

WILLIS LEASE FINANCE CORP
Form DEF 14A
April 30, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

Willis Lease Finance Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- x No fee required.
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WILLIS LEASE FINANCE CORPORATION

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 24, 2007

To our Stockholders:

You are cordially invited to attend the 2007 Annual Meeting of Stockholders of WILLIS LEASE FINANCE CORPORATION, which will be held at our executive offices, 2320 Marinship Way, Suite 300, Sausalito, California, 94965 at 2:00 p.m. local time on May 24, 2007, for the following purposes:

1. To elect one Class III Director to serve until the 2010 Annual Meeting of Stockholders;
2. To consider a proposal to adopt the 2007 Incentive Stock Plan to replace the Company's 1996 Stock Option/Stock Issuance Plan which has expired.
3. To act upon such other business as may properly come before the meeting or any adjournment or postponement thereof.

These matters are more fully described in the proxy statement accompanying this Notice.

The Board of Directors has fixed the close of business on April 3, 2007 as the record date for determining those stockholders who will be entitled to notice of and to vote at the meeting. The stock transfer books will not be closed between the record date and the date of the meeting.

A quorum comprising the holders of the majority of the outstanding shares of our common stock on the record date must be present or represented for the transaction of business at the 2007 Annual Meeting of Stockholders. Accordingly, it is important that your shares be represented at the meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND RETURN IT IN THE ENCLOSED ENVELOPE AS PROMPTLY AS POSSIBLE**, to ensure that your shares will be voted at the 2007 Annual Meeting of Stockholders. You may revoke your proxy at any time prior to the time it is voted.

The Proxy material is being delivered to you on or about May 5, 2007. Please read the proxy material carefully. Your vote is important, and we appreciate your cooperation in considering and acting on the matters presented.

By Order of the Board of Directors,

Charles F. Willis, IV
Chairman of the Board

April 30, 2007

WILLIS LEASE FINANCE CORPORATION

PROXY STATEMENT

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You should read the entire proxy statement carefully prior to returning your proxy

**PROXY STATEMENT
FOR
2007 ANNUAL MEETING OF STOCKHOLDERS
OF
WILLIS LEASE FINANCE CORPORATION
To Be Held on May 24, 2007**

SOLICITATION AND VOTING OF PROXIES

General

This proxy statement is furnished in connection with the solicitation by the Board of Directors (also referred to as the Board) of WILLIS LEASE FINANCE CORPORATION (we, us, our, Willis Lease or the Company) of proxies to be voted at the 2007 Annual Meeting of Stockholders which will be held at 2:00 p.m. local time on May 24, 2007 at our executive offices, located at 2320 Marinship Way, Suite 300, Sausalito, California 94965, or at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of 2007 Annual Meeting of Stockholders.

This proxy statement is being mailed to stockholders on or about April 30, 2007. Our 2006 Annual Report is being mailed to stockholders concurrently with this proxy statement. You should not regard the 2006 Annual Report as proxy soliciting material or as a communication by means of which any solicitation of proxies is to be made.

Voting

The close of business on April 3, 2007 is the record date for determining whether you in your capacity as a stockholder are entitled to notice of and to vote at the 2007 Annual Meeting of Stockholders. As of that date, we had 8,054,732 shares of common stock, \$0.01 par value, issued and outstanding. All of the shares of our common stock outstanding on the record date are entitled to vote at the 2007 Annual Meeting of Stockholders. If you are entitled to vote at the meeting, you will have one vote for each share of common stock you hold with regard to each matter to be voted upon.

The required quorum for the meeting is a majority of the outstanding shares of common stock eligible to be voted on the matters to be considered at the meeting. In the election for director (Proposal 1), the nominee for the Class III Director receiving the highest number of affirmative votes will be elected. The affirmative vote of a majority of the outstanding shares present or represented and entitled to vote at the 2007 Annual Meeting of Stockholders is required for approval of the Company's proposed 2007 Incentive Stock Plan (the Stock Plan) (Proposal 2).

Shares of our common stock represented by proxies on the accompanying proxy card, which are properly executed and returned to us, will be voted at the 2007 Annual Meeting of Stockholders in accordance with the instructions you mark on the proxy card. If you do not mark any instructions on the proxy card, your shares represented by the proxy card will be voted for the election of the Board's nominee as Class III Director (Proposal 1) and for approval of the Stock Plan (Proposal 2).

If a properly signed proxy or ballot indicates that you abstain from voting or that your shares are not to be voted on a particular proposal, your shares will not be counted as having been voted on that proposal, although your shares will be counted as being in attendance at the meeting for purposes of determining the presence of a quorum. Broker non-votes (*i.e.*, shares held by brokers or nominees as to which instructions

have not been received from beneficial owners or persons entitled to vote that the broker or nominee does not have discretionary power to vote on a particular matter) are counted towards a quorum, but are not counted for any purpose in determining whether a matter has been approved by a majority of the shares represented in person or by proxy and entitled to vote.

Our management does not know of any matters to be presented at the 2007 Annual Meeting of Stockholders other than those set forth in this proxy statement and in the Notice accompanying this proxy statement. If other matters should properly come before the meeting, the proxy holders will vote on such matters in accordance with their best judgment.

Revocability of Proxies

If you give a proxy in the form accompanying this proxy statement, you have the right to revoke it at any time before it is voted at the meeting. You may revoke your proxy by:

- filing an instrument of revocation with our Corporate Secretary;
- presenting at or prior to the meeting of a duly executed proxy bearing a later date; or
- attending the meeting and electing to vote in person.

Solicitation

This solicitation is made by our Board of Directors on our behalf. The entire cost of preparing, assembling and mailing the Notice of 2007 Annual Meeting of Stockholders, this proxy statement and the enclosed proxy card, and of soliciting proxies, will be paid by us. Proxies will be solicited principally through the use of the mails, but, if we desire, we may solicit proxies personally or by telephone, electronic mail or special letter by our officers and our regular employees for no additional compensation. We have retained American Stock Transfer & Trust and ADP Investor Communication Services to aid in the solicitation at an estimated cost to us of approximately \$7,500 plus out-of-pocket expenses.

INFORMATION ABOUT THE BOARD OF DIRECTORS AND THE COMMITTEES OF THE BOARD

Board of Directors

Our Bylaws authorize us to have five Directors. At the present time, the Board consists of five Directors who are divided into three classes: Class I (two Directors), Class II (two Directors) and Class III (one Director). One class is elected each year for a three-year term. Gérard Laviec, W. William Coon, Jr., Hans Jorg Hunziker and Robert T. Morris are independent directors, as defined in the Nasdaq listing standard.

Our business, property and affairs are managed under the direction of the Board. Directors are kept informed of our business through discussions with our President and Chief Executive Officer and our other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. The Board held a total of five meetings during the fiscal year ended December 31, 2006. Each incumbent director attended at least 75% of the aggregate of: (i) the total number of meetings of the Board; and (ii) the total number of meetings held by all Committees of the Board on which he served.

Communications with the Board

You may communicate with the Board of Directors by sending a letter to: Board of Directors, Willis Lease Finance Corporation, c/o Office of the Corporate Secretary, 2320 Marinship Way, Suite 300, Sausalito, California 94965. Our Office of the Corporate Secretary will receive your correspondence and forward it to the Board of Directors or to any individual director or directors to whom your

communication is directed, unless the communication is unduly hostile, threatening, illegal, does not reasonably relate to us or our business, or is similarly inappropriate. The Office of the Corporate Secretary has the authority to discard any inappropriate communications or to take other appropriate actions with respect to any such inappropriate communications.

Attendance at the Annual Meeting of Stockholders

Mr. Willis attended the 2006 Annual Meeting of Stockholders; our other directors did not attend. We have no policy requiring board members to attend our annual meeting.

Committees of the Board

The Board of Directors has an Audit Committee and a Compensation Committee, both currently comprised solely of independent directors, as defined by the Nasdaq listing standard.

The Nasdaq's listing rules require that our Audit Committee be composed of three independent directors.

The Board does not have a nominating committee or committee performing the functions of such a committee. The Board has determined that the function of a nominating committee is adequately fulfilled by the independent directors. It has not established such a committee and therefore has no nominating committee charter. The full Board of Directors participates in the consideration of director nominee.

Although we have not formally set any specific minimum qualifications that director nominees must possess, we look for candidates with the appropriate experience in aviation and leasing, a strong professional background, and a general understanding of marketing, finance and other disciplines related to the success of a company in our industry. Our directors are generally nominated by our management or other directors, and each nominee is evaluated based on the above qualifications and in the context of the Board as a whole. While we do not normally engage professional search firms or other third parties in connection with our Board nomination process, we may do so in the future.

Since we do not have a history of stockholder nominations of directors, we do not have a formal policy regarding stockholder nominees to the Board. Under our Bylaws, stockholders wishing to nominate a candidate for director must give notice to our Corporate Secretary no later than the close of business on the 90th day prior to the first anniversary of our preceding year's annual meeting. If the annual meeting is more than 30 days before or 60 days after such anniversary date, the notice must be delivered no later than the 90th day prior to such annual meeting or the 10th day following the day on which we publicly announce of the annual meeting date. The notice should set forth: (i) the name, age, business address and residence address of the nominee; (ii) the principal occupation or employment of the nominee; (iii) the class and number of our shares beneficially owned by the nominee; (iv) a description of all arrangements or understandings between the stockholder and the nominee and any other person(s) pursuant to which the nomination is made by the stockholder; and (v) any other information relating to the nominee that is required to be disclosed in proxy statements for the election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934. Nominees proposed by stockholders will be evaluated in the same manner as those proposed by management or existing directors.

The Audit Committee oversees our accounting function, internal controls and financial reporting process on behalf of the Board. The Audit Committee meets with our financial management and our independent auditors to review our financial statements and filings, the audit and matters arising from them, and financial reporting procedures, including any significant judgments made in preparation of the financial statements. The Audit Committee currently consists of Directors Robert T. Morris (Chairman), Hans Joerg Hunziker and Gérard Laviec. All members of the audit committee are able to read and understand financial statements. Mr. Morris also qualifies as an audit committee financial expert, as

defined by the SEC, and is financially sophisticated as required by the Nasdaq listing standards. The Committee held five meetings during the 2006 fiscal year. On May 17, 2004 the Board reviewed and reapproved (originally approved on June 13, 2000) the Audit Committee Charter dated June 13, 2000 that meets the requirements of the Securities and Exchange Commission and the Nasdaq. The Audit Committee's charter is available on the Company's web site (www.willislease.com).

During 2006, the Audit Committee relied on an exception to the Nasdaq Marketplace Rule 4350(d)(2)(A) set forth in Marketplace Rule 4350(d)(2)(B). Rule 4350(d)(2)(A) requires that an audit committee be comprised of at least three members, each of whom must be independent. Glenn L. Hickerson, an independent director and member of the audit committee, did not stand for re-election at our 2006 annual meeting. Our stockholders voted to replace Mr. Hickerson with Hans Jörg Hunziker and the board appointed him to serve on the audit committee notwithstanding the fact that Mr. Hunziker had a prior consulting relationship with the company that disqualified him as an independent director until February 1, 2007. Mr. Hunziker provided consulting services in connection with, among other things, raising debt and equity capital in Europe and representing us with customers and potential strategic partners. The board relied on the exemption in Section 4350(d)(2)(B) which permits a non-independent director to participate on the audit committee if he meets the criteria set forth in Section 10A(m)(3) under the Securities Exchange Act and the rules thereunder and is not a current officer or employee or a family member of such officer or employee. This exemption is allowed under exceptional and limited circumstances, where the board determines that membership on the committee by the individual is required by the best interests of the company and its stockholders. Mr. Hunziker meets the criteria required by the exemption and our board determined that his participation on the audit committee was in the best interests of our stockholders because he has extensive experience in our industry and served as a member of our board from November 2000 until July 1, 2003 so he provides the board continuity and experience. During the period that we relied on the exemption, our board does not believe that such reliance materially adversely affected the ability of the audit committee to act independently.

The Compensation Committee reviews and approves our compensation arrangements for executive officers and will administer the 2007 Stock Plan. The Compensation Committee currently consists of Directors Gérard Laviec (Chairman), W. William Coon, Jr. and Robert T. Morris. This Committee held 3 meetings during the 2006 fiscal year. For additional details, see "Compensation of Executive Officers Compensation Discussion and Analysis" elsewhere in this proxy statement.

Director Compensation

For details regarding director compensation, see "Compensation of Executive Officers Compensation Discussion and Analysis Director Compensation" elsewhere in this proxy statement.

Biographical Information

	Director Since	Age*
Class I Directors Whose Terms Expire at the 2008 Annual Meeting:		
Robert T. Morris	2006	58
W. William Coon, Jr.	2003	67
Class II Directors Whose Terms Expire at the 2009 Annual Meeting:		
Hans Jörg Hunziker	2006	57
Gérard Laviec	2002	67
Class III Director Whose Term Expires at the 2010 Annual Meeting:		
Charles F. Willis, IV	1985	58

* Age as of April 3, 2007.

Principal Occupations of Nominees and Continuing Directors

Charles F. Willis, IV is the founder of Willis Lease, has served as Chief Executive Officer, President and a Director since our incorporation in 1985, and has served as Chairman of the Board of Directors since 1996. Mr. Willis has over 40 years of experience in the aviation industry. From 1975 to 1985, Mr. Willis served as president of Willis Lease's predecessor, Charles F. Willis Company, which purchased, financed and/or sold a variety of large commercial transport aircraft and provided consulting services to the aviation industry. During 1974, Mr. Willis operated a small business not involved in the aviation industry. From 1972 through 1973, Mr. Willis was Assistant Vice President of Sales at Seaboard World Airlines, a freight carrier. From 1965 through 1972, he held various positions at Alaska Airlines, including positions in the departments of flight operations, sales and marketing.

Hans Jörg Hunziker previously served as one of our Directors from November 2000 until July 1, 2003. He was elected a Class II Director at the 2006 Annual Meeting. Mr. Hunziker currently serves as the CEO of Hunziker Lease & Finance, a company he founded in Zug, Switzerland in 2002 which offers independent business consulting services to the aviation industry. From 1998 to 2002, he was the President and Chief Executive Officer of Flightlease AG Ltd., a public company involved in aircraft leasing as a subsidiary of SAirGroup whose headquarters are in Zurich, Switzerland. From 1998 to 2001, he was also co-CEO of GATX Flightlease Management GmbH, an asset management and commercial aircraft leasing company. From 1996 to 1998, he was the Chief Financial Officer of SAirServices Ltd., a group of companies including aircraft maintenance and overhaul, ground handling services, information technology and real estate, and Managing Director of SAirServices Invest Ltd. From 1991 to 1996, he was Chief Financial Officer of Swissair Associated Companies Ltd., a group of 150 companies, primarily in the hotel, catering (Gate Gourmet) and trading business. Mr. Hunziker holds a Masters Degree in Economics and Business Administration from the University of Zurich. He also received the equivalent of a doctoral degree from the University of Zurich, after successful completion of his thesis on Strategic Planning in the Airline Industry. In addition to previously serving as a director of Willis Lease Finance, he was Chairman of the Board of Flightlease Holdings (Guernsey) Limited (and a director of several of its subsidiaries in Guernsey and Bermuda), as well as Chairman of the Board of Flightlease (Netherlands) B.V., SRTechnics Group AG, SRTechnics Switzerland AG, Swisscargo AG and SAirServices Invest AG. He was also a member of the Board of Directors of FlightTechnics LLC, Delaware, Swissport Brazil Ltd., Polygon Insurance Company Ltd. and Gotland Shipping AG.

Gérard Laviec joined our Board of Directors in February 2002. In 2001, Mr. Laviec retired from his position as President and Chief Executive Officer of CFM International, a partnership between General Electric Company and SNECMA and a supplier of engines for commercial jets. Mr. Laviec joined CFM International in 1976 in its incipient phase. From 1983 to 1995, he served as General Manager in product support engineering, business operations, sales and marketing, and was named President and Chief Executive Officer of CFM International in 1995. Mr. Laviec has also served as the Chairman of the Board of Shannon Engine Support, a wholly-owned CFM International subsidiary, in Ireland since 1995. Mr. Laviec is a graduate of INSA Lyon, France with a degree in Mechanical Engineering. He served in the French Air Force as a Flight Officer in Search and Rescue teams prior to joining SNECMA, and is a Knight for the French National Order of Merit.

W. William Coon, Jr. currently serves as President, CEO and Director of T Group America. Previously, he spent 34 years at GE Aircraft Engines (GEAE), a division of General Electric Company (NYSE:GE), where he served in numerous management positions. Prior to retiring from GEAE in 2000, Mr. Coon was General Manager for Small Commercial Aircraft Services. From 1984 to 1998 he served as Director of Product Support, where he was responsible for supplying global services to the company's regional airline customers. Mr. Coon holds a Bachelor of Science Degree in Aeronautical Engineering from the University of Michigan and a Masters in Business Administration from Xavier University.

Robert T. Morris is currently President of Robert Morris & Company. He joined Union Bank of California Leasing in 2004 to establish an innovative equipment leasing group, and currently serves as President of Union Bank of California Leasing. Prior to joining Union Bank of California Leasing, he was a consultant to more than 25 commercial banks for their equipment leasing operations over a 12 year period. He has also worked for Bank of San Francisco, Bank of Montreal and GATX Leasing Corporation. Mr. Morris holds a Masters Degree from the American Graduate School of International Management and a Bachelors of Arts Degree from the University of Denver with majors in Economics, Political Science and History.

**PROPOSAL 1
ELECTION OF ONE CLASS III DIRECTOR**

Our Board is divided into three classes, each class having a three-year term that expires in successive years. At the 2007 Annual Meeting of Stockholders, one Director will be elected in Class III, to serve a three-year term expiring at the 2010 Annual Meeting of Stockholders or until succeeded by another qualified director who has been duly elected.

The nominee for Director in Class III is Charles F. Willis, IV.

The proxy holders intend to vote all proxies received by them for the foregoing nominee, unless instructions to the contrary are marked on the proxy. In the event that any nominee is unable or declines to serve as a Director at the time of the 2007 Annual Meeting of Stockholders, the proxies will be voted for any nominee who shall be designated by the present Board to fill the vacancy. As of the date of this proxy statement, the Board is not aware of any nominee who is unable or will decline to serve as a director.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE NOMINEE AS CLASS III DIRECTOR.

**PROPOSAL 2
APPROVAL OF 2007 INCENTIVE STOCK PLAN**

General

The Company's stockholders are being asked to approve the Willis Lease Finance Corporation 2007 Incentive Stock Plan (the "2007 Plan"). The Board of Directors of the Company (the "Board") unanimously approved the 2007 Plan on April 19, 2007. The principal provisions of the 2007 Plan are summarized below. This summary is qualified in its entirety by reference to the actual 2007 Plan, a copy of which is attached as Exhibit A to this Proxy Statement.

The 2007 Plan is intended to be the successor to the Willis Lease Finance Corporation 1996 Stock Option/Stock Issuance Plan, which expired last year. The 2007 Plan will govern the grant of stock-based awards to our employees, directors and consultants. Its purpose is to promote the interests of the Company by providing eligible persons with the opportunity to acquire a proprietary interest, or increase their proprietary interest in the Company as an incentive for them to remain in the service of the Company.

Purpose of Adopting the 2007 Plan

Adoption of the 2007 Plan will provide the Company with the continued ability to provide equity-based compensation to eligible employees, directors and consultants, thereby aligning their interests with those of the stockholders to increase the Company's value over the long-term.

If stockholders approve the 2007 Plan, the Company will use the 2007 Plan to compensate eligible employees, directors and consultants. If stockholders do not approve the 2007 Plan, the Company will not have a stockholder-approved plan from which to be able to make incentive stock awards to its employees on an ongoing basis.

Summary of the Key Terms of the 2007 Plan

Eligibility. All employees, directors and consultants of the Company or of any parent or any subsidiary of the Company are eligible to receive stock awards under the 2007 Plan (each employee, director or consultant who receives such a stock award, a Participant). As of April 3, 2007, there were approximately fifty three employees, four independent directors and four consultants who would be eligible to participate in the 2007 Plan. Participants will receive grants of stock awards at the discretion of the Board as compensation for their services to the Company.

Types of Awards. The types of stock awards that are available for grant under the Plan are:

- incentive stock options;
- non-qualified stock options;
- restricted stock bonuses;
- restricted stock purchase rights;
- stock appreciation rights;
- phantom stock units;
- restricted stock units;
- performance share bonuses;
- performance share units; and
- stapled stock appreciation rights

Administration of the 2007 Plan. The Board shall administer the 2007 Plan unless and until the Board delegates administration to a committee (the Committee). The Board has the power and authority to, among other things: (i) designate eligible participants in the 2007 Plan, (ii) determine the type(s), number, terms and conditions of stock awards, as well as the timing and manner of grant, (iii) interpret the 2007 Plan, and establish, amend and revoke rules and regulations to administer the 2007 Plan, (iv) amend the 2007 Plan or any stock award granted pursuant thereto and (v) exercise such powers and perform such acts as the Board deems necessary, desirable or expedient to promote the best interests of the Company that are not in conflict with the provisions of the 2007 Plan. If the Board delegates administration to the Committee, the Committee may exercise, in connection with the administration of the 2007 Plan, any of the powers and authority granted to the Board under the 2007 Plan. The Committee may delegate to a subcommittee any of the administrative powers the Committee is authorized to exercise, subject to such resolutions as may be adopted from time to time by the Board (references in this summary to the Board shall thereafter be to the Committee or the subcommittee, as applicable). The Board may revoke the delegation to the Committee at any time and assume the administration of the 2007 Plan.

Stock Subject to the 2007 Plan. The maximum aggregate number of shares of our Common Stock that may be issued pursuant to stock awards under the 2007 Plan may not exceed two million shares (the Share Reserve). Any stock award will reduce the Share Reserve by one share. To the extent that a distribution pursuant to a stock award is made in cash, the Share Reserve will be reduced by the number of shares of Common Stock subject to the redeemed or exercised portion of such stock award. Shares of Common Stock covered by stock awards that expire, are cancelled, terminate, are reacquired by us prior to vesting will revert to or be added to the Share Reserve and become available

for issuance under the 2007 Plan. Shares of Common Stock that are not acquired by a holder of a stock award granted under the 1996 Plan shall not revert or be added to the Share Reserve or become available for issuance under the 2007 Plan.

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Other Share Limits. The maximum aggregate number of shares of Common Stock that may be issued pursuant to incentive stock options under the 2007 Plan is two million shares. No employee shall be eligible to be granted incentive stock options, non-qualified stock options, or stock appreciation rights covering more than two hundred thousand shares of Common Stock during any fiscal year.

Fair Market Value. Generally, fair market value of the Company's Common Stock will be the closing sales price of the Company's Common Stock on any established stock exchange (including the Nasdaq Stock Market) or on the Nasdaq SmallCap Market (if applicable) on the date of determination. On April 3, 2007, the fair market value per share of the Company's Common Stock determined on this basis was \$10.60.

Terms and Conditions of Options. The 2007 Plan provides that options must have an exercise price that is at least equal to 100% of the fair market value of our Common Stock on the date the option is granted. To the extent permitted in his or her option agreement and to the extent permitted by law, an option holder may exercise an option by payment of the exercise price in a number of different ways, including: (i) in cash or by check at the time the option is exercised, or (ii) in the discretion of the Board: (1) by delivery to the Company of other Common Stock, (2) pursuant to a same day sale program to the extent permitted by law, (3) by any other form of consideration permitted by law, or (4) by some combination of the foregoing. Unless there is a provision to the contrary in the individual optionholder's stock award agreement, payment for Common Stock pursuant to an option may only be made in the form of cash, check or pursuant to a same day sale program. The vesting of options generally will be determined by the Board.

If an optionholder's continuous service terminates for any reason other than disability, death or misconduct he or she will generally have three months from the date of such termination to exercise his or her options (to the extent that the optionholder was entitled to exercise such options as of the date of such termination), unless his or her option agreement provides otherwise. If an optionholder's continuous service terminates as a result of disability or death, he or she will generally have twelve months in the case of disability and eighteen months in the case of death for his or her estate to exercise his or her options (to the extent that the optionholder was entitled to exercise such options as of the date of such termination), unless his or her option agreement provides otherwise. If an optionholder's continuous service is terminated for misconduct, his or her option will immediately terminate, unless his or her option agreement provides otherwise. However, in no event may the optionholder exercise an option past the expiration of its term as set forth in the option agreement. The term of each option granted under the 2007 Plan will generally be ten years from the date of grant.

Automatic Awards to Non-Employee Directors. The 2007 Plan provides that in addition to any other awards that non-employee directors may be granted, non-employee directors will automatically be granted restricted stock bonuses as follows:

- Initial award of 5,000 shares of restricted stock. Such shares will vest over a four year period.
- Annual award of restricted stock will be equal in value to fifty percent of the Director's annual fee. The shares will vest on the first anniversary of grant.

Terms and Conditions of Restricted Stock Bonuses and Performance Share Bonuses. Restricted stock bonuses and performance share bonuses are grants of shares of Common Stock not requiring the payment of any monetary consideration by a Participant (except as may be required by the General Corporation Law of the State of Delaware). The vesting of restricted stock bonuses may be based on a Participant's continuous service or the achievement of performance criteria. The vesting of performance share bonuses will always be based on the achievement of performance criteria. Restricted stock bonuses that vest based solely on a Participant's continuous service will not fully vest in less than two years. Restricted stock bonuses that vest based solely on a Participant's performance will not fully vest in less

than one year. In the event a Participant's continuous service terminates, all unvested shares under these awards shall be reacquired by us at no cost to us.

Terms and Conditions of Restricted Stock Purchase Rights. Restricted stock purchase rights entitle a Participant to purchase shares of Common Stock that are subject to restrictions determined by the Board. The purchase price is determined by the Board and will not be less than 100% of the fair market value per share of Common Stock on the date the stock award is made or at the time the purchase is consummated. The purchase price of Common Stock acquired pursuant to a restricted stock purchase right will be paid by a Participant either in cash or by check at the time of purchase, or at the discretion of the Board, according to a deferred payment or other similar arrangement to the extent permitted by law. The Board shall determine the criteria under which shares of Common Stock under Restricted Stock Purchase Right agreement may vest.

Terms and Conditions of Stock Appreciation Rights. The Board may grant stock appreciation rights independently of or in connection with an option grant. The base price per share of a stock appreciation right will be at least 100% of the fair market value per share of underlying Common Stock on the date of grant. Each stock appreciation right entitles a Participant upon redemption to an amount equal to (a) the excess of (1) the fair market value on the redemption date of one share of Common Stock over (2) the base price, times (b) the number of shares of Common Stock covered by the stock appreciation right being redeemed. To the extent a stock appreciation right is granted concurrently with an option grant, the redemption of the stock appreciation right will proportionately reduce the number of shares of Common Stock subject to the concurrently granted option. Stock appreciation rights may be paid in shares of Common Stock, cash or a combination thereof in the Board's discretion.

Terms and Conditions of Phantom Stock Units. A phantom stock unit is the right to receive the value of one share of Common Stock, redeemable upon terms and conditions set by the Board. Distributions upon redemption of phantom stock units may be in shares of Common Stock valued at fair market value on the date of redemption or in cash, or a combination of both, as determined by the Board in its sole discretion.

Terms and Conditions of Restricted Stock Units and Performance Share Units. The Board also may award restricted stock units and performance share units, both of which entitle a Participant to receive the value of one share of Common Stock per unit at the time the unit vests. Holders of restricted stock units or performance share units are not entitled to dividend equivalents unless provided by the Board at the time of grant. The Board has discretion to provide that a Participant pay for restricted stock units or performance share units with cash or other consideration permissible by law. The vesting of restricted stock units may be based on a Participant's continuous service or the achievement of performance criteria. The vesting of performance share units will be based on the achievement of performance criteria which may include (i) earnings, (ii) net income, (iii) operating income, (iv) operating profit, (v) cash flow, (vi) stockholder returns, (vii) return measures, (viii) earnings before or after either (or any combination of) interest, taxes, depreciation or amortization, (ix) gross revenues, (x) common stock share price, (xi) reductions in expense levels in each case, where applicable, determined either on a Company-wide basis or in respect of any one or more business units, (xii) market share, (xiii) annual net income to common stock, (xiv) earnings per share, (xv) annual cash flow provided by operations, (xvi) changes in annual revenues, (xvii) strategic business criteria, consisting of one or more objectives based on meeting specified revenue, market penetration, geographic business expansion goals, objectively identified project milestones, cost targets and goals relating to acquisitions or divestitures, (xviii) sales, (xix) costs, (xx) results of customer satisfaction surveys, (xxi) service reliability, (xxii) operating and maintenance cost management, and/or (xxiii) achievement of business or operational goals such as market share and/or business development. Restricted stock units may vest based solely on either a Participant's continuous service or performance criteria. Restricted stock units that vest based solely on the achievement of performance criteria, will not vest fully in less than one year. In the event a Participant's continuous service terminates, the unvested

portion of any restricted stock unit or performance share until will expire immediately. To the extent permitted by the Board in a restricted stock unit or performance share unit agreement, a Participant may elect to defer receipt of the value of the shares of Common Stock otherwise deliverable upon the vesting of such restricted stock units or performance share units if such election complies with the procedures established by applicable law.

Acceleration of Stock Awards. The Board shall have the power to accelerate exercisability and/or vesting of any stock award granted pursuant to the 2007 Plan upon a Change of Control (as defined below) or upon the death, disability or termination of continuous service of a Participant, notwithstanding any provision in any stock award agreement to the contrary.

Adjustment. The maximum number of shares of Common Stock subject to the 2007 Plan, the maximum number of shares of Common Stock that can be granted to an employee during any fiscal year pursuant to incentive stock options, non-qualified stock options, or stock appreciation rights, and the number of securities or other property and exercise or base price of securities or other property subject to outstanding stock awards, will be appropriately and proportionally adjusted by the Board on account of mergers, consolidations, reorganizations, recapitalizations, reincorporations, stock splits, spin-offs, stock dividends, extraordinary dividends and distributions, liquidating dividends, combinations or exchanges of shares, changes in corporate structure or other transactions in which the Company does not receive any consideration (except that conversion of convertible securities of the Company shall not be treated as a transaction in which the Company does not receive any consideration). Subject to any required action by the stockholders, the Board shall make such adjustments and the Board's determinations with respect to any adjustment will be final, binding and conclusive.

Effect of Change of Control. In the event of a Change of Control (as defined below), other than a dissolution or liquidation of the Company, the Board or the board of directors of any surviving entity or acquiring entity may provide or require that the surviving or acquiring entity (a) assume or continue all or any part of the stock awards outstanding under the 2007 Plan or (b) substitute substantially equivalent stock awards for those outstanding under the 2007 Plan. If the outstanding awards will not be so continued, assumed, or substituted, then with respect to stock awards held by Participants whose continuous service has not terminated, the Board in its discretion may (1) provide for payment of a cash amount in exchange for the cancellation of the stock awards, (2) continue the stock awards, or (3) terminate the stock awards upon the consummation of the Change of Control, but only if Participants have been permitted to exercise or redeem any portion of (including, at the discretion of the Board, any unvested portion of) any option, stock appreciation right, phantom stock unit, restricted stock unit or performance share unit at or prior to the Change of Control. In the event of a Change of Control involving dissolution or liquidation of the Company, all outstanding stock awards will terminate immediately prior to such dissolution or liquidation.

Change of Control means the occurrence of any of the following: (a) the sale, exchange, lease or other disposition of all or substantially all of the assets of the Company to a person or group of related persons, as such terms are defined or described in Sections 3(a)(9) and 13(d)(3) of the Exchange Act, (b) a merger, consolidation or similar transaction involving the Company, (c) any person or group is or becomes the beneficial owner (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the voting stock of the Company, including by way of merger, consolidation or otherwise, (d) a change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are either (i) Directors of the Company as of the date the Plan first becomes effective (ii) elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those Directors whose election or nomination was not in connection with any transaction described above or in connection with an actual or threatened proxy contest relating to the election of Directors to the Company or (e) a dissolution or liquidation of the Company.

Amendment and Termination of the 2007 Plan. The Board may amend, suspend or terminate the 2007 Plan in any respect and at any time, subject to stockholder approval, if such approval is required by applicable law or stock exchange rules. Further, any amendment or termination of the 2007 Plan will not materially impair the rights of any Participant with respect to any awards already granted to such Participant without such Participant's consent.

Effective Date; Term of the 2007 Plan. The 2007 Plan will become effective immediately upon its approval by the Company's stockholders. Unless earlier terminated by the Board, the 2007 Plan will terminate on the day before the tenth anniversary of the date that the 2007 Plan is adopted by the stockholders.

Tax Consequences of the 2007 Plan

The following discussion of the federal income tax consequences of the 2007 Plan is intended to be a summary of applicable federal law as currently in effect. Foreign, state and local tax consequences may differ and laws may be amended or interpreted differently during the term of the 2007 Plan or of stock awards granted thereunder.

Options: An optionholder is not taxed when a non-qualified stock option is granted. On exercise, however, the optionholder recognizes ordinary income equal to the difference between the option's exercise price and the fair market value of the underlying Common Stock on the date of exercise. Any gain (or loss) on subsequent disposition of the shares of Common Stock acquired through exercise of an option is long-term capital gain (or loss) if the shares are held for at least one year following exercise. When an incentive stock option is granted, an optionholder is not taxed on the grant of such option. Upon exercise, the optionholder does not recognize ordinary income and the Company is not entitled to an income tax deduction. The optionholder, however, must treat the excess of fair market value of the underlying Common Stock on the date of exercise over the option's exercise price as an item of adjustment for purposes of the alternative minimum tax. If the optionholder disposes of the underlying Common Stock after the optionholder has held the Common Stock for at least two years from the date of grant and one year after the incentive stock option was exercised, the amount the optionholder receives upon the disposition over the exercise price is treated as long-term capital gain for the optionholder. If the optionholder makes a disqualifying disposition of the underlying Common Stock by disposing of the Common Stock before it has been held for at least two years after the date of grant and one year after the date the incentive stock option was exercised, the optionholder recognizes ordinary income equal to the excess of the fair market value of the underlying Common Stock on the date of exercise over the option's exercise price. The Company generally is entitled to an income tax deduction equal to the ordinary income recognized by the optionholder for the Company's taxable year that ends with or within the taxable year in which the optionholder recognized such ordinary income.

Stock Appreciation Rights and Phantom Stock Units: The grant of a stock appreciation right or phantom stock unit generally is not a taxable event for a Participant or the Company. Upon redemption of the stock appreciation right or vesting of the phantom stock unit, the Participant generally will recognize ordinary income equal to the amount of cash and/or the fair market value (as of the date of receipt) of shares received. The Company will be entitled to a tax deduction in the same year and for the same amount of ordinary income recognized. If the stock appreciation right is settled in shares, the Participant's subsequent sale of the shares generally will give rise to capital gain or loss equal to the difference between the sale price and the ordinary income recognized when the Participant received the shares, and these capital gains (or losses) will be taxable as long-term capital gains if the recipient held the shares for more than one year.

Restricted Stock Bonuses, Performance Share Bonuses, Restricted Stock Purchase Rights, Restricted Stock Units and Performance Share Units: Recipients of restricted stock bonuses,

performance shares bonuses, restricted stock purchase rights, restricted stock units and performance share units do not recognize income at the time of the grant of such awards (unless, in the case of the grant of restricted stock bonuses and performance share bonuses or the purchase of shares under a restricted stock purchase right, the recipient makes an election under Section 83(b) of the Internal Revenue Code to be taxed at the time of grant or exercise, as applicable). However, upon payment to Participants of shares of Common Stock with respect to stock units or upon the lapse of restrictions with respect to restricted stock, Participants generally recognize ordinary income in an amount equal to the fair market value of the stock or units at such time, and the Company will receive a corresponding deduction.

Limits on Deductions. Under Section 162(m) of the Internal Revenue Code, our ability to deduct compensation paid to our chief executive officer and the four other most highly paid executive officers in a particular year is limited to \$1 million per person, except that compensation that is performance-based, as defined under Section 162(m), will be excluded for purposes of calculating the amount of compensation subject to this \$1 million limitation. Our ability to deduct compensation paid to any other executive officer or employee is not affected by this provision.

New 2007 Plan Benefits

No options or stock appreciation rights have been granted and no shares of Common Stock have been issued under the 2007 Plan. The effectiveness of the 2007 Plan is dependent on receiving shareholder approval. The granting of awards under the 2007 Plan to employees and consultants is discretionary, and we cannot now determine the number or type of award to be granted in the future to any particular person or group of employees. The granting of restricted stock bonuses to non-employee directors will be non-discretionary as described above in the section entitled Automatic Awards to Non-Employee Directors.

New Plan Benefits

2007 Incentive Stock Plan

The table below provides the determinable benefits to be awarded under the 2007 Plan, when it is adopted, assuming the closing price of Company stock on the day of the Annual Meeting of Stockholders is \$10.50.

Name and Position	Dollar Value	Number of Units(1)
Non-executive director group	\$ 192,990	18,380

(1) Restricted Stock

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE WILLIS LEASE FINANCE CORPORATION S 2007 INCENTIVE STOCK PLAN.

EXECUTIVE OFFICERS OF WILLIS LEASE FINANCE CORPORATION

Our executive officers are as follows:

Name	Age*	Positions and Offices
Charles F. Willis, IV**	58	President and Chief Executive Officer
Lee G. Beaumont	49	Executive Vice President and Chief Operating Officer
Donald A. Nunemaker	59	Executive Vice President, General Manager Leasing
Bradley S. Forsyth	41	Senior Vice President and Chief Financial Officer
Thomas E. MacAleavey	54	Senior Vice President, Sales and Marketing
Thomas C. Nord	66	Senior Vice President, General Counsel and Secretary

* Age as of April 3, 2007.

** See business experience background under Principal Occupation of Nominees and Continuing Directors.

Lee G. Beaumont, a 20 year veteran in the aerospace industry, joined us in 2006. He currently serves as our Executive Vice President and Chief Operating Officer. Formerly, Mr. Beaumont was a consultant to The Carlyle Group of Washington, D.C. Prior to his consulting assignment, he was with Standard Aero Limited for 20 years, including four years as President of their US subsidiary. Under his leadership the company more than tripled its share of the engine remanufacturing market to 45% and generated more than \$400 million in revenue. A 1997 graduate of the Stanford Executive Program, Mr. Beaumont holds both a Bachelor of Commerce Degree and a Bachelor of Science Degree from the University of Manitoba. He is a member of the Canadian Institute of Chartered Accountants and has lectured at the University of Manitoba on computer accounting systems.

Donald A. Nunemaker has been with us since July 1997 and currently serves as our Executive Vice President and General Manager Leasing. Prior to his appointment as General Manager Leasing, he served as Chief Operating Officer until September of 2006, and prior to that as Chief Administrative Officer until March 2001. Mr. Nunemaker also served on our Board of Directors from June to November 2000. Mr. Nunemaker is responsible for managing our day-to-day operation and has been extensively involved in the equipment leasing industry since 1973. From 1995 to 1996, Mr. Nunemaker was President and CEO of LeasePartners, Inc., a leasing company based in Burlingame, California, which was acquired in 1996 by Newcourt Credit Group. From 1990 to 1994, Mr. Nunemaker was Executive Vice President of Concord Asset Management, Inc., an aircraft and computer leasing subsidiary of Concord Leasing, Inc., which was owned by the HSBC Group. Before joining Concord in 1990, Mr. Nunemaker was President and CEO of Banc One Leasing Corporation of New Jersey. Prior to that he spent thirteen years with Chase Manhattan Leasing Company in a variety of senior line and staff positions. Mr. Nunemaker has an Masters in Business Administration Degree from Indiana University.

Bradley S. Forsyth joined us in January 2007, bringing more than 14 years of experience in the finance and aviation industries. Mr. Forsyth is responsible for the capital markets, finance, treasury, accounting, risk management and systems functions of the Company. Prior to joining Willis Lease, he served as Standard Aero's Vice President of Finance, providing financial management support to nine business units with \$800 million in annual sales. Formerly he was with Price Waterhouse (now PriceWaterhouse Coopers) practicing in their audit and tax departments. He is a Chartered Accountant and graduated from the University of Manitoba with a Bachelor of Commerce Degree.

Thomas E. MacAleavey joined us in 1998 as Vice President of Marketing. Effective as of February 20, 2002, Mr. MacAleavey was designated Senior Vice President, Sales and Marketing. From 1996 to 1998, Mr. MacAleavey was Managing Director of MacAleavey Aviation Inc., advising airlines and financial institutions on the acquisition and sale of aviation related portfolios. From 1990 to 1996, he was

Vice President, Aircraft Marketing at Concord Asset Management, Inc., an aircraft and computer leasing subsidiary of Concord Leasing, Inc., which was owned by the HSBC Group. Prior to 1990, he held director of marketing positions at Guinness Peat Aviation, GATX Leasing, and Intercredit Corporation. From 1975 to 1977, Mr. MacAleavey was with the Ministry of Commerce in Ireland as part of the Foreign Trade Delegation working in South America and Eastern Europe. He started his career at The Economist Intelligence Unit in London. He is a graduate in Economics of Trinity College, Dublin.

Thomas C. Nord has served as our Senior Vice President and General Counsel since July 2003. Mr. Nord is responsible for managing our legal affairs. From May 1977 to March 2003, he was an attorney with GATX Financial Corporation, a specialized finance and leasing company (GATX) located in San Francisco, California. During most of his career at GATX, from January 1981 until March 2003, he was their Managing Director, General Counsel and Secretary.. From February 1974 until May 1977, Mr. Nord was Counsel to Irving Trust Company which is located in New York, New York. From June 1969 to February 1974 Mr. Nord was associated with the New York City law firm of Seward & Kissel. Mr. Nord holds a Juris Doctorate Degree from the University of North Carolina.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of April 3, 2007 by: (i) each person who is known to us to own beneficially more than five percent of the outstanding shares of our common stock; (ii) each Director; (iii) each officer listed in the Summary Compensation Table; and (iv) all Directors and Executive Officers as a group. Unless specified below, the mailing address for each individual, officer or director is c/o Willis Lease Finance Corporation, 2320 Marinship Way, Suite 300, Sausalito, CA 94965.

Name and Address of Beneficial Owner	Common stock(1) Number of Shares	Percentage of Class
Charles F. Willis, IV	3,444,873 (2)	39.82 %
Donald A. Nunemaker	417,721 (3)	4.94 %
Thomas E. MacAleavey	11,250 (4)	*
Robert M. Warwick	31,000 (5)	*
Thomas C. Nord	31,000 (6)	*
W. William Coon, Jr		*
Gérard Laviec	38,431 (7)	*
Hans J. Hunziker	1,250	*
Robert T. Morris		*
All Directors and Executive Officers as a group (8 persons)	3,975,525	43.35 %
Wells Fargo & Company	1,379,700 (8)	17.13 %
Dimensional Fund Advisors Inc.	514,740 (9)	6.39 %
JAM Partners LP	605,439 (10)	7.52 %

* Less than one percent of our outstanding common stock.

(1) Except as indicated in the footnotes to this table, the stockholders named in the table are known to us to have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable. The number of shares beneficially owned includes common stock of which such individual has the right to acquire beneficial ownership either currently or within 60 days after April 3, 2007, including, but not limited to, upon the exercise of an option.

(2) Includes 2,619,206 shares held by CFW Partners, L.P., a California limited partnership, of which Charles F. Willis, IV, holds a one percent (1%) interest as sole general partner and an eighty

percent (80%) interest as a limited partner. A trust for the benefit of Mr. Willis' adult son holds the remaining nineteen percent (19%) interest as a limited partner. Also includes (i) 10,486 shares held in a joint tenancy account with a family member of Mr. Willis who does not live in the same household; (ii) Mr. Willis is the custodian of 18,461 shares held as custodian under an account in the name of Charles F. Willis, V; and, (iii) 796,720 shares held by Mr. Willis in his individual capacity, which includes 596,720 options to purchase shares at a weighted average exercise price of \$7.06.

- (3) Includes 409,650 options to purchase shares at a weighted average exercise price of \$7.79 per share.
- (4) Includes 11,250 options to purchase shares at a weighted average exercise price of \$5.86.
- (5) Mr. Warwick resigned, effective February 1, 2007
- (6) Includes 28,000 options to purchase shares at a weighted average exercise price of \$6.82 per share. Mr. Nord also owns 2,500 Series A preferred shares which he purchased on February 7, 2006 at \$10.00 per share.
- (7) Comprised of 38,431 options to purchase shares at a weighted average exercise price of \$5.56 per share.
- (8) Based on Schedule 13G/A filed by Wells Fargo & Company with the Securities and Exchange Commission on February 9, 2007. Wells Fargo & Company's mailing address is 420 Montgomery Street, San Francisco, CA 94104.
- (9) Based on Schedule 13G/A filed by Dimensional Fund Advisors Inc. with the Securities and Exchange Commission on February 9, 2007. Dimensional Fund Advisors Inc.'s mailing address is 1299 Ocean Avenue, 11th Floor, Santa Monica, CA 90401.
- (10) Based on Schedule 13G/A filed by Sy Jacobs with the Securities and Exchange Commission on February 13, 2007. JAM Partner, L.P.'s mailing address is One Fifth Avenue, New York, NY 10003.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our Directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of common stock and our other equity securities. Directors, executive officers and holders of more than ten percent of our common stock are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) reports they file.

Based solely upon review of the copies of such reports furnished to us and written representations from our officers and Directors, we believe that, except as set forth below, during the fiscal year ended December 31, 2006, our Directors, executive officers and holders of more than ten percent of our common stock complied with all applicable Section 16(a) filing requirements. Glenn L. Hickerson, a former director, sold 10,000 shares of the Company's Series A Preferred Stock on April 18, 2006. The Company was notified of the purchase and filed a Form 4 on April 21, 2006. Hans Joerg Hunziker was granted an option to purchase 5,000 shares of the Company's Common Stock on May 25, 2006. The Company filed a Form 4 on June 12, 2006. Gerard Laviec and William M. LeRoy were each granted options to purchase 4,281 shares of the Company's Common Stock on May 25, 2006. The Company filed a Form 4 on May 31, 2006. William M. LeRoy, a former director, exercised options and sold 500 shares of the Company's Common Stock on May 22, 2006. The Company filed a Form 4 on May 25, 2006. Mr. LeRoy exercised options for and sold 2,803 shares of Company's Common Stock on May 25, 2006. The Company filed a Form 4 on May 31, 2006. He also purchased 2,500 shares of the Company's Series A Preferred Stock on February 7, 2006. The Company was notified of the purchase and filed a Form 4 on March 8, 2006.

COMPENSATION OF EXECUTIVE OFFICERS

COMPENSATION DISCUSSION & ANALYSIS

This Compensation discussion and analysis describes the material elements of our compensation program for named executive officers. The Compensation Committee of the Board of Directors (the Committee) oversees the design and administration of our executive compensation programs. The Committee is comprised of three independent directors: Gérard Laviec (Chair), W. William Coon, Jr. and Robert Morris. The Committee meets formally twice per year, and more often if needed. Each meeting includes an executive session, with no member of management present. The Committee's charter is available on the Company's web site (www.willislease.com).

The Committee retains compensation consultants from time to time to evaluate executive compensation levels and advise on specific programs; the consultants report directly to the Committee. In 2006, the Committee retained Smith Consulting to advise on various compensation issues. Smith Consulting has no other contract or business relationship with Willis Lease.

None of our executive officers currently serves on the Committee. None of our executive officers is, or was during 2006, serving as a director of or member of the compensation committee of another entity, one of whose executive officers serves, or served, as a director of or on our Committee.

Compensation Philosophy and Objectives

The objectives of our compensation programs are to attract and retain high performing executives, to provide a substantial link between the company's performance and executive pay, and to provide shareholders with a superior rate of return.

It is difficult to make direct comparisons with our competitor's pay practices—most of the Company's direct competitors are business units within much larger corporations such as General Electric, United Technologies and Bank of Tokyo Mitsubishi—therefore, the Committee makes its decisions based primarily on its understanding of compensation practices in the aviation services and leasing markets, generally and for companies of comparable size. This information comes through executive recruiting and compensation surveys including, Watson Wyatt Data Services 2006 Top Management Compensation Report. Comparisons included financial institutions with comparable assets and all industry data for companies with comparable sales volume. These surveys allow the Committee, with the aid of Smith Consulting, to consider the compensation practices of comparably sized companies.

Our intention is to provide total compensation opportunity targeted at the 75th percentile of prevailing market compensation, and to pay that level of compensation only when the Company's financial goals are achieved or exceeded.

Governance of Compensation Programs

Our CEO, in conjunction with human resources, develops recommended annual salaries, incentive targets and long-term incentive compensation for the named executive officers. Using the published survey and comparator group information described above under Compensation Philosophy and Objectives, and based on competitive market information provided by the Committee's outside consultant, the Committee approves the annual salaries, incentive targets and long-term incentive compensation for the named executive officers.

In 2006 and early 2007, with the advice of Smith Consulting, the Committee approved the terms of employment contracts negotiated with Messrs. Beaumont and Forsyth as being consistent with current market for their respective positions. The Committee also approved increases in Messrs. Willis' and Nord's base salaries. In Mr. Willis' case the increase represents the Committee's assessment of his performance

and input from its consultant. In Mr. Nord's case the Committee considered Mr. Willis' recommendation and input from its consultant and increased his compensation over a two-year period because it believed that it was out of step with the market.

Elements of Compensation

Components of the total executive compensation package include:

Base Salary: Each officer's base salary is set on the basis of the Committee's assessment of salary levels in effect for comparable positions in the labor market, the officer's personal performance, and internal comparability considerations. The weight given these factors may vary from individual to individual. Base salaries are reviewed annually, and adjustments are made in accordance with the factors described above.

Annual Incentive Compensation: The Committee has established an annual incentive program designed to reward both the achievement of specific financial goals and individual performance. Executives participate in a company-wide bonus plan with each employee participant having an individual target bonus based on a percentage of base salary. The bonus plan rewards the achievement of a financial goal set by the Board on an annual basis. A bonus pool is determined in the annual budgeting process which will be funded if we achieve the financial goal.

In 2006 the bonus plan provided for a bonus pool based on the achievement of a net income goal established by the Board. If the pre-established goal is achieved the bonus pool will be fully funded and the executives will receive essentially 100% of their target bonuses which range from 100% (in the case of the CEO) to 50% of base salary. If the net income is less than the pre-established goal the bonus pool is correspondingly reduced. If net income is less than 80% of this goal the bonus pool is eliminated and no bonuses are paid. Similarly, if the results exceed the goal, 20% of the excess is added to the bonus pool. The bonus program also provides for a discretionary pool which is deducted from the larger pool. This discretionary pool is allocated by the Committee based on evaluation of performance as recommended by the CEO.

As part of a strategic review during 2006 we determined to manage the Company to achieve an increasing return on common equity (ROE). Pursuant to this decision the measure for creation of the Bonus Pool described above was changed to the achievement of a budgeted ROE. The structure of the annual incentive program for 2007 is otherwise similar to the 2006 program described above.

Long-term Incentive Compensation: To reward executives for the long term growth in the value of the Company's shares, the Committee also makes annual long-term incentive grants.

In recent years, stock options (non-qualified and incentive stock options) have been the primary form of long-term incentive for our executives. Only one stock option grant was made in early 2006 in connection with Mr. Warwick's promotion to Chief Financial Officer. Because the 1996 Stock Option Plan expired in June 2006, no shares are currently available for option grants until the shareholders approve the proposed new program. In 2007 stock appreciation rights (payable in cash) were issued to two key recent hires (Messrs. Beaumont and Forsyth) in connection with their employment in lieu of options.

Under the program being proposed at the Annual Meeting of Stockholders, these awards may take the form of stock options, restricted stock, stock appreciation rights, or long-term cash incentives. The intent is to model awards under this program to provide potential gains that are competitive with those offered in comparable companies.

Employee Stock Purchase Plan: With the exception of the CEO, whose ownership level precludes his participation under IRS regulations, our named executive officers, as well as all other eligible employees, may purchase Company shares at a discount under the Employee Stock Purchase Plan.

Under the 1996 Employee Stock Purchase Plan (the Purchase Plan) 175,000 shares of common stock have been reserved for issuance. Participants may purchase not more than 1,000 shares or \$25,000 of common stock in any one calendar year. Each January 31 and July 31, shares of common stock are purchased with the employees payroll deductions from the immediately preceding six months at a price per share of 85% of the lesser of the market price of the common stock on the purchase date or the market price of the common stock on the date of entry into an offering period. The weighted average per share fair value of the employee s purchase rights under the Purchase Plan for the rights granted in 2006 was \$2.87.

Although we do not have a specific policy requiring stock ownership, we believe that the Stock Purchase Plan encourages our executives to purchase shares of the Company s stock. All the eligible executives participate in the Purchase Plan. We encourage stock ownership in order to align our executives interests with those of our stockholders.

Deferred Compensation: We maintain a Deferred Compensation Plan that permits participating executives to defer payment of up to 80% of their base salaries and/or part or all of their bonuses. Through the Deferred Compensation Plan, the Willis Lease Finance Corporation Deferred Compensation Plan Trust invests all deferred amounts in investment funds and horizon portfolios (compatible with the investment options under Section 401(k) of the Internal Revenue Code of 1986, as amended) pursuant to the election of each participant. The Committee determines the participant s Annual Company Matching Amount for any plan year to be added to the amount the participant elects to contribute from his/her salary and/or bonus. Such amounts are vested in accordance with a vesting schedule set forth in the Deferred Compensation Plan. In the 2006 fiscal year, we did not contribute any Annual Company Matching Amount.

Mr. Willis is the only executive who has elected to participate in the Deferred Compensation Plan. In 2006 and early 2007 he terminated his participation and withdrew the balances of his previous deferred compensation. As a result he has no accumulated deferrals.

Executive Stock Ownership

While the Company promotes share ownership by its executives, and encourages them to acquire shares through long-term stock incentives, there are currently no specific guidelines for executive ownership in relation to compensation.

Severance Payments

As described in detail below, employment contracts for Messrs. Willis, Beaumont, Forsyth, Nunemaker and Nord specify certain severance benefits to be paid in the event of an involuntary termination or termination after a change of control. Consistent with our compensation philosophy, the Committee believes that the interests of stockholders are best served if the interests of senior management are aligned with those of the stockholders. To this end, we provide enhanced change of control severance benefits to certain of our executive officers to reduce any reluctance of the executive officers to pursue or support potential change in control transactions that would be beneficial to our stockholders. The agreement to pay such severance resulted from negotiations of employment terms with our named executive officers. For further details, please refer to the section Termination and Change in Control Payments elsewhere in this proxy statement.

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The following table sets forth certain information with respect to the compensation of our Chief Executive Officer, Chief Financial Officer and the three most highly compensated executive officers other than the CEO and CFO, based on total compensation excluding change in pension value and nonqualified deferred compensation earned during fiscal year 2006 for their services with us in all capacities.

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Stock Awards (\$) (e)	Option Grants \$(1)(2) (f)	Non-Equity Incentive Plan Compensation \$(4) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (h)	All Other Compensation \$(5) (i)
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