PNC FINANCIAL SERVICES GROUP INC
Form 4
November 17, 2006

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
WHITFORD THOMAS K

(Last) (First) (Middle)

ONE PNC PLAZA, 249 FIFTH AVENUE

(Street)

PITTSBURGH, PA 15222-2707

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PNC FINANCIAL SERVICES GROUP INC [PNC]

3. Date of Earliest Transaction (Month/Day/Year)
11/15/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP and Chief Risk Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
$5 Par Common Stock	11/15/2006		F [(1)](#)		16,244	D	$ 69.59	129,570	D	
$5 Par Common Stock								8,548	I	401(k) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
WHITFORD THOMAS K ONE PNC PLAZA 249 FIFTH AVENUE PITTSBURGH, PA 15222-2707			EVP and Chief Risk Officer	

Signatures

Lori A. Hasselman, Attorney-in-Fact for Thomas K. Whitford	11/17/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares withheld to satisfy tax liability resulting from the vesting of restricted stock previously granted.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ="Times New Roman" style="font-size:10.0pt;">1,869

1,369

Other assets

22,208

22,355

Total assets

$

1,179,252

$

1,199,229

LIABILITIES AND SHAREHOLDERS EQUITY

Liabilities:

Accounts payable and accrued expenses	$ 19,645	$ 16,283
Deferred income taxes	89,846	86,685
Notes payable	753,820	787,614
Maintenance reserves	75,103	77,335

Explanation of Responses:

Security deposits	18,197	15,158
Unearned lease revenue	3,824	3,549
Total liabilities	960,435	986,624

Shareholders equity:

Common stock ($0.01 par value, 20,000,000 shares authorized; 8,373,910 and 8,399,739 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively)	84	84
Paid-in capital in excess of par	44,566	44,741
Retained earnings	174,000	167,455
Accumulated other comprehensive income, net of income tax expense of $91 and $174 at June 30, 2014 and December 31, 2013, respectively	167	325
Total shareholders equity		

		218,817
		212,605
Total liabilities and shareholders equity	$ 1,179,252	$ 1,199,229

See accompanying notes to the unaudited consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES
Consolidated Statements of Income

(In thousands, except per share data, unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
REVENUE				
Lease rent revenue	$ 24,801	$ 24,750	$ 51,701	$ 49,237
Maintenance reserve revenue	14,560	11,788	28,590	21,017
Gain on sale of leased equipment	1,620	848	1,929	1,534
Other revenue	1,270	567	3,031	1,469
Total revenue	42,251	37,953	85,251	73,257
EXPENSES				
Depreciation and amortization expense	15,735	14,191	31,445	27,801
Write-down of equipment	2,183	1,985	2,478	1,985
General and administrative	9,261	9,204	18,947	17,473
Technical expense	2,370	4,216	3,890	5,890
Net finance costs	9,396	9,852	18,755	19,079
Total expenses	38,945	39,448	75,515	72,228
Earnings (loss) from operations	3,306	(1,495)	9,736	1,029
Earnings from joint ventures	245	3,382	551	3,475
Income before income taxes	3,551	1,887	10,287	4,504
Income tax (expense) benefit	(1,337)	7,805	(3,742)	6,798
Net income	$ 2,214	$ 9,692	$ 6,545	$ 11,302
Basic earnings per common share:	$ 0.28	$ 1.20	$ 0.82	$ 1.40
Diluted earnings per common share:	$ 0.27	$ 1.17	$ 0.80	$ 1.36
Average common shares outstanding	7,976	8,106	7,946	8,073
Diluted average common shares outstanding	8,179	8,303	8,164	8,307

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 June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net income	$ 2,214	$ 9,692	$ 6,545	$ 11,302
Other comprehensive income:				
Derivative instruments				
Unrealized loss on derivative instruments		(58)		(49)
Reclassification adjustment for (gains) losses included in net income	(124)	393	(249)	759
Net gain (loss) recognized in other comprehensive income	(124)	335	(249)	710
Tax benefit (expense) related to items of other comprehensive income	46	(122)	91	(260)
Other comprehensive income (loss)	(78)	213	(158)	450
Total comprehensive income	$ 2,136	$ 9,905	$ 6,387	$ 11,752

See accompanying notes to the unaudited consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES
Consolidated Statements of Shareholders Equity
Six Months Ended June 30, 2014 and 2013
(In thousands, unaudited)

	Issued and Outstanding Shares of Common Stock	Common Stock	Paid-in Capital in Excess of par	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total Shareholders Equity
Balances at December 31, 2012	8,716	$ 87	$ 47,785	$ (538)	$ 151,829	$ 199,163
Net income					11,302	11,302
Unrealized gain from derivative instruments, net of tax expense of $260				450		450
Shares repurchased	(25)		(358)			(358)
Shares issued under stock compensation plans	203	2	504			506
Cancellation of restricted stock units in satisfaction of withholding tax	(33)		(480)			(480)
Stock-based compensation, net of forfeitures			1,715			1,715
Balances at June 30, 2013	8,861	$ 89	$ 49,166	$ (88)	$ 163,131	$ 212,298
Balances at December 31, 2013	8,400	$ 84	$ 44,741	$ 325	$ 167,455	$ 212,605
Net income					6,545	6,545
Unrealized loss from derivative instruments, net of tax benefit of $91				(158)		(158)
Shares repurchased	(60)		(1,214)			(1,214)
Shares issued under stock compensation plans	83	1	330			331
Cancellation of restricted stock units in satisfaction of withholding tax	(49)	(1)	(933)			(934)
Stock-based compensation, net of forfeitures			1,642			1,642
Balances at June 30, 2014	8,374	$ 84	$ 44,566	$ 167	$ 174,000	$ 218,817

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)

	Six Months Ended June 30, 2014	2013
Cash flows from operating activities:		
Net income	$ 6,545	$ 11,302
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	31,445	27,801
Write-down of equipment	2,478	1,985
Stock-based compensation expenses	1,642	1,715
Amortization of deferred costs	2,042	2,073
Amortization of interest rate derivative cost	(249)	(199)
Allowances and provisions	9	(596)
Gain on sale of leased equipment	(1,929)	(1,534)
Income from joint ventures, net of distributions	(551)	(3,475)
Deferred income taxes	3,252	(6,832)
Changes in assets and liabilities:		
Receivables	3,440	4,738
Inventory	(11,244)	
Other assets	2,942	(812)
Accounts payable and accrued expenses	2,590	4,757
Restricted cash	(6,056)	(8,538)
Maintenance reserves	(2,232)	7,180
Security deposits	4	(534)
Unearned lease revenue	275	(463)
Net cash provided by operating activities	34,403	38,568
Cash flows from investing activities:		
Proceeds from sale of equipment (net of selling expenses)	13,649	10,093
Restricted cash for investing activities	12,303	(2,208)
Capital contribution to joint ventures		(6,145)
Purchase of equipment held for operating lease	(23,169)	(92,111)
Purchase of property, equipment and furnishings	(201)	(375)
Net cash provided by (used in) investing activities	2,582	(90,746)
Cash flows from financing activities:		
Proceeds from issuance of notes payable	10,000	69,000
Debt issuance cost	(4,837)	(592)
Interest bearing security deposits	3,035	4,553
Proceeds from shares issued under stock compensation plans	331	506
Cancellation of restricted stock units in satisfaction of withholding tax	(934)	(480)
Repurchase of common stock	(1,214)	(358)
Principal payments on notes payable	(43,795)	(21,490)
Net cash provided by (used in) financing activities	(37,414)	51,139
Decrease in cash and cash equivalents	(429)	(1,039)
Cash and cash equivalents at beginning of period	12,801	5,379
Cash and cash equivalents at end of period	$ 12,372	$ 4,340
Supplemental disclosures of cash flow information:		

Net cash paid for:				
Interest	$	16,995	$	16,832
Income Taxes	$	119	$	16

Supplemental disclosures of non-cash investing activities:

During the six months ended June 30, 2014, and 2013, a liability of $802 and $4,051, respectively, was incurred but not paid in connection with our purchase of aircraft and engines.

During the six months ended June 30, 2014 and 2013, engines and equipment totalling $1,684 and $2,063, respectively, were transferred from Held for Operating Lease to Held for Sale but not settled.

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, 2013.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly our financial position as of June 30, 2014 and December 31, 2013, and the results of our operations for the three and six months ended June 30, 2014 and 2013, and our cash flows for the six months ended June 30, 2014 and 2013. The results of operations and cash flows for the period ended June 30, 2014 are not necessarily indicative of the results of operations or cash flows which may be reported for the remainder of 2014.

(b) 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. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

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

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

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

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

As of June 30, 2014 and December 31, 2013, we held no interest rate swaps. As of June 30, 2013, we measured the fair value of our interest rate swaps of $100.0 million (notional amount) based on Level 2 inputs, due to the usage of inputs that can be corroborated by observable market data. The Company estimates the fair value of derivative instruments using a discounted cash flow technique and at June 30, 2013 used creditworthiness inputs that corroborate observable market data evaluating the Company s and counterparties risk of non-performance. The interest rate swap agreements as of June 30, 2013 had a net liability fair value of $0.8 million. For the six months ended June 30, 2014 and June 30, 2013, ($0.2 million) and $0.8 million, respectively, were realized as net finance costs on the Consolidated Statements of Income.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

We determine the 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 as of June 30, 2014 and 2013, and the gains (losses) recorded during the six months ended June 30, 2014 and 2013 on those assets:

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	Assets at Fair Value								Total Losses	
	June 30, 2014				June 30, 2013				Six Months Ended June 30,	
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	2014	2013
	(in thousands)								(in thousands)	
Inventory	$ 13,981	$	$	$ 13,981	$	$	$	$	$	$
Equipment held for sale	27,804		25,142	2,662	22,786		22,633	153	$ (2,478)	$ (1,985)
Total	$ 41,785	$	$ 25,142	$ 16,643	$ 22,786	$	$ 22,633	$ 153	$ (2,478)	$ (1,985)

At June 30, 2014, the Company used Level 2 inputs and, due to a portion of the valuations requiring management judgment due to the absence of quoted market prices, Level 3 inputs to measure the fair value of certain assets that were held as inventory not consigned to third parties. The fair values of the assets categorized as Level 3 were based on management s estimate considering projected future sales proceeds at June 30, 2014 and June 30, 2013. An impairment charge is recorded when the carrying value of the asset exceeds its fair value. An asset write-down of $2.5 million was recorded in the six months ended June 30, 2014 and an asset write down of $2.0 million was recorded in the six months ended June 30, 2013 based upon a comparison of the asset net book value with the net proceeds expected from part sales arising from the part-out of engines.

(c) Recent Accounting Pronouncements:

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which supersedes most of the current revenue recognition requirements. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers are also required. This guidance is effective for the Company in the first quarter of 2017 and early application is not permitted. Entities must adopt the new guidance using one of two retrospective application methods. We are currently evaluating the standard to determine the impact of its adoption on the Consolidated Financial Statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists which is part of Accounting Standards Codification (ASC) 740: Income Taxes. The new guidance requires an entity to present an unrecognized tax benefit and an NOL carryforward, a similar tax loss, or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. We adopted this ASU as of January 1, 2014. The adoption of this ASU did not have a material impact on our Consolidated Financial Statements.

2. Management Estimates

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

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

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

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

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3. Commitments, Contingencies, Guarantees and Indemnities

Our principal offices are located in Novato, California. We occupy space in Novato under a lease that covers approximately 20,534 square feet of office space and expires September 30, 2018. The remaining lease rental commitment is approximately $2.3 million. Equipment leasing, financing, sales and general administrative activities are conducted from the Novato location. We sub-lease office and warehouse space for our operations in San Diego, California. This lease expires October 31, 2014, and the remaining lease commitment is approximately $50,000. We lease office and warehouse space in Shanghai, China. The office lease expires December 31, 2014 and the warehouse lease expires July 31, 2017 and the remaining lease commitments are approximately $32,000 and $22,000, respectively. We lease office space in London, United Kingdom. The lease expires December 21, 2015 and the remaining lease commitment is approximately $111,000. We lease office space in Blagnac, France. The lease expires December 31, 2014 and the remaining lease commitment is approximately $10,000. We lease office space in Dublin, Ireland. The lease expires May 15, 2017 and the remaining lease commitment is approximately $34,000. We lease office and warehouse space in Boynton Beach, Florida. The lease expires October 29, 2019 and the remaining lease commitment is approximately $1.3 million.

We have made purchase commitments to secure the purchase of three engines and one aircraft and related equipment for a gross purchase price of $29.8 million, for delivery in 2014. As of June 30, 2014, non-refundable deposits paid related to these purchase commitments were $1.9 million. In October 2006, we entered into an agreement with CFM International (CFM) to purchase new spare aircraft engines. The agreement specifies that, subject to availability, we may purchase up to a total of 45 CFM56-7B and CFM56-5B spare engines over a five year period, with options to acquire up to an additional 30 engines. Our outstanding purchase order with CFM for one engine represents deferral of an engine delivery originally scheduled for 2009 and is included in our commitments to purchase in 2014.

4. Investments

On May 25, 2011, we entered into an agreement with Mitsui & Co., Ltd. to participate in a joint venture formed as a Dublin-based Irish limited company Willis Mitsui & Company Engine Support Limited (WMES) for the purpose of acquiring and leasing jet engines. Each partner holds a fifty percent interest in the joint venture. The initial capital contribution by the Company for its investment in WMES was $8.0 million. The Company provided the initial lease portfolio by transferring 7 engines to the joint venture in June 2011. In addition, the Company made $1.0 million, $5.6 million and $11.2 million capital contributions to WMES in the years ended December 31, 2011, 2012 and 2013, respectively, for the purchase of 17 engines from third parties, increasing the number of engines in the lease portfolio to 26. The Company made no capital contributions to WMES in the six months ended June 30, 2014. The $25.8 million of capital contributions has been partially offset by $3.6 million, resulting in a net investment of $22.2 million, which has increased to $24.0 million as a result of the Company s share of WMES reported earnings to date. The $3.6 million reduction in investment represents 50% of the $7.2 million gain related to the sale by the Company of the 7 engines to WMES. Our investment in the joint venture is $24.0 million and $23.5 million as of June 30, 2014 and December 31, 2013, respectively.

Six Months Ended June 30, 2014		**(in thousands)**
Investment in WMES joint venture as of December 31, 2013	$	23,485
Capital contribution		
Earnings from joint venture		551
Distribution		
Investment in WMES joint venture as of June 30, 2014	$	24,036

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. The initial capital contribution by the Company for its investment in CASC Willis is $15.0 million. We have not provided funding to the new company as of June 30, 2014, but expect to provide the initial capital contribution required by each joint venture partner prior to the end of 2014. 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.

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5. Long Term Debt

At June 30, 2014, notes payable consists of loans totaling $753.8 million, payable over periods of approximately 3 months to 8 years with interest rates varying between approximately 2.4% and 5.5%.

At June 30, 2014, we had a revolving credit facility to finance the acquisition of aircraft engines for lease as well as for general working capital purposes. On June 4, 2014, we entered into a Second Amended and Restated Credit Agreement which increased this revolving credit facility to $700.0 million from $450.0 million and extended the maturity date by five years to June 2019. Debt issuance costs totaling $4.7 million were incurred related to the new facility. As of June 30, 2014 and December 31, 2013, $357.0 million and $88.0 million was available under this facility, respectively. The initial interest rate on the facility is LIBOR plus 2.50%. Quarterly, the interest rate is adjusted based on the Company s leverage ratio, as calculated under the terms of the revolving credit facility. Under the revolving credit facility, all subsidiaries except WEST II and WOLF jointly and severally guarantee payment and performance of the terms of the loan agreement. The guarantee would be triggered by a default under the agreement.

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

The assets and liabilities of WEST II will remain on the Company s balance sheet. The current portfolio of 71 commercial jet aircraft engines and leases thereof secures the obligations of WEST II under the ABS. The Notes have no fixed amortization and are payable solely from revenue received by WEST II from the engines and the engine leases, after payment of certain expenses of WEST II. The Notes bear interest at a fixed rate of 5.50% per annum. The Notes may be accelerated upon the occurrence of certain events, including the failure to pay interest for five business days after the due date thereof. The Notes are expected to be paid 10 years from the issuance date by September 17, 2022. The legal final maturity of the Notes is September 15, 2037.

In connection with the transactions described above, effective September 17, 2012, the Company entered into a Servicing Agreement and Administrative Agency Agreement with WEST II to provide certain engine, lease management and reporting functions for WEST II in return for fees based on a percentage of collected lease revenues and asset sales. Because WEST II is consolidated for financial statement reporting purposes, all fees eliminate upon consolidation.

At June 30, 2014 and December 31, 2013, $361.5 million and $370.6 million of WEST II term notes were outstanding, respectively. The assets of WEST II are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WEST II. WEST II is consolidated for financial statement presentation purposes. WEST II s ability to make distributions and pay dividends to the Company is subject to the prior payments of its debt and other obligations and WEST II s maintenance of adequate reserves and capital. Under WEST II, cash is collected in a restricted account, which is used to service the debt and any remaining amounts, after debt service and defined expenses, are distributed to the Company. Additionally, a portion of maintenance reserve payments and all lease security deposits are accumulated in restricted accounts and are available to fund future maintenance events and to secure lease payments, respectively. Cash from maintenance reserve payments are held in the restricted cash account equal to the maintenance obligations projected for the subsequent six months, and are subject to a minimum balance of $9.0 million.

On September 18, 2013, we completed the acquisition of the fifty percent membership interest held by the other joint venture partner in WOLF, with the transaction being accounted for as an asset acquisition. As a result of the transaction, we now own one hundred percent of WOLF and it is consolidated for financial statement presentation purposes. The WOLF assets and liabilities and the results of operations have been included in the accompanying consolidated financial statements as of the acquisition date, September 18, 2013. Two term notes with an original principal amount of $36.0 million, with a current balance outstanding of $25.9 million as of June 30, 2014, are included in Notes payable. The two term notes are non-recourse to the Company, have a maturity date of May 28, 2017 and interest is payable at one-month LIBOR plus 4.0%.

The assets of WOLF are not available to satisfy our obligations or any of our affiliates other than the obligations specific to WOLF. WOLF s ability to make distributions to the Company is subject to the prior payments of all of its debt and other obligations. Under WOLF, cash related to parts sales and leasing of engine assets is collected in a restricted account and used to pay certain operating expenses, service the debt, and upon full debt repayment are distributed to the Company.

On January 10, 2014, we extended the term of an existing loan that was scheduled to mature on January 11, 2014. The loan has a term of 4 years with a maturity date of January 11, 2018. Interest is payable at one-month LIBOR plus 2.25% and principal and interest is paid quarterly. The loan is secured by three engines. The balance outstanding on this loan is $15.1 million and $15.8 million as of June 30, 2014 and December 31, 2013, respectively.

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On September 28, 2012, we closed on a loan for a five year term totaling $8.7 million. Interest is payable at a fixed rate of 5.50% and principal and interest is paid quarterly. The loan is secured by one engine. The funds were used to purchase the engine secured under the loan. The balance outstanding on this loan is $7.9 million and $8.2 million as of June 30, 2014 and December 31, 2013, respectively.

On September 30, 2011, we closed on a loan for a three year term totaling $4.0 million. Interest is payable at a fixed rate of 3.94% and principal and interest is paid monthly. The loan is secured by our corporate aircraft. The funds were used to refinance the loan for our corporate aircraft. The balance outstanding on this loan is $0.3 million and $1.0 million as of June 30, 2014 and December 31, 2013, respectively.

On July 16, 2014, we closed on a loan for a ten year term totaling $13.4 million. Interest is payable at a fixed rate of 2.75% for the initial five years of the loan and principal and interest is paid monthly. The loan provided 100% of the funding for the purchase of a corporate aircraft.

At June 30, 2014 and 2013, one-month LIBOR was 0.16% and 0.19%, respectively.

The following is a summary of the aggregate maturities of notes payable at June 30, 2014:

Year		**(in thousands)**
2014	$	13,862
2015		34,307
2016		27,588
2017		37,657
2018		33,804
Thereafter		606,602
	$	753,820

6. Derivative Instruments

We periodically hold interest rate derivative instruments to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with $384.1 million and $392.0 million of our borrowings at June 30, 2014 and December 31, 2013, respectively, at variable rates. As a matter of policy, we do not use derivatives for speculative purposes. We currently have no interest rate swap agreements in place. During 2013 we were a party to one interest rate swap agreement with a notional outstanding amount of $100.0 million with a fixed rate of 2.10%. The swap agreement expired in November 2013. The remaining effective portion of these hedges at the swap expiration date is being amortized into earnings over the term of the underlying borrowings. We recorded a ($0.2 million) and $0.8 million (benefit) expense to net finance costs during the six month periods ended June 30, 2014 and June 30, 2013, respectively.

The Company estimates the fair value of derivative instruments using a discounted cash flow technique and uses creditworthiness inputs that can be corroborated by observable market data evaluating the Company s and counterparties risk of non-performance. Valuation of the derivative instruments requires certain assumptions for underlying variables and the use of different assumptions would result in a different valuation. We apply hedge accounting and account for the change in fair value of our cash flow hedges through other comprehensive income for all derivative instruments.

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Earnings Effects of Derivative Instruments on the Consolidated Statements of Income

The following table provides information about the income effects of our cash flow hedging relationships for the three months ended June 30, 2014 and 2013:

Derivatives in Cash Flow Hedging Relationships	Location of (Gain) Loss Recognized on Derivatives in the Statements of Income	Amount of (Gain) Loss Recognized on Derivatives in the Statements of Income Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
		(in thousands)			
Interest rate contracts	Interest expense	$ (124)	$ 393	$ (249)	$ 759
Total		$ (124)	$ 393	$ (249)	$ 759

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

Effect of Derivative Instruments on Cash Flow Hedging

The following tables provide additional information about the financial statement effects related to our cash flow hedges for the three months ended June 30, 2014 and 2013:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain Recognized in OCI on Derivatives (Effective Portion) Three Months Ended June 30, 2014	2013	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) Three Months Ended June 30, 2014	2013
	(in thousands)			(in thousands)	
Interest rate contracts*	$	$ 438	Interest expense	$ 124	$ (393)
Total	$	$ 438	Total	$ 124	$ (393)

Derivatives in Cash Flow	Amount of Gain Recognized in OCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)

Hedging Relationships	Six Months Ended June 30, 2014		2013 (in thousands)	from Accumulated OCI into Income (Effective Portion)	Six Months Ended June 30, 2014		2013 (in thousands)	
Interest rate contracts**	$	$	910	Interest expense	$	249	$	(759)
Total	$	$	910	Total	$	249	$	(759)

* These amounts are shown net of $0 and $0.5 million of other comprehensive income reclassified to the income statement during the three months ended June 30, 2014 and 2013, respectively.

* * These amounts are shown net of $0 and $1.0 million of other comprehensive income reclassified to the income statement during the six months ended June 30, 2014 and 2013, respectively.

We hold interest rate derivative instruments from time to time to mitigate exposure to changes in interest rates, in particular one-month LIBOR, with $339.0 million of our borrowings at June 30, 2013 at variable rates. The last of our interest rate derivatives terminated on November 25, 2013, at which time the liabilities under derivative instruments decreased to nil.

The change in fair value on a derivative instrument designated as a cash flow hedge is reported as a component of accumulated other comprehensive income and is reclassified into earnings in the period during which the transaction being hedged affects earnings or it is probable that the forecasted transaction will not occur.

As of June 30, 2014, we had $249,000 in accumulated other comprehensive income related to a previously held derivative instrument designated as a cash flow hedge. This amount is being reclassified into interest expense through December 2014, the remaining term of the associated debt. For the quarters ended June 30, 2014 and June 30, 2013, interest expense was reduced by $124,000 and $103,000 respectively, as a result of this reclassification out of accumulated comprehensive income.

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Counterparty Credit Risk

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

7. Stock-Based Compensation Plans

Our 2007 Stock Incentive Plan (the 2007 Plan) was adopted on May 24, 2007. Under this 2007 Plan, a total of 2,000,000 shares are authorized for stock based compensation in the form of either restricted stock or stock options. There have been 1,800,154 shares of restricted stock awarded to date. The fair value of the restricted stock awards equaled the stock price at the date of grants. The following table summarizes restricted stock activity during the years ended December 31, 2012, December 31, 2013 and the six months ended June 30, 2014:

	Shares
Restricted stock at December 31, 2011	651,294
Granted in 2012 (vesting over 4 years)	283,000
Granted in 2012 (vesting on first anniversary from date of issuance)	28,040
Cancelled in 2012	(8,988)
Vested in 2012	(270,692)
Restricted stock at December 31, 2012	682,654
Granted in 2013 (vesting over 4 years)	130,000
Granted in 2013 (vesting on first anniversary from date of issuance)	21,408
Cancelled in 2013	(60,110)
Vested in 2013	(258,822)
Restricted stock at December 31, 2013	515,130
Granted in 2014 (vesting on first anniversary from date of issuance)	50,208
Vested in 2014	(149,107)
Restricted Stock at June 30, 2014	416,231

All cancelled shares have reverted to the share reserve and are available for issuance at a later date, in accordance with the 2007 Plan.

Our accounting policy is to recognize the associated expense of such awards on a straight-line basis over the vesting period. Approximately $1.6 million and $1.7 million in stock compensation expense was recorded in the six-month periods ended June 30, 2014 and June 30, 2013, respectively. The stock compensation expense related to the restricted stock awards will be recognized over the average remaining vesting period of 1.8 years and totals $4.4 million at June 30, 2014 compared to 2.5 years and totaling $6.9 million at June 30, 2013.

At June 30, 2014, the intrinsic value of unvested restricted stock awards issued through June 30, 2014 is $10.2 million. At June 30, 2013, the intrinsic value of unvested restricted stock awards issued through June 30, 2013 was $9.5 million. The 2007 Plan terminates on May 24, 2017.

In the six months ended June 30, 2014, 26,437 options under the 1996 Stock Options/Stock Issuance Plan (the 1996 Plan) were exercised. As of June 30, 2014, there are 49,000 stock options remaining under the 1996 Plan which have an intrinsic value of $0.8 million. In the six months ended June 30, 2013, 44,225 options under the 1996 Stock Options/Stock Issuance Plan (the 1996 Plan) were exercised and 6,500 options were canceled.

8. Income Taxes

Income tax expense (benefit) for the six months ended June 30, 2014 and 2013 was $3.7 million and $(6.8 million), respectively. The effective tax rate for the six months ended June 30, 2014 and 2013 was 36.4% and (150.9%), respectively. The effective rate for the six months ended June 30, 2013 differs from the U.S. federal statutory rate primarily due to an income tax benefit of $8.6 million related to an extraterritorial income (ETI) adjustment recorded in the year ago period for certain of our engines. We recognized this income tax benefit in the year ago period resulting from adjustments made to the tax basis of certain of our engines due to a decision in a recent court case on behalf of another company in which our circumstances are similar. The Company records tax expense or benefit for unusual or infrequent items discretely in the period in which they occur. Our tax rate is subject to change based on changes in the mix of assets leased to domestic and foreign lessees, the proportions of revenue generated within and outside of California, the amount of executive compensation exceeding $1.0 million as defined in IRS code 162(m) and numerous other factors, including changes in tax law.

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9. Fair Value of Financial Instruments

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

The carrying amount of the Company s outstanding balance on its Notes Payable as of June 30, 2014 and December 31, 2013 was estimated to have a fair value of approximately $759.0 million and $798.8 million, respectively, based on the fair value of estimated future payments calculated using the prevailing interest rates at each period end. There have been no changes in our valuation technique during the six months ended June 30, 2014. The fair value of the Company s notes payable at June 30, 2014 would be categorized as Level 3 of the fair value hierarchy. The carrying value of the Company s outstanding balance on its notes payable was $753.8 million as of June 30, 2014 and $787.6 million as of December 31, 2013.

10. Operating Segments

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

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

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

For the three months ended June 30, 2014	Leasing and Related Operations	Spare Parts Sales	Total
Revenue:			
Lease rent revenue	$ 24,801	$	$ 24,801
Maintenance reserve revenue	14,560		14,560
Spare parts sales		29	29
Gain on sale of leased equipment	1,591		1,591
Other revenue	552	718	1,270
Total revenue	41,504	747	42,251
Expenses:			
Depreciation and amortization expense	15,662	73	15,735
General and administrative	8,644	617	9,261

Net finance costs		9,396			9,396
Other expense		4,553			4,553
Total expenses		38,255	690		38,945
Earnings from operations	$	3,249	$ 57	$	3,306

Explanation of Responses:

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For the six months ended June 30, 2014	Leasing and Related Operations	Spare Parts Sales	Total
Revenue:			
Lease rent revenue	$ 51,701	$	$ 51,701
Maintenance reserve revenue	28,590		28,590
Spare parts sales		108	108