WILLIS LEASE FINANCE CORP
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2016

OR

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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
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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

Title of Each Class	Outstanding at November 2, 2016
Common Stock, $0.01 par value per share	6,489,618

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WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

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PART I — FINANCIAL INFORMATION

Item 1.Consolidated Financial Statements (Unaudited)

WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data, unaudited)

	September 30, 2016	December 31, 2015 (1)
ASSETS		
Cash and cash equivalents	$ 10,653	$ 9,732
Restricted cash	28,217	33,026
Equipment held for operating lease, less accumulated depreciation of $350,595 and $316,366 at September 30, 2016 and December 31, 2015, respectively	1,118,202	1,109,168
Maintenance rights	16,774	12,140
Equipment held for sale	13,899	23,454
Operating lease related receivables, net of allowances of $761 and $912 at September 30, 2016 and December 31, 2015, respectively	12,128	13,626
Spare parts inventory	19,235	20,826
Investments	43,314	41,295
Property, equipment & furnishings, less accumulated depreciation of $5,512 and $11,102 at September 30, 2016 and December 31, 2015, respectively	16,545	20,247
Intangible assets, net	758	932
Other assets	11,603	9,839
Total assets (2)	$ 1,291,328	$ 1,294,285
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 15,700	$ 21,665
Deferred income taxes	102,788	96,154
Notes payable	885,643	866,089
Maintenance reserves	61,160	71,054
Security deposits	24,530	25,010
Unearned lease revenue	5,033	5,090
Total liabilities (3)	1,094,854	1,085,062

Shareholders' equity:		
Common stock ($0.01 par value, 20,000,000 shares authorized; 6,576,369 and 7,548,395 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively)	66	75
Paid-in capital in excess of par	5,940	28,720
Retained earnings	192,311	180,949
Accumulated other comprehensive loss, net of income tax benefit of $974 and $275 at September 30, 2016 and December 31, 2015, respectively.	(1,843)	(521)
Total shareholders' equity	196,474	209,223
Total liabilities and shareholders' equity	$ 1,291,328	$ 1,294,285

(1) Certain amounts include adjustments to prior periods see "Note 1. Summary of Significant Accounting Policies (c) Correction of Immaterial Errors - Consolidated Financial Statements" for further disclosure.

(2) Total assets at September 30, 2016 and December 31, 2015 include the following assets of a variable interest entity (VIE) that can only be used to settle the liabilities of the VIE: Cash, $28,427 and $33,776; Equipment, $316,206 and $328,118; and Other, $3,901 and $6,329 respectively.

(3) Total liabilities at September 30, 2016 and December 31, 2015 include the following liabilities of a VIE for which the VIE creditors do not have recourse to Willis Lease Finance Corporation: Notes payable, $278,426 and $293,331, respectively.

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See accompanying notes to the unaudited consolidated financial statements.

WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands, except per share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 (1)	2016	2015 (1)
REVENUE				
Lease rent revenue	$ 31,270	$ 28,055	$ 88,727	$ 79,197
Maintenance reserve revenue	14,229	16,119	45,562	39,035
Spare parts and equipment sales	4,160	9,133	10,465	15,000
Gain on sale of leased equipment	180	3,804	3,430	7,666
Other revenue	1,622	619	3,614	1,978
Total revenue	51,461	57,730	151,798	142,876
EXPENSES				
Depreciation and amortization expense	16,628	17,102	49,235	52,390
Cost of spare parts and equipment sales	3,066	5,919	7,785	10,219
Write-down of equipment	1,995	5,498	5,924	8,580
General and administrative	12,257	11,742	34,694	30,826
Technical expense	1,414	3,570	4,913	7,836
Net finance costs:				
Interest expense	10,230	9,805	30,635	29,232
Loss (gain) on debt extinguishment	—	—	137	(1,151)
Total net finance costs	10,230	9,805	30,772	28,081
Total expenses	45,590	53,636	133,323	137,932
Earnings from operations	5,871	4,094	18,475	4,944
Earnings from joint ventures	631	558	874	1,127
Income before income taxes	6,502	4,652	19,349	6,071
Income tax expense	2,517	2,101	7,987	2,648
Net income	$ 3,985	$ 2,551	$ 11,362	$ 3,423

Basic earnings per common share:	$ 0.63	$ 0.33	$ 1.69	$ 0.44
Diluted earnings per common share:	$ 0.62	$ 0.32	$ 1.66	$ 0.43
Average common shares outstanding	6,307	7,839	6,711	7,843
Diluted average common shares outstanding	6,448	7,963	6,849	8,011

(1) Certain amounts include adjustments to prior periods see "Note 1. Summary of Significant Accounting Policies (c) Correction of Immaterial Errors - Consolidated Financial Statements" for further disclosure.

See accompanying notes to the unaudited consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(In thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015 (1)	2016	2015 (1)
Net income	$ 3,985	$ 2,551	$ 11,362	$ 3,423
Other comprehensive income:				
Currency translation adjustment	(2,547)	(304)	(2,021)	(304)
Tax benefit related to items of other comprehensive income	881	104	699	104
Other comprehensive income	(1,666)	(200)	(1,322)	(200)
Total comprehensive income	$ 2,319	$ 2,351	$ 10,040	$ 3,223

(1) Certain amounts include adjustments to prior periods see "Note 1. Summary of Significant Accounting Policies (c) Correction of Immaterial Errors - Consolidated Financial Statements" for further disclosure.

See accompanying notes to the unaudited consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Shareholders' Equity
Nine months Ended September 30, 2016 and 2015
(In thousands, unaudited)

	Issued and Outstanding Shares of Common Stock	Common Stock	Paid-in Capital in Excess of par	Accumulated Other Comprehensive Income	Retained Earnings (1)	Total Shareholders' Equity
Balances at December 31, 2014	8,346	$ 83	$ 42,076	$ —	$ 174,489	$ 216,648
Net income	—	—	—	—	3,423	3,423
Net unrealized loss from currency translation adjustment, net of tax benefit of $104	—	—	—	(200)	—	(200)
Shares repurchased	(208)	(2)	(3,648)	—	—	(3,650)
Shares issued under stock compensation plans	207	3	516	—	—	519
Cancellation of restricted stock in satisfaction of withholding tax	(64)	(1)	(1,100)	—	—	(1,101)
Stock-based compensation, net of forfeitures	—	—	2,961	—	—	2,961
Tax benefit on disqualified disposition of shares	—	—	75	—	—	75
Balances at September 30, 2015	8,281	$ 83	$ 40,880	$ (200)	$ 177,912	$ 218,675
	7,548	$ 75	$ 28,720	$ (521)	$ 180,949	$ 209,223

Balances at December 31, 2015						
Net income	—	—	—	—	11,362	11,362
Net unrealized loss from currency translation adjustment, net of tax benefit of $699	—	—	—	(1,322)	—	(1,322)
Shares repurchased	(1,058)	(10)	(25,012)	—	—	(25,022)
Shares issued under stock compensation plans	127	1	154	—	—	155
Cancellation of restricted stock in satisfaction of withholding tax	(41)	—	(866)	—	—	(866)
Stock-based compensation, net of forfeitures	—	—	2,755	—	—	2,755
Tax benefit on disqualified disposition of shares	—	—	189	—	—	189
Balances at September 30, 2016	6,576	$ 66	$ 5,940	$ (1,843)	$ 192,311	$ 196,474

(1) Certain amounts include adjustments to prior periods see "Note 1. Summary

of Significant Accounting Policies (c) Correction of Immaterial Errors -

Consolidated Financial Statements" for further disclosure.

See accompanying notes to the unaudited consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands, unaudited)

	Nine Months Ended September 30,	
	2016	2015 (1)
Cash flows from operating activities:		
Net income	$ 11,362	$ 3,423
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	49,235	52,390
Write-down of equipment	5,924	8,580
Stock-based compensation expenses	2,755	2,961
Amortization of deferred costs	3,231	3,254
Allowances and provisions	(597)	181
Gain on sale of leased equipment	(3,430)	(7,666)
Loss (gain) on extinguishment of debt	137	(1,151)
Income from joint ventures	(874)	(1,127)
Deferred income taxes	7,332	2,429
Changes in assets and liabilities:		
Receivables	2,094	(8,049)
Spare parts inventory	1,116	1,843
Other assets	(664)	(1,221)
Accounts payable and accrued expenses	(1,729)	(7,740)
Restricted cash	3,409	10,238
Maintenance reserves	(9,895)	3,315
Security deposits	(479)	5,204
Unearned lease revenue	(57)	773
Net cash provided by operating activities	68,870	67,637
Cash flows from investing activities:		
Proceeds from sale of equipment (net of selling expenses)	61,825	39,300
Restricted cash for investing activities	55	(11,222)
Capital contribution to joint ventures	(5,545)	(630)
Distributions received from joint ventures	1,167	1,304

Maintenance rights payments received	—	1,709
Purchase of equipment held for operating lease	(113,249)	(137,959)
Purchase of maintenance rights	(4,634)	5,802
Purchase of property, equipment and furnishings	(357)	(3,734)
Net cash used in investing activities	(60,738)	(105,430)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	87,000	140,700
Debt issuance cost	(3,808)	(13)
Restricted cash from financing activities	1,345	25,359
Proceeds from shares issued under stock compensation plans	155	519
Cancellation of restricted stock units in satisfaction of withholding tax	(866)	(1,101)
Excess tax benefit from stock-based compensation	189	75
Repurchase of common stock	(25,022)	(3,650)
Principal payments on notes payable	(66,204)	(128,344)
Net cash provided by (used in) financing activities	(7,211)	33,545
Increase in cash and cash equivalents	921	(4,248)
Cash and cash equivalents at beginning of period	9,732	13,493
Cash and cash equivalents at end of period	$ 10,653	$ 9,245
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	$ 27,855	$ 26,637
Income Taxes	$ 137	$ 99

(1) Certain amounts include adjustments to prior periods see "Note 1. Summary of Signaficant Accounting Policies (c) Correction of Immaterial Errors - Consolidated Financial Statements" for further disclosure.

Supplemental disclosures of non-cash investing activities:
During the nine months ended September 30, 2016 and 2015, liabilities of $3,089 and $3,260, respectively, were incurred but not paid in connection with our purchase of aircraft and engines.
During the nine months ended September 30, 2016 and 2015, engines and equipment totaling $9,266 and $19,654, respectively, were transferred, net from Held for Operating Lease to Held for Sale.
During the nine months ended September 30, 2016, an aircraft of $2,925 was transferred from Property, equipment and furnishings to Assets Held for Lease.

See accompanying notes to the unaudited consolidated financial statements.

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Notes to Unaudited Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presentation:

Our unaudited consolidated financial statements include the accounts of Willis Lease Finance Corporation and its subsidiaries (“we” or the “Company”) and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting on Form 10-Q. Pursuant to such rules and regulations, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto, together with Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly our financial position as of September 30, 2016 and December 31, 2015, and the results of our operations for the three and nine months ended September 30, 2016 and 2015, and our cash flows for the nine months ended September 30, 2016 and 2015. The results of operations and cash flows for the period ended September 30, 2016 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2016.

(b) Principles of Consolidation:

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

(c) Correction of Immaterial Errors – Consolidated Financial Statements:

During the second quarter of 2016 the Company determined that its financial statements for the years ended December 31, 2015, 2014 and 2013 and for prior years and for the quarter ended March 31, 2016 contained errors resulting from the incorrect accounting for equipment purchased with in-place leases. The Company previously did not identify, measure and account for maintenance rights acquired. The Company's accounting policy for maintenance rights is described below as note 1(d). Management evaluated the materiality of the errors described above from a qualitative and quantitative perspective in accordance with the requirements of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 99, Materiality (SAB 99). Based on such evaluation, we have concluded that these corrections would not be material to any individual prior period and have corrected such balances herein.

The associated correcting entries were recorded in the respective period starting with the opening consolidated balance sheet of December 31, 2015. The Consolidated Balance Sheet as of December 31, 2015 presented herein has been revised as follows: decrease in Equipment Held for Operating Lease by $13.7 million, increase in Maintenance Rights by $12.1 million, decrease in Deferred Income Taxes by $0.6 million and decrease in retained earnings by $1.1 million as of December 31, 2015.

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The adjustments to the previously reported Consolidated Statement of Income for the three and nine month periods ending September 30, 2015 were as follows: a decrease in Maintenance Reserve Revenue of nil and $1.7 million, respectively; a decrease in Gain on Sale of Leased Equipment of nil and $34,000, respectively; an increase (decrease) in Depreciation and Amortization expense of $13,000 and ($72,000), respectively; and a decrease in Income Tax Expense of $15,000 and $0.5 million, a decrease in net income of $26,000 and $1.0 million, respectively; and a decrease in basic and diluted earnings per share of nil and $0.12, respectively.

The adjustments to the previously reported Consolidated Statement of cash flows for the nine month periods ending September 30, 2015 were as follows: a decrease in cash provided by operating income of $1.7 million; and a decrease in the cash used by investing activities of $1.7 million.

There were other immaterial out of period adjustments recorded that affected lease rent revenue, spare part sales revenue and expense and general and administrative expenses for the nine month months ended September 30, 2016 and 2015.

(d) Maintenance rights

We identify, measure and account for maintenance right assets and liabilities associated with acquisitions of equipment with in-place leases. A maintenance right asset represents the fair value of the contractual right under a lease to receive equipment in an improved maintenance condition as compared to the maintenance condition on the acquisition date. A maintenance right liability represents the Company's obligation to pay the lessee for the difference between the lease-end contractual maintenance condition of the equipment and the actual maintenance condition of the equipment on the acquisition date. The equipment condition at the end of the lease term may result in either overhaul work being performed by the lessee to meet the required return condition or a financial settlement.

When a capital event is performed on the equipment by the lessee, which satisfies their maintenance right obligation, the maintenance rights are added to the equipment basis and depreciated to the next capital event. When equipment is sold before the end of the pre-existing lease, the maintenance rights are applied against any accumulated maintenance reserves, if paid by the lessee, and the remaining balance is applied to the disposition gain or loss. When a lease terminates, an end of lease true-up is performed and the maintenance right is applied against the accumulated maintenance reserves or, for non-reserve lessees the final settlement payment, and any remaining net maintenance right is recorded in the income statement.

Maintenance right assets were $16.8 million and $12.1 million as of September 30, 2016 and December 31, 2015, respectively.

(e) Fair Value Measurements:

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

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

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

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

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Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

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

The following table shows by level, within the fair value hierarchy, the Company's assets measured at fair value on a nonrecurring basis during the nine months ended September 30, 2016 and 2015, and the losses recorded during the nine months ended September 30, 2016 and 2015 on those assets:

	Assets at Fair Value								Total Losses Nine Months Ended	
	September 30, 2016				September 30, 2015				September 30,	
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	2016	2015
	(in thousands)								(in thousands)	
Equipment held for lease	$ 337	$ —	$ 337	$ —	$ 1,555	$ —	$ 1,555	$ —	$ (1,893)	$ (1,936)
Equipment held for sale	589	—	589	—	7,477	—	7,477	—	(3,556)	(6,644)
Spare parts inventory	1,731	—	1,731	—	—	—	—	—	(475)	—
Total	$ 2,657	$ —	$ 2,657	$ —	$ 9,032	$ —	$ 9,032	$ —	$ (5,924)	$ (8,580)

At September 30, 2016, the Company used Level 2 inputs to measure equipment held for sale. Level 2 inputs include quoted prices for similar assets in inactive markets.

An impairment charge is recorded when the carrying value of the asset exceeds its fair value. A write-down of equipment totaling $5.9 million was recorded during the nine months ended September 30, 2016, of which $2.0 million was recorded due to a management decision to consign one engine for part-out and sale, in which the asset's net book value exceeded the estimated proceeds. An additional asset write-down of $2.0 million was recorded in the nine months ended September 30, 2016 based upon a comparison of the asset net book values with the revised net proceeds expected from part sales arising from consignment of the parts. A further writedown of $1.9 million was recorded due to the adjustment of the carrying value for an impaired engine within the portfolio to reflect estimated market value.

A write-down of equipment totaling $5.5 million was recorded in the nine month period ended September 30, 2015 due to a management decision to consign four engines for part-out and sale, in which the assets net book value exceeds the estimated proceeds from part-out. A further write-down of equipment totaling $3.1 million was recorded in the three months ended September 30, 2015 to adjust the carrying value of engine parts held on consignment for which market conditions for the sale of parts has changed.

(f) Reclassifications:

Reclassifications have been made to our consolidated financial statements for the prior periods to conform to classifications used during the three and nine months ended September 30, 2016.

(g) Foreign Currency Translation:

The Company’s foreign investments have been converted at rates of exchange at September 30, 2016. The changes in exchange rates in our foreign investments reported under the equity method are included in stockholders’ equity as accumulated other comprehensive income.

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(h) Recent Accounting Pronouncements:

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for the Company beginning January 1, 2017, with early application permitted. The Company is currently evaluating the impact that the guidance will have on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (topic 842). Under the new standard, the accounting for leases by lessors would basically remain unchanged from the existing concepts in ASC 840, Leases. In addition, FASB has decided that lessors would be precluded from recognizing selling profit and revenue at lease commencement for any sales-type or direct finance lease that does not transfer control of the underlying asset to the lessee. The standard will be effective for public business entities for annual periods (including interim periods), beginning after December 15, 2018, and early adoption will be permitted. The Company is currently evaluating the potential impact the adoption of the standard will have on its consolidated financial condition, results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. The amendments in this ASU are effective for fiscal years beginning after December 15, 2016 and for interim periods therein. We are evaluating the impact that this new guidance will have on our consolidated financial position.

In April 2015, the FASB issued ASU. 2015-03, "Simplifying the Presentation of Debt Issuance Costs". ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the accounting treatment for debt discounts. We have adopted ASU 2015-03 during the nine-month period ended September 30, 2016. Other assets and Long-term debt, net of discount have been revised as of December 31, 2015 to reflect the retroactive reclassification of $12.6 million of debt issuance costs that have been reclassified from Other assets to Notes payable.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Companies will need to use more judgment and estimates than under the guidance currently in effect, including estimating the amount of variable revenue to recognize over each identified performance obligation. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

2. Management Estimates

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

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

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

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

3. Investments

On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company — Willis Mitsui & Company Engine Support Limited (“WMES”) for the purpose of acquiring and leasing jet engines. Each partner holds a fifty percent interest in the joint venture and the Company uses the equity method in recording investment activity. The investment has increased to $31.4 million as of September 30, 2016 as a result of the Company making $5.5 million in capital contributions to WMES, receiving $1.2 million in distributions, recording $1.2 million as deferred gain as a result of the Company selling four engines to WMES and the Company’s share of WMES reported income of $0.9 million during the nine months ended September 30, 2016.

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

million initial capital contribution representing the up-front funding for the new joint venture. The new company will acquire and lease jet engines to Chinese airlines and will concentrate on meeting the fast growing demand for leased commercial aircraft engines and aviation assets in the People's Republic of China. The investment has decreased to $11.9 million as of September 30, 2016 as a result of a foreign currency translation adjustment of $2.0 million and by the Company's share of CASC Willis reported loss of $0.1 million during the nine months ended September 30, 2016.

Nine Months Ended September 30, 2016	WMES	CASC	Total
	(in thousands)		
Investment in joint ventures as of December 31, 2015	$ 27,272	$ 14,023	$ 41,295
Capital contribution	5,545	—	5,545
Earnings from joint venture	929	(55)	874
Deferred gain on engine sale	(1,212)	—	(1,212)
Distribution	(1,167)	—	(1,167)
Foreign currency translation adjustment	—	(2,021)	(2,021)
Investment in joint ventures as of September 30, 2016	$ 31,367	$ 11,947	$ 43,314

"Other revenue" on the Consolidated Statement of Income includes management fees earned of $0.5 million and $0.4 million during the three months ended September 30, 2016 and 2015, respectively, related to the

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servicing of engines for the WMES lease portfolio. “Other revenue” on the Consolidated Statement of Income includes management fees earned of $1.3 million and $1.2 million during the nine months ended September 30, 2016 and 2015, respectively, related to the servicing of engines for the WMES lease portfolio. “Gain on sale of leased equipment” on the Consolidated Statement of Income includes $1.2 million for the nine months ended September 30, 2016 related to the sale of four engines to WMES for $46.1 million. As 50% owners of WMES, we deferred an incremental $1.2 million gain to our investment which is being amortized over a 15-year period to a 55% residual value.

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

	Three Months Ended September 30,	
	2016	2015
	(in thousands)	
Revenue	$ 8,549	$ 7,067
Expenses	7,496	6,302
WMES net income	$ 1,053	$ 765

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Revenue	$ 25,547	$ 19,997
Expenses	23,886	18,052
WMES net income	$ 1,661	$ 1,945

	September 30, 2016	December 31, 2015
	(in thousands)	
Total assets	$ 292,412	$ 256,126
Total liabilities	221,127	195,258
Total WMES net equity	$ 71,285	$ 60,868

4. Notes Payable

Notes payable consisted of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Credit facility at a floating rate of interest of LIBOR plus 2.75%, secured by engines. The facility has a committed amount of $890.0 million at September 30, 2016, which revolves until the maturity date of April 2021.	$ 588,000	$ 549,000
WEST II Series 2012-A term notes payable at a fixed rate of interest of 5.50%, maturing in September 2037. Secured by engines.	284,549	300,467
Note payable at fixed interest rates ranging from 2.60% to 2.97%, maturing in July 2024. Secured by an aircraft.	14,879	16,135
Note payable at a variable interest rate of LIBOR plus 2.25%, maturing in January 2018. Secured by engines.	12,052	13,082