WILLIS LEASE FINANCE CORP
Form 10-K
March 13, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2011

¨ **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
Series A Preferred Stock	NASDAQ
Series I Preferred 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 x

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

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

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

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of the last business day of the registrant s most recently completed second fiscal quarter (June 30, 2011) was approximately $77.5 million (based on a closing sale price of $13.40 per share as reported on the NASDAQ National Market).

The number of shares of the registrant s Common Stock outstanding as of March 7, 2012 was 9,160,936.

The Company s Proxy Statement for the 2012 Annual Meeting of Stockholders is incorporated by reference into Part III of this Form 10-K.

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WILLIS LEASE FINANCE CORPORATION

2011 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, 2011, we had a total lease portfolio consisting of 194 engines and related equipment, 13 aircraft and three spare parts packages with 71 lessees in 37 countries and an aggregate net book value of $981.5 million. As of December 31, 2011, we managed a total lease portfolio of 26 engines and related equipment for other parties. We also seek, from time to time, to act as leasing agent of engines for other parties.

Our strategy is to lease aircraft engines and aircraft and provide related services to a diversified group of commercial aircraft operators and maintenance, repair and overhaul organizations (MROs) worldwide. Commercial aircraft operators need engines in addition to those installed in 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 45,000 engines installed on commercial aircraft. Accordingly, we estimate that there are between 4,500 and 6,300 spare engines in the market, including both owned and leased spare engines.

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

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

We hold a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (WOLF). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. These aircraft are currently leased to Emirates with remaining lease terms of 18 and 20 months. Our investment in the joint venture is $9.9 million as of December 31, 2011.

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 IAE V2500-A5 and General Electric CF34-10E jet engines. Each partner holds a fifty percent interest in the joint venture. Our investment in the joint venture is $5.4 million as of December 31, 2011.

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

We maintain a website at www.willislease.com where our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports are available without charge, as soon as reasonably practicable following the time they are filed with or furnished to the SEC. You may read and copy any materials we file with the SEC at the SEC s public reference room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0300. The SEC also maintains an electronic Internet site that contains our reports, proxy and information statements, and other information at http://www.sec.gov.

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

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THE WEST SECURITIZATION

Willis Engine Securitization Trust, or WEST, is a special-purpose, bankruptcy-remote, Delaware statutory trust that is wholly-owned by us and consolidated in our financial statements. We established WEST in 2005 to acquire and finance engines owned by another of our wholly-owned subsidiaries, WEST Engine Funding LLC (formerly Willis Engine Funding LLC). In August 2005 and again in March 2008, WEST issued and sold notes to finance its acquisition of engines. WEST s obligations under these notes are serviced by revenues from the lease and disposition of its engines, and are secured by all its assets, including all 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 and none of our assets secure such obligations.

We are the servicer and administrative agent for WEST. 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 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 is consolidated in our financial statements these fees eliminate on consolidation. Proceeds from engine sales will be used, at WEST s election, to reduce WEST s debt or to acquire other engines.

WEST 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 provides a significant improvement to our capital structure by better matching debt maturity to asset life.

INDUSTRY BACKGROUND THE DEMAND FOR LEASED AIRCRAFT ENGINES

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

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

- the number of commercial aircraft, and therefore engines, in the market; and
- the proportion of engines that are leased, rather than owned, by commercial aircraft operators.

We believe both drivers will increase over time.

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

We believe that the number of commercial and cargo aircraft, and hence spare engines, will increase. Boeing estimates that there are roughly 19,000 aircraft as of 2010 and projects this will grow to approximately 40,000 aircraft by 2030. 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;

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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, 2011, all but one of our leases to air carriers, manufacturers and MROs are operating leases as opposed to finance leases. Under operating leases, we retain the potential benefit and assume the risk of the residual value of the aircraft equipment, in contrast to capital or financing leases where the lessee has more of the potential benefits and risks of ownership. Operating leases allow commercial aircraft operators greater fleet and financial flexibility due to the relatively small initial capital outlay necessary to obtain use of the aircraft equipment, and the availability of short and long term leases to better meet their needs. Operating lease rates are generally higher than finance lease rates, in part because of the risks associated with the residual value.

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

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

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

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

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

Upon termination of a lease, we will lease, sell or part out the related engines. The demand for aftermarket engines for either sale or lease may be affected by a number of variables, including:

- general market conditions;
- regulatory changes (particularly those imposing environmental, maintenance and other requirements on the operation of engines);
- changes in demand for air travel;
- fuel costs;
- changes in the supply and cost of aircraft equipment; and
- technological developments.

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

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

As of December 31, 2011, we had a total lease portfolio of 194 aircraft engines and related equipment, three spare parts packages, 13 aircraft and various parts and other engine-related equipment with a cost of $1,210.2 million in our lease portfolio. As of December 31, 2010, we had a total lease portfolio of 179 aircraft engines and related equipment, four spare parts packages, three aircraft and various parts and other engine-related equipment with a cost of $1,190.4 million in our lease portfolio.

As of December 31, 2011, minimum future rentals under non-cancelable operating leases of these engines, parts and aircraft assets were as follows:

Year	(in thousands)
2012	57,868
2013	41,381
2014	33,387
2015	27,335
2016	20,632
Thereafter	29,474

	$ 210,077

As of December 31, 2011, we had 71 lessees of commercial aircraft engines, aircraft, and other aircraft-related equipment in 37 countries. Our exposure to one large customer has decreased during 2011. We believe the loss of any one customer would not have a significant long-term adverse effect on our business. We operate in a global market in which our engines are easily transferable among lessees located in many countries, which stabilizes demand and allows us to recover from the loss of a particular customer. As a result, we do not believe we are dependent on a single customer or a few customers the loss of which would have a material adverse effect on our revenues.

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AIRCRAFT LEASING

As of December 31, 2011, we owned three DeHaviland DHC-8-100 turboprop aircraft, all of which we lease to Hawaii Island Air, Inc. (Island Air). These aircraft have a net book value of $2.6 million.

Gavarnie Holding, LLC, a Delaware limited liability company (Gavarnie) owned by Charles F. Willis, IV, purchased the stock of Aloha Island Air, Inc., a Delaware Corporation, (Island Air) from Aloha AirGroup, Inc. (Aloha) on May 11, 2004. Charles F. Willis, IV is the CEO and Chairman of our Board of Directors and owns approximately 31% of our common stock. As of December 31, 2011, Island Air leases three DeHaviland DHC-8-100 aircraft and four spare engines from us. The aircraft and engines on lease to Island Air have a net book value of $3.0 million at December 31, 2011.

Effective January 2, 2011 we converted the operating leases with Island Air to a finance lease, with a principal amount of $7.0 million, under which they have resumed monthly payments. Revenue is recorded throughout the lease term as cash is received, with $1.6 million recorded as lease rent revenue in the year ended December 31, 2011. In October 2010, Island Air purchased one airframe from us, generating a net gain of $0.4 million.

Beginning in 2006 Island Air experienced cash flow difficulties, which affected their payments to us due to a fare war commenced by a competitor, their dependence on tourism which has suffered from the current economic environment as well as volatile fuel prices. The Board of Directors approved lease rent deferrals which were accounted for as a reduction in lease revenue in the applicable periods. Because of the question regarding collectability of amounts due under these leases, lease rent revenue for these leases have been recorded on a cash basis until such time as collectability becomes reasonably assured. After taking into account the deferred amounts, Island Air owed us $2.9 million in overdue rent and late charges. Effective as of May 3, 2011 we entered into a Settlement Agreement with Island Air which was approved by the Board of Directors, which provides that the overdue rent and late charges will be settled by the Company forgiving 65% of the claim and Island Air paying the remaining 35% of the claim as follows: $0.1 million on signing and $1.0 million over 60 months at 5% interest. A note receivable in the amount of $1.0 million and offsetting reserve was established. As cash is collected on this note, revenue will be recorded, with $0.1 million received in the year ended December 31, 2011. The Settlement Agreement was dependent on Island Air obtaining substantially similar concessions from their other major creditors which have been obtained.

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

We hold a fifty percent membership interest in a joint venture, WOLF A340, LLC, a Delaware limited liability company, (WOLF). On December 30, 2005, WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. These aircraft are currently on lease to Emirates until 2013. Our investment in the joint venture at December 31, 2011 is $9.9 million.

In late 2011, we purchased three ATR 42-320 turboprop aircraft and seven ATR 72-202 turboprop aircraft. The aircraft are currently undergoing inspection and repair and upon completion of the repair process will be marketed for sale or lease.

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OUR COMPETITIVE ADVANTAGES

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

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

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

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

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

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, 2011, we had a total lease portfolio consisting of 194 engines and related equipment, 13 aircraft and three spare parts packages with 71 lessees in 37 countries and an aggregate net book value of $981.5 million.

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

COMPETITION

The markets for our products and services are very competitive, and we face competition from a number of sources. These competitors include aircraft engine and aircraft parts manufacturers, aircraft and aircraft engine lessors, airline and aircraft service and repair companies and aircraft spare parts distributors. Many of our competitors have substantially greater resources than us. Those resources may include greater name recognition, larger product lines, complementary lines of business, greater financial, marketing, information systems and other resources. In addition, equipment manufacturers, aircraft maintenance providers, FAA certified repair facilities and other aviation aftermarket suppliers may vertically integrate into the markets that we serve, thereby significantly increasing industry competition. We can give no assurance that competitive pressures will not materially and adversely affect our business, financial condition or results of operations.

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

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

INSURANCE

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

GOVERNMENT REGULATION

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

While our leasing and reselling business is not regulated, the aircraft, engines and engine parts that we lease and sell to our customers must be accompanied by documentation that enables the customer to comply with applicable regulatory requirements. Furthermore, before parts may be installed in an aircraft, they must meet certain standards of condition established by the FAA and/or the equivalent regulatory agencies in other countries. Specific regulations vary from country to country, although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. With respect to a particular engine or engine component, we utilize FAA and/or EASA certified repair stations to repair and certify engines and components to ensure marketability.

Effective January 1, 2000, federal regulations stipulate that all aircraft engines hold, or be capable of holding, a noise certificate issued under Chapter 3 of Volume 1, Part II of Annex 16 of the Chicago Convention, or have been shown to comply with Stage III noise levels set out in Section 36.5 of Appendix C of Part 36 of the FAA Regulations of the United States if the engines are to be used in the continental United States. Additionally, much of Europe has adopted similar regulations. As of December 31, 2011, all of the engines in our lease portfolio are Stage III engines and are generally suitable for use on one or more commonly used aircraft.

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

GEOGRAPHIC AREAS IN WHICH WE OPERATE

Approximately 85% 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 2011, 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.

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The following table displays the regional profile of our lease customer base for the years ended December 31, 2011, 2010 and 2009. No single country accounted for more than 10% of our lease rent revenue for any of those periods except for the United States and Switzerland in each of 2009-2011 and Brazil and China in each of 2009-2010. The tables include geographic information about our leased equipment grouped by the lessee s domicile (which does not necessarily indicate the asset s actual location):

	Years Ended December 31,					
	2011		2010		2009	
	Lease Rent Revenue	Percentage	Lease Rent Revenue	Percentage	Lease Rent Revenue	Percentage
	(dollars in thousands)					
United States	$ 20,790	20%	$ 22,662	22%	$ 21,944	21%
Mexico	6,806	6	6,367	6	5,548	6
Canada	3,183	3	1,662	2	1,264	1
Europe	38,626	37	32,604	32	31,057	30
South America	9,818	9	14,380	14	16,575	16
Asia	18,635	18	18,413	18	19,164	19
Africa	2,084	2	432	1	480	1
Middle East	4,721	5	5,613	5	6,358	6
Total	$ 104,663	100%	$ 102,133	100%	$ 102,390	100%

FINANCING/SOURCE OF FUNDS

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

EMPLOYEES

As of December 31, 2011, we had 74 full-time employees (excluding consultants), in sales and marketing, technical service and administration. None of our employees is covered by a collective bargaining agreement and we believe our employee relations are satisfactory.

ITEM 1A. RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS

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

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

general economic conditions in the countries in which our customers operate, including changes in gross domestic product;

demand for air travel and air cargo shipments;

- changes in interest rates and the availability and terms of credit available to commercial aircraft operators;
- concerns about security, terrorism, war, public health and political instability;
- environmental compliance and other regulatory costs;
- labor contracts, labor costs and stoppages at commercial aircraft operators;
- aircraft fuel prices and availability;
- technological developments;
- maintenance costs;
- airport access and air traffic control infrastructure constraints;
- insurance and other operating costs incurred by commercial aircraft operators and MROs;
- industry capacity, utilization and general market conditions; and
- market prices for aviation equipment.

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

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

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

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

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

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

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

We currently own three DeHaviland DHC-8-100, three ATR42-320 turboprop aircraft and seven ATR72-202 turboprop aircraft and interests through WOLF in two Airbus A340-313 aircraft. We may buy other aircraft or interests in aircraft in the future primarily to seek opportunities to realize value from the engines. Among other risks described in this Annual Report, the following risks apply when we lease or sell aircraft:

- we will be subject to the greater maintenance risks and risks of declines in value that apply to aircraft as opposed to engines, as well as the potentially greater risks of leasing or selling aircraft;
- intense competition among manufacturers, lessors, and sellers may, among other things, adversely affect the demand for, lease rates and residual values of our aircraft;
- our aircraft lessees are aircraft operators engaged in economically sensitive, highly cyclical and competitive businesses and our results of operations from aircraft leasing depend, in part, on their financial strength (for more details, see the risk factor entitled We are affected by the risks faced by commercial aircraft operators and MROs because they are our customers above);
- our aircraft lessees may encounter significant financial difficulties, which could result in our agreeing to amend our leases with the customer to, among other things, defer or forgive rent payments or extend lease terms as an alternative to repossession;
- our aircraft lessees may file for bankruptcy which could result in us incurring greater losses with respect to aircraft than with respect to engines; and
- aircraft technology is constantly improving and, as a result, aircraft of a particular model and type tend to become obsolete and less in demand over time, when newer, more advanced and efficient aircraft become available.

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

Under most of our engine leases, the lessee makes monthly maintenance reserve payments to us based on the engine s usage and management s estimate of maintenance costs. A certain level of maintenance reserve payments on the WEST 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. 19 of our leases comprising approximately 12.4% of the net book value of our on-lease engines at December 31, 2011 do not provide for any monthly maintenance reserve payments to be made by lessees, and we can give no assurance that future leases of the engines will require maintenance reserves. In some cases, including engine repossessions, we may decide to pay for refurbishments or repairs if the accumulated use fees are inadequate.

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

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

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

Our leases make the lessees primarily responsible for maintaining the engines, keeping related records and

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complying with governmental directives and manufacturer requirements. Over time, certain lessees have experienced and may experience in the future, difficulties in meeting their maintenance and recordkeeping obligations as specified by the terms of our leases.

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

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

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

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

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

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

- the timing of necessary overhauls of engines.

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

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

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

The commercial aviation industry deteriorated sharply in 2001 and 2002 after the September 11, 2001 terrorist attacks and the related slowdown in economic activity. However, after a period of recovery, the airline industry was negatively impacted in 2008 and 2009 by the spike in fuel prices and the deepening worldwide recession, caused by the turmoil in the credit and financial markets. The airline industry has recovered in 2010 and 2011, returning to profitability with carriers in emerging markets and the U.S. faring better than European carriers. However, we cannot give assurance that delinquencies and defaults on our leases will not increase during future cyclical downturns in the economy and commercial aviation industry.

Certain lessees may be significantly delinquent in their rental payments and may default on their lease obligations. As of December 31, 2011, we had an aggregate of approximately $1.5 million in lease rent and $1.5 million in maintenance reserve payments more than 30 days past due. Our inability to collect receivables or to repossess engines or other leased equipment in the event of a default by a lessee could have a material adverse effect on us.

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

On November 28, 2011, American Airlines (American) filed for protection under Chapter 11 of the Bankruptcy Code. At the time of its filing, American had leased three engines from us with a total net book value of $17.1 million as of December 31, 2011. American owed us $0.1 million in rents and other billings as of December 31, 2011.

On January 5, 2010, Mesa Airlines filed for protection under Chapter 11 of the Bankruptcy Code. At the time of its filing, Mesa had leased six engines from us with a total net book value of $10.5 million as of December 31, 2009. Two of those engines were under leases which required ongoing maintenance reserve payments, and as of the filing Mesa was current on those payments. The other four engines were under leases which only required payment of maintenance reserves on a current basis if Mesa reported net losses for three consecutive quarters, and as of the filing, Mesa had not reported three consecutive loss quarters. Following the filing, Mesa terminated two of the leases and returned those engines to us. We also negotiated an agreement with Mesa under which Mesa extended the two engine leases under the original lease terms and continued the remaining two engine leases under modified lease terms. Under the modified leases, Mesa is required to make maintenance reserve payments for post-bankruptcy engine usage on a current basis, and we have filed proofs of claim in Mesa s bankruptcy proceedings for the balance of maintenance reserve payments related to Mesa s pre-bankruptcy engine usage.

In August 2010, Mexicana Airlines primary operating entity initiated commercial insolvency proceedings in Mexico. In September 2010, Mexicana Inter, the low-cost-carrier affiliate of Mexicana Airlines, also initiated its own commercial insolvency proceeding in Mexico. Mexicana and all of its affiliates also suspended all commercial passenger service on August 28, 2010, and have not resumed operations since then. At the time of their respective filings, Mexicana and Mexicana Inter had leased five engines from us with a total net book value of $19.9 million as of December 31, 2009. Two of those engines were under leases which required ongoing maintenance reserve payments (but no such reserves had accrued as of July 30, 2010), and the other three engines were under leases which did not require current payments of maintenance reserves. Due to the uncertainty of Mexicana s ability to fully secure our engines after it ceased operations and the unlikelihood that it would resume operations in the immediate future, we focused our efforts on the immediate recovery of our assets from Mexico. In a negotiated settlement of claims against Mexicana, we were able to achieve the consensual return of all five of our engines and the related records between August and December 2010. As a result of the insolvency proceedings and subsequent settlement, the Company wrote-off to bad debt an outstanding notes receivable balance of $44,000 and $9,000 in recognized overdue rent.

Gavarnie Holding, LLC, a Delaware limited liability company (Gavarnie) owned by Charles F. Willis, IV, purchased the stock of Aloha Island Air, Inc., a Delaware Corporation, (Island Air) from Aloha AirGroup, Inc. (Aloha) on May 11, 2004. Charles F. Willis, IV is the CEO and Chairman of our Board of Directors and owns approximately 31% of our common stock. As of December 31, 2011, Island Air leases three DeHaviland DHC-8-100 aircraft and four spare engines from us. The aircraft and engines on lease to Island Air have a net book value of $3.0 million at December 31, 2011.

Effective January 2, 2011 we converted the operating leases with Island Air to a finance lease, with a principal amount of $7.0 million, under which they have resumed monthly payments. Revenue is recorded throughout the lease term as cash is received with $1.6 million recorded as lease rent revenue for the year ended December 31, 2011. In October 2010, Island Air purchased one airframe from us, generating a net gain of $0.4 million.

Beginning in 2006 Island Air experienced cash flow difficulties, which affected their payments to us due to a fare war commenced by a competitor, their dependence on tourism which has suffered from the current economic environment as well as volatile fuel prices. The Board of Directors approved lease rent deferrals which were accounted for as a reduction in lease revenue in the applicable periods. Because of the question regarding collectability of amounts due under these leases, lease rent revenue for these leases have been recorded on a cash basis until such time as collectability becomes reasonably assured. After taking into account the deferred amounts, Island Air owed us $2.9 million in overdue rent and late charges. Effective as of May 3, 2011 we entered into a Settlement Agreement with Island Air which was approved by the Board of Directors, which provides that the overdue rent and late charges will be settled by the Company forgiving 65% of the claim and Island Air paying the remaining 35% of the claim as follows: $0.1 million on signing and $1.0 million over 60 months at 5% interest. A note receivable in the amount of $1.0 million and offsetting reserve was established. As cash is collected on this note, revenue will be recorded, with $0.1 million received in the year ended December 31, 2011. The Settlement Agreement was dependent on Island Air obtaining substantially similar concessions from their other major creditors which have been obtained.

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

When a lessee defaults we typically seek to terminate the lease and repossess the engine. If a defaulting lessee contests the termination and repossession or is under court protection, enforcement of our rights under the lease may be difficult, expensive and time-consuming. We may not realize any practical benefits from our legal rights and we may need to obtain consents to export the engine. As a result, the relevant engine may be off-lease or not producing revenue for a prolonged period. In addition, we will incur direct costs associated with repossessing our engine. These costs may include legal and similar costs, the direct costs of transporting, storing and insuring the engine, and costs associated with necessary maintenance and recordkeeping to make the engine available for lease or sale. During this time, we will realize no revenue from the leased engine, and we will continue to be obligated to pay our debt financing for the engine. If an engine is installed on an airframe, the airframe may be owned by an aircraft lessor or other third party. Our ability to recover engines installed on airframes may depend on the cooperation of the airframe owner.

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

Licenses and consents

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

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

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

Anti-corruption Laws

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

Civil aviation regulation

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

Environmental regulation

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

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

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

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

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

The proposals set out in the ED were open for comment until December 15, 2010. The FASB has not completed all of its deliberations and the decisions made to date were sufficiently different from those published in the Lease ED to warrant re-exposure of the revised proposal. The FASB intends to complete its deliberations and publish a revised leases standard during the first half of 2012. We anticipate that the final standard may have an effective date no earlier than 2016. If there are future changes in GAAP with regard to how we and our customers must account for leases, it could change the way we and our customers conduct our businesses and, therefore, could have the potential to have an adverse effect on our business. We do not anticipate that the accounting pronouncement, when issued, will change the fundamental economic reasons that airlines lease aircraft and aircraft engines.

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

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

We may not be adequately covered by insurance.

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

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

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

RISKS RELATING TO OUR CAPITAL STRUCTURE

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

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

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

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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, also include restrictive financial covenants. A breach of those and other covenants could, unless waived or amended by our creditors, result in a cross-default to other indebtedness and an acceleration of all or substantially all of our debt. We have obtained such amendments and waivers to our financing agreements in the past, but we cannot provide any assurance that we will receive such amendments or waivers in the future if we request them. If our outstanding debt is accelerated at any time, we likely would have little or no cash or other assets available after payment of our debts, which could cause the value or market price of our outstanding equity securities to decline significantly and we would have few, if any, assets available for distributions to our equity holders in liquidation.

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

We are affected by fluctuations in interest rates. Our lease rates are generally fixed, but nearly all our debt bears variable rate interest based on one-month LIBOR, so changes in interest rates directly affect our lease margins. We seek to reduce our interest rate volatility and uncertainty through hedging with interest rate derivative contracts with respect to a portion of our debt. Our lease margins, as well as our earnings and cash flows may be adversely affected by increases in interest rates, to the extent we do not have hedges or other derivatives in place or if our hedges or other derivatives do not mitigate our interest rate exposure from an economic standpoint. We would be adversely affected by increasing interest rates. As reported by British Bankers Association, the one-month LIBOR has increased from approximately 0.26% on December 31, 2010 to approximately 0.30% on December 31, 2011.

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 securitization facility limits our sale of certain engines in that facility during any 12 month period to 10% of the average aggregate adjusted borrowing value of the engines during any 12 month period, which may inhibit engine sales that we otherwise believe should be pursued. 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

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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 AND OUR PREFERRED STOCK

The trading price of our common stock and our Series A Preferred Stock may fluctuate due to many factors, including:

- risks relating to our business described in this Annual Report;
- sales of our securities by a few stockholders or even a single significant stockholder;
- general economic conditions;
- changes in accounting mandated under GAAP;
- quarterly variations in our operating results;
- our financial condition, performance and prospects;
- changes in financial estimates by us;
- level, direction and volatility of interest rates and expectations of changes in rates;
- market for securities similar to our common stock and our Series A Preferred 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, 2011, 80% of our lease revenue was generated by leases to foreign customers. Such international leases present risks to us because certain foreign laws, regulations and judicial procedures may not be as protective of lessor rights as those which apply in the United States. We are also subject to risks of foreign laws that affect the timing and access to courts and may limit our remedies when collecting lease payments and recovering assets. None of our leased engines have been expropriated; however, we can give no assurance that political instability abroad and changes in the policies of foreign nations will not present expropriation risks in the future that are not covered by insurance.

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

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

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

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

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

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

When a debtor seeks protection under the United States Bankruptcy Code, creditors are automatically stayed from enforcing their rights. In the case of United States-certificated airlines, Section 1110 of the Bankruptcy Code provides certain relief to lessors of aircraft equipment. Section 1110 has been the subject of significant litigation and we can give no assurance that Section 1110 will protect our investment in an aircraft or engines in the event of a lessee s bankruptcy. In addition, Section 1110 does not apply to lessees located outside of the United States and applicable foreign laws may not provide comparable protection.

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

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

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

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

RISKS RELATED TO OUR SMALL SIZE AND CORPORATE STRUCTURE

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

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

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

There is no organized market for the spare engines we purchase. Typically, we purchase engines from commercial aircraft operators, engine manufacturers, MROs and other suppliers. We rely on our representatives, advertisements and

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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. Due to WEST s bankruptcy remote structure, that equity is subject to the prior payments of WEST s debt and other obligations. Therefore, our rights and the rights of our creditors to participate in any distribution of the assets of WEST upon its liquidation, reorganization, dissolution or winding up will be subject to the prior claims of WEST s creditors. Similarly, the rights of our shareholders are subject to satisfaction of the claims of our lenders and other creditors.

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

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

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

- incurring or assuming additional debt;
- diversion of management s time and attention from ongoing business operations;
- future charges to earnings related to the possible impairment of goodwill and the write down of other intangible assets;
- risks of unknown or contingent liabilities;
- difficulties in the assimilation of operations, services, products and personnel;
- unanticipated costs and delays;
- risk that the acquired business does not perform consistently with our growth and profitability expectations;
- risk that growth will strain our infrastructure, staff, internal controls and management, which may require additional personnel, time and expenditures; and
- potential loss of key employees and customers.

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

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

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

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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, 2011, 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 2,865,735 shares of our common stock, representing approximately 31% 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 and possibly other classes or series of our stock such as our Series A Preferred 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 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 facility. We receive annual fees of 11.5% as servicer and 2.0% as administrative agent of the aggregate net rents actually received by WEST on its engines. We may be removed as servicer and administrative agent by the affirmative vote of a requisite number of holders of WEST facility notes upon the occurrence of certain specified events, including the following events, subject to WEST following certain specified procedures and providing us certain cure rights as set forth in the servicing agreement:

- We fail to perform the requisite services set forth in the servicing agreement or administrative agent agreement;
- We fail to provide adequate insurance or otherwise materially and adversely affects the rights of WEST;
- We cease to be engaged in the aircraft engine leasing business;
- We become subject to an insolvency or bankruptcy proceeding, either voluntarily or involuntarily;
- We fail to maintain the following financial covenants set forth in the servicing agreement:
  - Maintain a ratio of total indebtedness to tangible net worth ratio of less than 5.0-to-1.0; and
  - Maintain a ratio of earnings before interest, taxes to interest (excluding any extraordinary gains or losses and pre-WEST engine financing costs) of at least 1.2-to-1.0 on a rolling-four -quarter-basis;
- We undergo one of certain change of control transactions set forth in the servicing agreement; and

We default in the payment of other indebtedness of $10.0 million or more or indebtedness in such amount shall have been accelerated as a result of an event of default under the applicable agreements.

As of December 31, 2011, 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 facility. If we are removed, our expenses would increase since our consolidated subsidiary, WEST, 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.

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

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

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

ITEM 2. PROPERTIES

Our principal offices are located at 773 San Marin Drive, Suite 2215, Novato, California, 94998. We occupy space in Novato under a lease that covers approximately 20,534 square feet of office space and expires September 30, 2018. The remaining lease rental commitment is approximately $3.5 million, with $0.4 million owing for 2012. Equipment leasing, financing, sales and general administrative activities are conducted from the Novato location. We also sub-lease approximately 7,150 square feet of office and warehouse space for our operations at San Diego, California. This lease expires October 31, 2013, and the remaining lease commitment is approximately $0.3 million. We also lease office space in Shanghai, China. The lease expires December 31, 2012 and the remaining lease commitment is approximately $65,000. We also lease office and living space in London, United Kingdom. Both of these leases expire December 31, 2012 and the remaining lease commitments are $0.1 million and $0.2 million, respectively. We also lease office space in Blagnac, France. The lease expires December 31, 2012 and the remaining lease commitment is approximately $51,000.

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 2011.

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 7, 2012 there were approximately 1,647 shareholders of our Common Stock.

The high and low closing sales price of the Common Stock for each quarter of 2011 and 2010, as reported by NASDAQ, are set forth below:

	2011		2010	
	High	**Low**	**High**	**Low**
First Quarter	$ 14.20	$ 12.15	$ 17.61	$ 13.80
Second Quarter	13.69	12.55	15.75	9.22
Third Quarter	14.00	11.00	11.22	8.12
Fourth Quarter	12.19	9.91	13.54	9.87

During the years ended December 31, 2011 and 2010, we did not pay cash dividends to our common shareholders. We have not made any dividend payments to our common shareholders since our inception as all available cash has been utilized for the business. We have no intention of paying dividends on our common stock in the foreseeable future. In addition, certain of our debt facilities contain negative covenants which prohibit us from paying any dividends or making distributions of any kind with respect to our common stock.

The following table outlines our Equity Compensation Plan Information.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)		Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)
Plans Not Approved by Stockholders:				
None	n/a		n/a	n/a
Plans Approved by Stockholders:				
Employee Stock Purchase Plan			n/a	76,862
1996 Stock Option/Stock Issuance Plan*	443,581	$	6.35	
2007 Stock Incentive Plan			n/a	643,404
Total	443,581	$	6.35	720,266

* Plan expired

The 1996 Stock Option/Stock Issuance Plan and the 2007 Stock Incentive Plan were approved by security holders. The 2007 Stock Incentive Plan authorized 2,000,000 shares of common stock. 1,417,116 shares of restricted stock were granted under the 2007 Stock Incentive Plan by December 31, 2011. Of this amount, 60,520 shares of restricted stock were withheld or forfeited and returned to the pool of shares which could be granted under the 2007 Stock Incentive Plan resulting in a net number of 643,404 shares which were available as of December 31, 2011 for future issuance under the 2007 Incentive Plan.

On December 8, 2009, the Company s Board of Directors authorized a plan to repurchase up to $30.0 million of the Company s common stock, depending upon market conditions and other factors, over the next three years. The repurchased shares are to be subsequently retired. 434,748 shares totaling $5.7 million were repurchased in 2011 under our authorized plan. As of December 31, 2011, the total number of common shares outstanding was approximately 9.1 million.

Common stock repurchases, under our authorized plan, in the quarter ended December 31, 2011 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans		Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans
	(in thousands, except per share data)				
October	10	$ 10.89	10	$	20,310
November	7	$ 11.68	7	$	20,232
December	8	$ 11.39	8	$	20,142
Total	25	$ 11.32	25	$	20,142

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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,				
	2011	2010	2009	2008	2007
	(dollars in thousands, except per share data)				
Revenue:					
Lease rent revenue	$ 104,663	$ 102,133	$ 102,390	$ 102,421	$ 86,084
Maintenance reserve revenue	39,161	34,776	46,049	33,716	28,169
Gain on sale of leased equipment	11,110	7,990	1,043	12,846	7,389
Other income	1,719	3,403	958	3,823	768
Total revenue	$ 156,653	$ 148,302	$ 150,440	$ 152,806	$ 122,410
Net income	$ 14,508	$ 12,050	$ 22,367	$ 26,601	$ 17,664
Net income attributable to common shareholders	$ 11,380	$ 8,922	$ 19,239	$ 23,473	$ 14,536
Basic earnings per common share	$ 1.35	$ 1.03	$ 2.30	$ 2.85	$ 1.79
Diluted earnings per common share	$ 1.28	$ 0.96	$ 2.14	$ 2.68	$ 1.66
Balance Sheet Data:					
Total assets	$ 1,133,205	$ 1,125,962	$ 1,097,702	$ 982,712	$ 868,590
Debt (includes capital lease obligation)	$ 718,134	$ 731,632	$ 726,235	$ 641,125	$ 567,108
Shareholders equity	$ 236,661	$ 226,970	$ 220,793	$ 192,207	$ 174,652
Lease Portfolio:					
Engines at end of the period	194	179	169	160	144
Spare parts packages at the end of the period	3	4	3	3	3
Aircraft and Helicopters at the end of the period	13	3	4	4	6

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

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

General. Our core business is acquiring and leasing pursuant to operating leases, commercial aircraft engines and related aircraft equipment, and the selective sale of such engines, all of which we sometimes refer to as equipment. As of December 31, 2011, 70 of our leases were operating leases and one was a finance lease. As of December 31, 2011, we had 71 lessees in 37 countries. Our portfolio is continually changing due to acquisitions and sales. As of December 31, 2011, our total lease portfolio consisted of 194 engines and related equipment,13 aircraft and three spare engine parts packages with an aggregate net book value of $981.5 million. As of December 31, 2011, we also managed 26 engines and related equipment on behalf of other parties.

On December 30, 2005, we entered into a joint venture called WOLF with Oasis International Leasing (USA), Inc., which is now known as Waha Capital PJSC. WOLF completed the purchase of two Airbus A340-313 aircraft from Boeing Aircraft Holding Company for a purchase price of $96.0 million. On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company Willis Mitsui & Company Engine Support Limited (WMES) for the purpose of acquiring and leasing IAE V2500-A5 and General Electric CF34-10E jet engines. Each partner holds a fifty percent interest in the joint venture.

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 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, 2011, all but one of our leases are accounted for as operating leases. Under an operating lease, we retain title to the leased equipment, thereby retaining the potential benefit and assuming the risk of the residual value of the leased equipment.

We generally depreciate engines on a straight-line basis over 15 years to a 55% residual value. Spare parts packages are generally depreciated on a straight-line basis over 15 years to a 25% residual value. Aircraft are generally depreciated on a straight-line basis over 13-20 years to a 15%-17% residual value. For equipment which is unlikely to be repaired at the end of its current expected life, and is likely to be disassembled upon lease termination, we depreciate the equipment over its estimated life to a residual value based on an estimate of the wholesale value of the parts after disassembly. Currently, 50 engines having a net book value of $92.9 million are depreciated using this policy. It is our policy to review estimates regularly to accurately expense the cost of equipment over the useful life of the engines. On July 1, 2010 and again on July 1, 2011, we adjusted the depreciation for certain older engine types within the portfolio. The 2011 change in depreciation estimate had no significant impact to the net income and diluted earnings per share over what they would have otherwise been had the change to depreciation not been made. If useful lives or residual values are lower than those estimated by us, future write-downs may be recorded or a loss may be realized upon sale of the equipment.

Sales Related Activities. For equipment sold out of our lease portfolio, we recognize the gain or loss associated with the sale as revenue. Gains or losses consist of sales proceeds less the net book value of the equipment sold and any costs directly associated with the sale.

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

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

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

Revenue is summarized as follows:

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

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

The average utilization for each of the years ended December 31, 2011 and December 31, 2010 was 86%. During the year ended

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

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

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

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

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

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

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

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

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

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

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

YEAR ENDED DECEMBER 31, 2010 COMPARED TO THE YEAR ENDED DECEMBER 31, 2009

Revenue is summarized as follows:

	Years Ended December 31,			
	2010		2009	
	Amount	%	Amount	%
	(dollars in thousands)			
Lease rent revenue	$ 102,133	68.9%	$ 102,390	68.1%
Maintenance reserve revenue	34,776	23.4	46,049	30.6
Gain on sale of leased equipment	7,990	5.4	1,043	0.7
Other income	3,403	2.3	958	0.6
Total revenue	$ 148,302	100.0%	$ 150,440	100.0%

Lease Rent Revenue. Our lease rent revenue for the year ended December 31, 2010, was flat with the comparable period in 2009. This primarily reflects lower average portfolio utilization in the current period, lower lease rates for certain engine types and the deferral of revenue related to certain customers for which revenue is recorded on a cash, rather than accrual, basis, offset by portfolio growth. 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. The aggregate of net book value of equipment held for lease at December 31, 2010 and 2009, was $998.0 million and $976.8 million, respectively, an increase of 2.2%. At December 31, 2010, and 2009, respectively, approximately 90% and 85% of equipment by net book value was on-lease. The average utilization for the year ended December 31, 2010 was 86% compared to 89% in the prior year. During the year ended December 31, 2010, 16 engines were added to our lease portfolio at a total cost of $120.0 million (including capitalized costs). During the year ended December 31, 2009, 21 engines were added to our lease portfolio at a total cost of $214.1million (including capitalized costs).

Maintenance Reserve Revenue. Our maintenance reserve revenue for the year ended December 31, 2010, decreased 24.5% to $34.8 million from $46.0 million for the comparable period in 2009. Eight long term leases terminated in 2010 compared with the termination of thirteen long term leases in the year ago period. Higher balances of maintenance reserves had accumulated for the long term leases that terminated in 2009 compared to those that terminated in the current period, resulting in the decrease in maintenance reserve revenue in the current year.

Gain on Sale of Leased Equipment. During the year ended December 31, 2010, we sold 7 engines and various engine-related equipment from the lease portfolio and one airframe for a net gain of $8.0 million. During the year ended December 31, 2009, we sold 5 engines and various engine-related equipment from the lease portfolio for a net gain of $1.0 million.

Other Income. Our other income consists primarily of management fee income and lease administration fees, and increased $2.4 million from the prior year. The increase was primarily due to the sale of our interest in the SSAMC joint venture in November 2010 for $3.5 million, which generated a gain of $2.0 million in the current period.

Depreciation Expense. Depreciation expense increased $4.6 million or 10.5% to $48.7 million for the year ended December 31, 2010, from the comparable period in 2009 due to increased lease portfolio value and changes in estimates of residual values on certain older engine types. On July 1, 2009 and again on July 1, 2010, we adjusted the depreciation for certain older engine types within the portfolio. It is our policy to review estimates regularly to reflect the cost of equipment over the useful life of these engines. The 2010 change in depreciation estimate resulted in a $2.0 million increase in depreciation in 2010. The net effect of the 2010 change in depreciation estimate is a reduction in 2010 net income of $1.2 million or $0.13 in diluted earnings per share over what net income would have otherwise been had the change in depreciation estimate not been made.

Write-down of Equipment. Write-down of equipment to their estimated fair values totaled $2.9 million for the year ended December 31, 2010, a decrease of $3.2 million from the $6.1 million recorded in the comparable period in 2009. A write-down of $2.7 million was recorded for the year ended December 31, 2010 to adjust the carrying values of engine parts held on consignment for which market conditions for the sale of parts has changed. Write-downs on held for use equipment to their estimated fair values totaled $0.2 million for the year ended December 31, 2010, due to the adjustment of carrying values for certain impaired engines within the portfolio to reflect estimated market values. A write-down of $3.0 million was recorded for the year ended December 31, 2009 due to a management decision to sell two engines and consign seven engines for part out and sale. Further write-downs of $3.1 million were recorded in the year ended December 31, 2009 to adjust the carrying values 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 9.5% to $29.3 million for the year ended December 31, 2010, from the comparable period in 2009 due mainly to increases in selling expenses ($0.7 million), accounting, legal and consulting fees ($0.7 million), employment related costs ($0.6 million), system conversion expenses ($0.5 million) and employee relocation costs ($0.3 million), which was offset partially by decreases in bad debt expense ($0.5 million) and insurance expense ($0.1 million).

Technical Expense. Technical expenses consist of the cost of engine repairs, engine thrust rental fees, outsourced technical support services, sublease engine rental expense, engine storage and freight costs. These expenses increased 13.6% to $8.1 million for the year ended December 31, 2010, from the comparable period in 2009 due mainly to increases in engine maintenance costs due to higher repair activity ($1.3 million) and engine operating lease costs ($0.3 million), which was partially offset by decreases in outsourced technical support services expenses ($0.4 million) and engine thrust rental fees due to a decrease in the number of engines being operated at higher thrust levels under the CFM thrust rental program ($0.1 million).

Net Finance Costs. Net finance costs include interest expense, interest income and net (gain)/loss on debt extinguishment. Interest expense increased 13.6% to $40.9 million for the year ended December 31, 2010, from the comparable period in 2009, due to an increase in average debt outstanding and an increase in the average notional value of interest rate swaps held throughout the period. Virtually all of our debt is tied to one-month U.S. dollar LIBOR which decreased from an average of 0.33% for the year ended December 31, 2009 to an average of 0.27% for the year ended December 31, 2010 (average of month-end rates). At December 31, 2010 and 2009, one-month LIBOR was 0.26% and 0.23%, respectively. To mitigate exposure to interest rate changes, we have entered into interest rate swap agreements. As of December 31, 2010, such swap agreements had notional outstanding amounts of $430.0 million, average remaining terms of between two and 51 months and fixed rates of between 2.10% and 5.05%. In 2010 and 2009, $18.6 and $16.2 million was realized through the income statement as an increase in interest expense, respectively.

Interest income for the year ended December 31, 2010, decreased to $0.2 million from $0.3 million for the year ended December 31, 2009, due to a decrease in cash deposit balances from the prior period.

We recorded $0.9 million as a gain upon extinguishment of debt in the year ended December 31, 2009 when we purchased $3.0 million original principal amount, representing $2.1 million principal outstanding as of May 15, 2009, of WEST s Series 2005-A1 notes for a purchase price of $1.2 million. After write-off of unamortized debt issuance costs and purchase discount of $0.06 million related to the notes, a gain on extinguishment of debt of $0.9 million was recorded in the period.

Income Taxes. Income taxes for the year ended December 31, 2010, decreased to $7.6 million from $10.0 million for the comparable period in 2009 reflecting decreased pre-tax income and the impact of discrete items booked in 2009. The overall effective tax rate for the year ended December 31, 2010 was 38.8% compared to 30.9% for the prior year. For the year ended December 31, 2009, the Company s effective tax rate was reduced by $2.3 million related to a change in California state tax law during 2009 regarding state apportionment of income, which is effective 2011, and due to a change in the method used by the Company to allocate revenue to U.S. states. These changes resulted in a reduction in the long term deferred tax liability. For the year ended December 31, 2009, the Company also recognized an adjustment of $1.2 million increasing the tax provision in the period related to the tax treatment of individual employee non-performance based compensation costs in excess of $1.0 million annually. The adjustment was based on compensation earned in 2007, 2008 and 2009 that had not previously been recognized as non-deductible in the financial statements, by period as follows: 2007 $0.2 million, 2008 $0.5 million, 2009 $0.5 million. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California and numerous other factors, including changes in tax law.

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RECENT ACCOUNTING PRONOUNCEMENTS

In January 2010, the FASB issued ASU 2010-6, *Improving Disclosures About Fair Value Measurements,* which requires reporting entities to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value measurements and information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. ASU 2010-6 is effective for annual reporting periods beginning after December 15, 2009, except for Level 3 reconciliation disclosures which are effective for annual periods beginning after December 15, 2010. Other than requiring additional disclosures, the adoption of ASU 2010-6 did not have a material impact on our Consolidated Financial Statements.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareholder s equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The guidance provided in ASU 2011-04 is effective for interim and annual periods beginning on or after December 15, 2011 and is applied prospectively. We do not expect the adoption of these provisions to have a material impact on our Consolidated Financial Statements.

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

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

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

During 2011, the FASB issued several ASU s ASU No. 2011-01 through ASU No. 2011-12. Except for those ASU s discussed above, the ASU s entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and therefore do not have a material impact on the Company s financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

We finance our growth through borrowings secured by our equipment lease portfolio. Cash of approximately $132.4 million, $174.8 million and $397.6 million, in the years ended December 31, 2011, 2010 and 2009, respectively, was derived from this activity. In these same time periods $146.4 million, $170.0 million and $312.3 million, respectively, was used to pay down related debt. Cash flow from operating activities generated $76.7 million, $56.6 million and $88.2 million in the years ended December 31, 2011, 2010 and 2009, respectively.

Our primary use of funds is for the purchase of equipment for lease. Purchases of equipment (including capitalized costs) totaled $144.3 million, $121.5 million and $205.1 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Cash flows from operations are driven significantly by payments made under our lease agreements, which comprise lease revenue and maintenance reserves, and are offset by interest expense. Cash received as maintenance reserve payments for some of our engines on lease are restricted per our debt arrangements. The lease revenue stream, in the short-term, is at fixed rates while virtually all 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 82%, by book value, of our assets were on-lease at December 31, 2011 compared to approximately 90% at December 31, 2010. The average utilization rate for the year ended December 31, 2011 remained at 86%, the same as 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, 2011, notes payable consists of loans totaling $718.1 million (net of discounts of $2.1 million) payable over periods of six months to approximately 14 years with interest rates varying between approximately 1.5% and 8.0% (excluding the effect of our interest rate derivative instruments). At December 31, 2011, we had warehouse and revolving credit facilities totaling approximately $345.0 million compared to $440.0 million at December 31, 2010. At December 31, 2011, and December 31, 2010, respectively, approximately $117.0 million and $54.2 million were available under these combined facilities.

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Our significant debt instruments are discussed below:

At December 31, 2011, we had a $345.0 million revolving credit facility to finance the acquisition of aircraft engines for lease as well as for general working capital purposes. We closed on this facility on November 18, 2011 and the proceeds of the new facility, net of $3.3 million in debt issuance costs, was used to pay off the balance remaining from our prior revolving facility. As of December 31, 2011, $117.0 million was available under this facility. The revolving facility ends in November 2016. The interest rate on this facility at December 31, 2011 was one-month LIBOR plus 2.75%. Under the revolver facility, all subsidiaries except Willis Engine Securitization Trust (WEST) and WEST Engine Funding LLC 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 30, 2011, we closed on a term loan for a three year term totaling $4.0 million. Interest is payable at a fixed rate of 3.94% and principal and interest is paid monthly. The loan is secured by our corporate aircraft. The funds were used to refinance the loan for our corporate aircraft. The balance outstanding on this loan is $3.7 million as of December 31, 2011.

On January 11, 2010, we closed on a term loan for a four year term totaling $22.0 million, the proceeds of which were used to pay down our revolving credit facility. Interest is payable at a fixed rate of 4.50% and principal and interest is paid quarterly. The loan is secured by three engines. The balance outstanding on this loan is $18.8 million as of December 31, 2011.

On August 9, 2005, we closed an asset-backed securitization through WEST, a bankruptcy remote Delaware Statutory Trust, which is the issuer of various series of term notes secured by a portfolio of engines. At December 31, 2011, $436.8 million of WEST term notes were outstanding. Included in the term notes outstanding are the Series 2007-A2 and Series 2007-B2 warehouse notes that converted to term notes effective February 14, 2011. The term notes are divided into $99.8 million Series 2005-A1 notes, $162.5 million Series 2007-A2 notes, $23.5 million Series 2007-B2 notes and $151.1 million Series 2008-A1 notes.

The Series 2005-A1 notes were issued on August 9, 2005 in the original principal amount of $200.0 million. The interest rate on the Series 2005-A1 notes equals one-month LIBOR plus a margin of 1.25%. The Series 2008-A1 notes were issued on March 28, 2008 in the original principal amount of $212.4 million. The interest rate on the Series 2008-A1 notes equals one-month LIBOR plus a margin of 1.50%. The Series 2005-A1 and 2008-A1 term notes expected maturity is July 2018 and March 2021, respectively.

The Series 2007-A2 and Series 2007-B2 notes were issued on December 13, 2007 in the original principal amounts of $175.0 million and $25.0 million, respectively. The interest rate on the Series 2007-A2 notes and the Series 2007-B2 notes at December 31, 2011 is equal to one-month LIBOR plus a margin of 2.25% and 4.75%, respectively. The Series 2007-A2 and 2007-B2 notes expected maturity is January 2024 and January 2026, respectively.

WEST also entered into a Senior Liquidity Facility on December 13, 2007 which expires on the final maturity date of the Series 2008-A1 term notes in March 2021. The maximum facility size is 4% of the outstanding Series 2007-A2 notes and Series 2008-A1 notes. This facility replaced the requirement to maintain 4% cash reserves for the 2007-A2 notes and the Series 2008-A1 notes. The facility may be drawn on any payment date should the cash flow at WEST be insufficient to pay interest on the Series 2007-A2 notes, Series 2008-A1 notes and any required hedge payments. A commitment fee is payable on the facility. The establishment of this facility resulted in the release of $7.1 million of cash held previously in the Senior Restricted Cash Account in December 2007.

The Series 2008-B1 notes were issued on March 28, 2008 in the original principal amount of $20.3 million. On June 30, 2008, we purchased the WEST Series 2008-B1 notes for $19.8 million (the then-unpaid principal amount of the 2008-B1 notes) with the proceeds of a $20.0 million term loan made by an affiliate of the prior note holder. This term loan is secured by a pledge of the WEST Series 2008-B1 notes to the lender. The term loan was originally for a term of two years with maturity on July 1, 2010 with no amortization with all amounts due at maturity. On May 3, 2010, the Company extended the maturity date from July 1, 2010 to December 31, 2010 and amended the covenants for this term loan to conform to that of the $240.0 million revolving credit facility. On December 29, 2010, the Company further extended the maturity date from December 31, 2010 to December 31, 2011 and increased the interest rate for the term loan from one-month LIBOR plus 3.50% to one-month LIBOR plus 4.00%. On December 14, 2011 the Company further extended the maturity date from

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December 31, 2011 to June 30, 2012. The interest rate remains at one-month LIBOR plus 4.00% and the loan continues to amortize on a monthly basis, with a $14.5 million bullet payment required at the June 30, 2012 maturity date. The balance outstanding on this term loan is $15.2 million as of December 31, 2011.

The Series 2005-B1 notes were issued on August 9, 2005 in the original principal amount of $28.3 million. On January 18, 2011, we purchased the Series 2005-B1 notes for $17.9 million (the then-unpaid principal amount of the 2005-B1 notes) with the proceeds of a term loan made by the bank which was the prior note holder. This term loan is secured by a pledge of the WEST Series 2005-B1 notes to the lender. Interest on this term loan is equal to one-month LIBOR plus a margin of 3.00%. The term of this loan is five years and the loan amortization is consistent with the amortization on the underlying WEST Series 2005-B1 notes, with a bullet payment required at the end of the five year term.

The assets of WEST and WEST Engine Funding LLC are not available to satisfy our obligations or any of our affiliates. WEST is consolidated for financial statement presentation purposes. WEST s ability to make distributions and pay dividends to us is subject to the prior payments of its debt and other obligations and WEST s maintenance of adequate reserves and capital. Under WEST, 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 us. Additionally, maintenance reserve payments and lease security deposits are accumulated in restricted accounts and are not available for general use. Cash from maintenance reserve payments is held in the restricted cash account and is subject to a minimum balance established annually based on an engine portfolio maintenance reserve study provided by a third party. Any excess maintenance reserve amounts remain within the restricted cash accounts and may be utilized for the purchase of new engines.

At December 31, 2011 and 2010, one-month LIBOR was 0.30% and 0.26%, 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 70% to 83% of an engine s net book value and approximately 70% of spare part s net book value. Therefore we must have other available funds for the balance of the purchase price of any new equipment to be purchased or we will not be permitted to draw on these facilities. Many of our 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 and to the extent that engines are sold, repayment of that portion of the debt could be required. We were in compliance with all covenants at December 31, 2011.

Approximately $66.5 million of our debt is repayable during 2012 which includes the $15.2 million under our senior term loan. 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, 2011:

	Payment due by period (in thousands)				
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-term debt obligations	$ 720,219	$ 66,535	$ 118,149	$ 331,732	$ 203,803
Interest payments under long-term debt obligations	61,476	17,242	17,323	11,841	15,070
Interest payments under derivative rate instruments	15,328				