 31, 2015		—	\$ —	—	\$ —
Options exercisable at:					
December 31, 2013		75,437	\$ 9.38	1.49	\$ 601,991
December 31, 2014		49,000	\$ 9.20	0.59	\$ 622,300
December 31, 2015		—	\$ —	—	\$ —

(15) 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 2015, 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 \$18,000 (or \$24,000 for employees at least 50 years of age). We match 50% of employee contributions up to 8% of the employee's salary which totaled \$0.4 million, \$0.3 million and \$0.3 million for the years ended December, 31, 2015, 2014, and 2013, respectively.

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(16) Quarterly Consolidated Financial Information (Unaudited)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2015, 2014, and 2013 (in thousands, except per share data).

Fiscal 2015	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Total revenue	\$ 42,814	\$ 43,843	\$ 57,758	\$ 55,195	\$ 199,610
Net income (loss)	2,298	(492)	2,577	2,973	7,356
Basic earnings (loss) per common share	0.29	(0.06)	0.33	0.38	0.94
Diluted earnings (loss) per common share	0.29	(0.06)	0.32	0.37	0.92
Average common shares outstanding	7,848	7,841	7,839	7,739	7,811
Diluted average common shares outstanding	8,044	7,991	7,963	7,872	7,982

Fiscal 2014	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
Total revenue	\$ 43,340	\$ 43,865	\$ 45,519	\$ 41,563	\$ 174,287
Net income (loss)	4,331	2,214	979	(277)	7,247
Basic earnings (loss) per common share	0.55	0.28	0.12	(0.03)	0.92
Diluted earnings (loss) per common share	0.53	0.27	0.12	(0.03)	0.89
Average common shares outstanding	7,914	7,976	7,938	7,839	7,917
Diluted average common shares outstanding	8,129	8,179	8,123	8,037	8,141

Fiscal 2013	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Full Year
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Total revenue	\$ 35,304	\$ 37,953	\$ 37,952	\$ 47,203	\$ 158,412
Net income (loss)	1,610	9,692	(2,229)	6,553	15,626
Basic earnings (loss) per common share	0.20	1.20	(0.29)	0.84	1.95
Diluted earnings (loss) per common share	0.19	1.17	(0.28)	0.81	1.89
Average common shares outstanding	8,033	8,106	8,126	7,846	8,029
Diluted average common shares outstanding	8,273	8,303	8,329	8,084	8,289

(17) Related Party Transactions

“Other revenue” on the Consolidated Statement of Income includes management fees earned of \$1.7 million, \$2.0 million and \$1.7 million during the years ended December 31, 2015, 2014 and 2013, respectively, related to the servicing of engines for the WMES lease portfolio.

Prior to 2014, the Company leased equipment to an airline owned by our CEO and Chairman. The Company received lease payments from the airline and recorded revenue totaling \$2.1 million in the year ended December 31, 2013. Our CEO and Chairman no longer owns the airline. In connection with the 2013 sale of its stock to an unrelated

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third party, the airline prepaid a note to us at a 45% discount of \$0.4 million, similar to reductions received by other large creditors. The Company subsequently sold four engines and three aircraft, which had an aggregate net book value of \$3.4 million, to the third party for \$4.9 million. The \$4.9 million proceeds were included in 2013 revenue as follows: Gain on Sale \$0.8 million (net of the asset's \$3.4 million net book value), Maintenance Reserve Revenue \$0.4 million, Lease Rent Revenue \$0.4 million and Other Revenue \$0.3 million.

J.T. Power, LLC ("J.T. Power"): In the ordinary course of business, the Company uses a number of consignment vendors to sell engine parts. Prior to 2014, the Company consigned equipment for part-out to J.T. Power, an entity owned by Austin Willis, the son of our CEO and Chairman, and directly and indirectly, a shareholder and a Director of the Company. Sales of consigned parts under the Consignment agreements were \$22,200 for the year ended December 31, 2013.

On November 6, 2013, the Company purchased certain assets of J.T. Power for \$5.6 million. A net cash payment of \$4.5 million was made to fund the transaction, after deducting amounts owed to the Company, including \$0.7 million related to the minimum guarantee remaining under the note and cash received of \$0.4 million. Of the \$4.5 million cash payment, \$1.2 million was paid to various creditors and \$3.3 million was paid to the shareholders of J.T. Power.

As part of the acquisition of certain assets of J.T. Power, we launched Willis Aeronautical Services, Inc. ("Willis Aero"), a wholly-owned subsidiary, whose primary focus is the sale of aircraft engine parts and materials through the acquisition or consignment from third parties of aircraft and engines.

(18) Operating Segments

The Company operates in two business segments: (i) Leasing and Related Operations which involves acquiring and leasing, primarily pursuant to operating leases, commercial aircraft, aircraft engines and other aircraft equipment and the selective purchase and resale of commercial aircraft engines and other aircraft equipment and (ii) Spare Parts Sales which involves the purchase and resale of after-market engine and airframe parts, whole engines, engine modules and portable aircraft components and leasing of engines destined for disassembly and sale of parts.

The Company evaluates the performance of each of the segments based on profit or loss after general and administrative expenses and inter-company allocation of interest expense. While the Company believes there are synergies between the two business segments, the segments are managed separately because each requires different business strategies.

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The following tables present a summary of the operating segments (amounts in thousands):

For the year ended December 31, 2015	Leasing and		Eliminations	
	Related Operations	Spare Parts Sales	(1)	Total
Revenue:				
Lease rent revenue	\$ 107,866	\$ —	\$ —	\$ 107,866
Maintenance reserve revenue	55,064	—	—	55,064
Spare parts and equipment sales	9,975	15,633	—	25,608
Gain on sale of leased equipment	8,354	—	—	8,354
Other revenue	2,517	659	(458)	2,718
Total revenue	183,776	16,292	(458)	199,610
Expenses:				
Depreciation and amortization expense	69,299	287	—	69,586
Cost of spare parts and equipment sales	5,734	12,132	—	17,866
General and administrative	39,974	2,770	—	42,744
Net finance costs	37,474	387	—	37,861
Other expense	18,584	—	—	18,584
Total expenses	171,065	15,576	—	186,641
Earnings from operations	\$ 12,711	\$ 716	\$ (458)	\$ 12,969

For the year ended December 31, 2014	Leasing and		Eliminations	
	Related Operations	Spare Parts Sales	(1)	Total
Revenue:				
Lease rent revenue	\$ 101,748	\$ —	\$ —	\$ 101,748
Maintenance reserve revenue	53,363	—	—	53,363
Spare parts and equipment sales	—	8,917	—	8,917
Gain on sale of leased equipment	5,753	—	—	5,753
Other revenue	3,581	1,661	(736)	4,506
Total revenue	164,445	10,578	(736)	174,287
Expenses:				
Depreciation and amortization expense	65,152	289	—	65,441
Cost of spare parts and equipment sales	—	7,474	—	7,474
General and administrative	33,211	2,648	—	35,859
Net finance costs	36,779	283	—	37,062
Other expense	17,830	108	—	17,938
Total expenses	152,972	10,802	—	163,774
Earnings (loss) from operations	\$ 11,473	\$ (224)	\$ (736)	\$ 10,513

(1) Represents revenue generated between our operating segments

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Total assets as of December 31, 2015	\$ 1,281,991	\$ 26,586	\$ —	\$ 1,308,577
Total assets as of December 31, 2014	\$ 1,239,227	\$ 22,399	\$ —	\$ 1,261,626

(19) Subsequent Events

Management has reviewed and evaluated subsequent events through the date that the financial statements were issued.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

SCHEDULE I — CONDENSED BALANCE SHEETS

Parent Company Information

(In thousands, except share data)

	December 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$ 2,894	\$ 2,411
Equipment held for operating lease, less accumulated depreciation	763,549	628,341
Equipment held for sale	22,680	15,768
Operating lease related receivable, net of allowances	4,502	3,379
Spare parts inventory	16,120	14,906
Due from affiliate	20,286	19,044
Investments	41,295	41,590
Investment in subsidiaries	118	6,054
Property, equipment & furnishings, less accumulated depreciation	19,964	17,867
Intangible assets, net	271	271
Other assets, net	13,577	13,528
Total assets	\$ 905,256	\$ 763,159
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 17,660	\$ 10,820
Deferred income taxes	37,272	26,132
Notes payable	578,218	457,364
Maintenance reserves	38,072	32,845
Security deposits	20,612	16,864
Unearned lease revenue	3,090	2,273
Total liabilities	694,924	546,298
Shareholders' equity:		
Common stock (\$0.01 par value, 20,000,000 shares authorized; 7,548,395 and 8,346,304 shares issued and outstanding at December 31, 2015 and 2014, respectively)	75	83
Paid-in capital in excess of par	28,720	42,076
Retained earnings	182,058	174,702
Accumulated other comprehensive loss, net of income tax benefit	(521)	—
Total shareholders' equity	210,332	216,861
Total liabilities and shareholders' equity	\$ 905,256	\$ 763,159

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

SCHEDULE I — CONDENSED STATEMENTS OF INCOME

Parent Company Information

(In thousands)

	Years Ended December 31,		
	2015	2014	2013
REVENUE			
Lease rent revenue	\$ 63,214	\$ 50,749	\$ 36,593
Maintenance reserve revenue	29,896	22,270	14,046
Spare parts and equipment sales	20,236	7,588	—
Gain on sale of leased equipment	2,488	2,147	3,472
Other revenue	7,017	5,227	8,022
Total revenue	122,851	87,981	62,133
EXPENSES			
Depreciation expense	40,867	29,555	19,699
Cost of spare parts and equipment sales	13,576	6,354	—
Write-down of equipment	6,764	4,681	4,204
General and administrative	35,898	29,546	29,907
Technical expense	6,805	4,455	5,478
Interest expense	18,448	13,500	15,030
Total expenses	122,358	88,091	74,318
Earnings (loss) from operations	493	(110)	(12,185)
Earnings from joint ventures	1,175	1,329	3,526
Income (loss) before income taxes	1,668	1,219	(8,659)
Income tax expense (benefit)	2,090	1,708	(4,525)
Equity in income of subsidiaries, net of tax of \$4,697, \$3,553, and \$199 at December 31, 2015, 2014 and 2013, respectively	7,778	7,736	19,760
Net income	\$ 7,356	\$ 7,247	\$ 15,626

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

SCHEDULE I — CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

Parent Company Information

(In thousands)

	Years Ended December 31,		
	2015	2014	2013
Net income	\$ 7,356	\$ 7,247	\$ 15,626
Other comprehensive income (loss):			
Currency translation adjustment	(796)	—	—
Unrealized losses on derivative instruments	—	—	(187)
Reclassification adjustment for losses (gains) included in net income	—	(499)	1,485
Net gain (loss) recognized in other comprehensive income	(796)	(499)	1,298
Tax benefit (expense) related to items of other comprehensive income (loss)	275	174	(435)
Other comprehensive income from parent	(521)	(325)	863
Total comprehensive income	\$ 6,835	\$ 6,922	\$ 16,489

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

SCHEDULE I — CONDENSED STATEMENTS OF CASH FLOWS

Parent Company Information

(In thousands)

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 7,356	\$ 7,247	\$ 15,626
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in income of subsidiaries	(7,778)	(7,736)	(19,760)
Depreciation expense	40,867	29,555	19,699
Write-down of equipment	6,764	4,681	4,204
Stock-based compensation expenses	4,150	3,509	3,439
Amortization of deferred costs	2,646	2,391	2,286
Amortization of interest rate derivative cost	—	(499)	(404)
Allowances and provisions	(17)	34	(94)
Gain on sale of leased equipment	(2,488)	(2,147)	(3,472)
Gain on insurance settlement	—	—	(351)
Income from joint ventures	(1,175)	(1,329)	(3,526)
Deferred income taxes	2,287	1,383	(4,072)
Changes in assets and liabilities:			
Receivables	(953)	(1,502)	1,871
Spare parts inventory	4,847	(5,533)	—
Other assets	(2,420)	(942)	(2,165)
Accounts payable and accrued expenses	4,589	322	(943)
Due to / from subsidiaries	1	(2,208)	(4,041)
Maintenance reserves	5,227	8,693	3,495
Security deposits	5,254	(1,616)	426
Unearned lease revenue	646	919	(575)
Net cash provided by operating activities	69,803	35,222	11,643
Cash flows from investing activities:			
Increase in investment in subsidiaries	(23,923)	(9,666)	(34,098)
Distributions received from subsidiaries	3,791	17,582	69,548
Proceeds from sale of equipment held for operating lease (net of selling expenses)	22,885	21,360	21,644
Capital contribution to joint venture	(630)	(17,623)	(11,219)

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Distributions received from joint venture	1,304	847	—
Acquisition of J.T. Power, net of cash acquired	—	—	(4,171)
Acquisition of WOLF, net of cash acquired	—	—	(1,000)
Purchase of equipment held for operating lease	(170,732)	(104,904)	(132,140)
Purchase of property, equipment and furnishings	(3,736)	(13,767)	(450)
Net cash used in investing activities	(171,041)	(106,171)	(91,886)
Cash flows from financing activities:			
Proceeds from issuance of notes payable	192,700	154,395	130,000
Debt issuance cost	(13)	(5,074)	(637)
Proceeds from shares issued under stock compensation plans	518	410	680
Cancellation of restricted stock units in satisfaction of withholding tax	(1,558)	(1,544)	(1,248)
Security deposit	(1,606)	4,553	7,588
Repurchase of common stock	(16,500)	(5,352)	(5,918)
Excess tax benefit from stock-based compensation	26	311	—
Principal payments on notes payable	(71,846)	(75,859)	(52,844)
Net cash provided by financing activities	101,721	71,840	77,621
Increase/(Decrease) in cash and cash equivalents	483	891	(2,622)
Cash and cash equivalents at beginning of period	2,411	1,520	4,142
Cash and cash equivalents at end of period	\$ 2,894	\$ 2,411	\$ 1,520
Supplemental disclosures of cash flow information:			
Net cash paid for:			
Interest	\$ 16,462	\$ 11,110	\$ 11,903
Income Taxes	\$ 75	\$ 76	\$ 111

Supplemental disclosures of non-cash investing activities:

During the years ended December 31, 2015, 2014, 2013, engines and equipment totaling \$21,786, \$3,071 and \$422, respectively, were transferred from Held for Operating Lease to Held for Sale.

During the years ended December 31, 2015, 2014, 2013, engines and equipment totaling \$41,410, \$120,880 and \$116,020, respectively, were transferred to the parent from its subsidiaries.

During the years ended December 31, 2015 and 2014, engines and equipment totaling \$6,061 and \$9,649, respectively, were transferred from Held for Sale to Spare Parts Inventory.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

SCHEDULE II — VALUATION ACCOUNTS

(In thousands)

	Balance at Beginning of Period	Additions Charged (Credited) to Expense	Net (Deductions) Recoveries	Balance at End of Period
December 31, 2013				
Accounts receivable, allowance for doubtful accounts	980	(30)	(654)	296
December 31, 2014				
Accounts receivable, allowance for doubtful accounts	296	(26)	(55)	215
December 31, 2015				
Accounts receivable, allowance for doubtful accounts	215	697	—	912

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