WILLIS LEASE FINANCE CORP
Form 10-Q
November 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2018

OR

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

Commission File Number: 001-15369

WILLIS LEASE FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	68-0070656 (IRS Employer Identification No.)
4700 Lyons Technology Parkway, Coconut Creek, FL (Address of principal executive offices)	33073 (Zip Code)

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Title of Each Class	Outstanding at November 5, 2018
Common Stock, $0.01 par value per share	6,208,941

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including, without limitation, statements concerning the conditions in our industry, our operations, our economic performance and financial condition, including, in particular, statements relating to our business, operations, growth strategy and service development efforts. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for certain forward-looking statements so long as such information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. When used in this Quarterly Report on Form 10-Q, the words “may,” “might,” “should,” “estimate,” “project,” “plan,” “anticipate,” “expect,” “intend,” “outlook,” “believe” and other similar expressions are intended t identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. These forward-looking statements are based on estimates and assumptions by our management that, although we believe to be reasonable, are inherently uncertain and subject to a number of risks and uncertainties. These risks and uncertainties include, without limitation, those in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (SEC) on March 15, 2018 and our other reports filed with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Reference is also made to such risks and uncertainties detailed from time to time in our other filings with the SEC.

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PART I — FINANCIAL INFORMATION

Item 1.Condensed Consolidated Financial Statements (Unaudited)

WILLIS LEASE FINANCE CORPORATION
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except per share data)

(Unaudited)

	September 30, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 8,436	$ 7,052
Restricted cash	155,420	40,272
Equipment held for operating lease, less accumulated depreciation of $392,444 and $368,683 at September 30, 2018 and December 31, 2017, respectively	1,590,482	1,342,571
Maintenance rights	14,763	14,763
Equipment held for sale	40,931	34,172
Operating lease related receivables, net of allowances of $1,823 and $949 at September 30, 2018 and December 31, 2017, respectively	24,777	18,848
Spare parts inventory	24,409	16,379
Investments	44,438	50,641
Property, equipment & furnishings, less accumulated depreciation of $8,770 and $7,374 at September 30, 2018 and December 31, 2017, respectively	26,245	26,074
Intangible assets, net	1,430	1,727
Other assets	33,865	50,932
Total assets (1)	$ 1,965,196	$ 1,603,431
LIABILITIES, REDEEMABLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 40,879	$ 22,072
Deferred income taxes	87,142	78,280
Debt obligations	1,392,113	1,085,405
Maintenance reserves	88,986	75,889
Security deposits	28,591	25,302
Unearned revenue	7,264	8,102
Total liabilities (2)	1,644,975	1,295,050

Redeemable preferred stock ($0.01 par value, 2,500 shares authorized; 2,500 shares issued at September 30, 2018 and December 31, 2017, respectively)	49,533	49,471
Shareholders’ equity:		
Common stock ($0.01 par value, 20,000 shares authorized; 6,230 and 6,419 shares issued at September 30, 2018 and December 31, 2017, respectively)	62	64
Paid-in capital in excess of par	—	2,319
Retained earnings	269,664	256,301
Accumulated other comprehensive income, net of income tax expense of $273 and $83 at September 30, 2018 and December 31, 2017, respectively	962	226
Total shareholders’ equity	270,688	258,910
Total liabilities, redeemable preferred stock and shareholders' equity	$ 1,965,196	$ 1,603,431

(1) Total assets at September 30, 2018 and December 31, 2017, respectively, include the following assets of variable interest entities (“VIEs”) that can only be used to settle the liabilities of the VIEs: Cash $393 and $130; Restricted cash $155,420 and $40,272; Equipment $1,054,258 and $657,333; and Other assets $834 and $20,090, respectively.

(2) Total liabilities at September 30, 2018 and December 31, 2017, respectively, include the following liabilities of VIEs for which the VIEs’ creditors do not have recourse to Willis Lease Finance Corporation: Debt obligations $919,026 and $577,056, respectively.

See accompanying notes to the unaudited condensed consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
REVENUE				
Lease rent revenue	$ 46,984	$ 33,474	$ 129,710	$ 95,045
Maintenance reserve revenue	19,370	20,370	56,855	64,212
Spare parts and equipment sales	8,354	9,294	21,701	41,273
Gain on sale of leased equipment	1,256	174	2,142	4,684
Other revenue	2,010	2,549	5,762	6,439
Total revenue	77,974	65,861	216,170	211,653
EXPENSES				
Depreciation and amortization expense	19,861	16,142	55,600	48,786
Cost of spare parts and equipment sales	5,848	7,148	16,537	32,121
Write-down of equipment	1,215	6,226	4,793	19,668
General and administrative	18,124	14,308	50,517	40,574
Technical expense	2,290	2,605	9,199	7,345
Interest expense	17,885	14,220	46,617	36,398
Total expenses	65,223	60,649	183,263	184,892
Earnings from operations	12,751	5,212	32,907	26,761
Earnings from joint ventures	506	3,040	1,569	6,055
Income before income taxes	13,257	8,252	34,476	32,816
Income tax expense	3,583	2,960	9,359	13,367
Net income	9,674	5,292	25,117	19,449
Preferred stock dividends	819	344	2,431	988
Accretion of preferred stock issuance costs	21	9	62	25
Net income attributable to common shareholders	$ 8,834	$ 4,939	$ 22,624	$ 18,436
Basic weighted average earnings per common share	$ 1.50	$ 0.82	$ 3.80	$ 3.04
Diluted weighted average earnings per common share	$ 1.47	$ 0.80	$ 3.72	$ 2.97
Basic weighted average common shares outstanding	5,900	6,055	5,960	6,068
Diluted weighted average common shares outstanding	6,004	6,184	6,083	6,215

See accompanying notes to the unaudited condensed consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 9,674	$ 5,292	$ 25,117	$ 19,449
Other comprehensive (loss) income:				
Currency translation adjustment	(530)	294	(762)	620
Unrealized gain on derivative instruments	221	164	1,636	160
Net (loss) gain recognized in other comprehensive income	(309)	458	874	780
Tax benefit (expense) related to items of other comprehensive income	70	(158)	(197)	(270)
Impact from adoption of ASU 2018-02 (1)	—	—	59	—
Other comprehensive (loss) income	(239)	300	736	510
Total comprehensive income	$ 9,435	$ 5,592	$ 25,853	$ 19,959

(1) Reflects the stranded tax effects from change in tax rate as a result of the early adoption of ASU 2018-02 which has been reclassified to retained earnings.

See accompanying notes to the unaudited condensed consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION
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Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 25,117	$ 19,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	55,600	48,786
Write-down of equipment	4,793	19,668
Stock-based compensation expenses	4,004	3,228
Amortization of deferred costs	4,143	3,639
Allowances and provisions	1,022	282
Gain on sale of leased equipment	(2,142)	(4,684)
Gain on insurance settlement	—	(1,288)
Income from joint ventures	(1,569)	(6,055)
Deferred income taxes	9,359	13,367
Changes in assets and liabilities:		
Receivables	(6,951)	(220)
Distributions received from joint ventures	5,540	1,880
Spare parts and equipment	(27,537)	7,021
Other assets	(3,173)	(1,692)
Accounts payable and accrued expenses	13,472	(687)
Maintenance reserves	16,431	1,706
Security deposits	3,519	6,651
Unearned revenue	(838)	990
Net cash provided by operating activities	100,790	112,041
Cash flows from investing activities:		
Proceeds from sale of equipment (net of selling expenses)	51,600	53,849
Distributions received from joint ventures	190	—
Purchase of equipment held for operating lease	(320,186)	(177,263)
Purchase of property, equipment and furnishings	(1,574)	(493)
Net cash used in investing activities	(269,970)	(123,907)
Cash flows from financing activities:		
Proceeds from issuance of debt obligations	616,439	485,700
Debt issuance cost	(6,068)	(7,473)
Principal payments on debt obligations	(306,800)	(448,237)

Interest bearing security deposits	—	(3,261)
Proceeds from shares issued under stock compensation plans	292	177
Cancellation of restricted stock units in satisfaction of withholding tax	(1,252)	(747)
Repurchase of common stock	(14,459)	(3,546)
Proceeds from the issuance of preferred stock	—	29,700
Preferred stock dividends	(2,440)	(891)
Net cash provided by financing activities	285,712	51,422
Increase in cash, cash equivalents and restricted cash	116,532	39,556
Cash, cash equivalents and restricted cash at beginning of period	47,324	32,374
Cash, cash equivalents and restricted cash at end of period	$ 163,856	$ 71,930
Supplemental disclosures of cash flow information:		
Net cash paid for:		
Interest	$ 44,990	$ 31,932
Income Taxes	$ 1,074	$ 346
Supplemental disclosures of non-cash activities:		
Purchase of aircraft and engines	$ 3,600	$ 2,931
Transfers from Equipment held for operating lease to Equipment held for sale	$ 6,995	$ 36,285
Accrued preferred stock dividends	$ 819	$ 988

See accompanying notes to the unaudited condensed consolidated financial statements.

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WILLIS LEASE FINANCE CORPORATION

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Notes to Condensed Consolidated Financial Statements

September 30, 2018

(Unaudited)

Unless the context requires otherwise, references to "the "Company", "we", "us" or "our" in this Quarterly Report on Form 10-Q refer to Willis Lease Finance Corporation and its subsidiaries.

1. Summary of Significant Accounting Policies

The significant accounting policies of the Company were described in Note 1 to the audited consolidated financial statements included in the Company's 2017 Annual Report on Form 10-K ("2017 Form 10-K"). There have been no significant changes in the Company's significant accounting policies for the nine months ended September 30, 2018.

(a) Basis of Presentation

The accompanying Unaudited Condensed Consolidated Financial Statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. Therefore, they do not include all information and footnotes normally included in annual consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto included in the 2017 Form 10-K. In the opinion of management, the Unaudited Condensed Consolidated Financial Statements contain all adjustments (consisting principally of normal recurring accruals) necessary for a fair presentation of the condensed consolidated balance sheets, statements of income, statements of comprehensive income and statements of cash flows for such interim periods presented. Additionally, operating results for interim periods are not necessarily indicative of the results that can be expected for a full year.

In accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. These estimates and judgments are based on historical experience and other assumptions that management believes are reasonable. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ materially from these estimates. The significant estimates made in the accompanying Unaudited Condensed Consolidated Financial Statements include certain assumptions related to goodwill, intangible assets, long-lived assets, equipment held for sale, estimated income taxes and stock-based compensation. Actual results may differ from these estimates under different assumptions or conditions.

(b) Reclassifications

In conjunction with our review of the fourth quarter of 2017, the Company reclassified scrap inventory write-offs and inventory lower of cost or market write-downs that were previously presented within Write-down of equipment to the Cost of spare parts and equipment sales line item. The three and nine month periods ended September 30, 2017 were impacted by an adjustment of $0.7 million and $2.6 million, respectively, with the adjustment reflected as an increase to Cost of spare parts and equipment sales and a decrease to Write-down of equipment. These reclassified items had no effect on the reported results of operations, financial condition or statements of cash flows.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including VIEs where the Company is the primary beneficiary in accordance with consolidation guidance. The Company evaluates all entities in which it has an economic interest firstly to determine whether for accounting purposes the entity is a variable interest entity or voting interest entity. If the entity is a VIE the Company consolidates the financial statements of that entity if it is the primary beneficiary of the entities' activities. If the entity is a voting interest entity the Company consolidates the entity when it has a majority of voting interests. Intercompany transactions and balances have been eliminated in consolidation.

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(d) Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted by the Company

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 amends the accounting guidance on revenue recognition. The amendments in this accounting standard update are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices, and improve disclosure requirements. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The principles in the standard should be applied using a five-step model that includes 1) identifying the contract(s) with a customer, 2) identifying the performance obligations in the contract, 3) determining the transaction price, 4) allocating the transaction price to the performance obligations in the contract, and 5) recognizing revenue when (or as) the performance obligations are satisfied. The standard also requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In addition, the standard amends the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (for example, sales of real estate) to be consistent with the standard's guidance on recognition and measurement (including the constraint on revenue). The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent guidance, identifying performance obligations, and immaterial goods and services in a contract.

The Company adopted ASU 2014-09 and its related amendments (collectively known as Accounting Standards Codification ("ASC") 606) effective on January 1, 2018 using the modified retrospective approach applied only to contracts not completed as of the date of adoption. Please see Note 2 "Revenue from Contracts with Customers" for the required disclosures related to the impact of adopting this standard and a discussion of the Company's updated policies related to revenue recognition and accounting for costs to obtain and fulfill a customer contract.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments a consensus of the Emerging Issues Task Force) to improve the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The update provides guidance on specific cash flow classification issues including the following: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. Prior GAAP did not include specific guidance on these eight cash flow classification issues. The Company adopted the guidance effective January 1, 2018 and utilizing the cumulative earnings approach on a retrospective basis, reclassified $1.9 million of distributions from joint ventures during the nine months ended September 30, 2017 from cash flows from investing activities to cash flows from operating activities. The remaining provisions of this update did not have a material impact on the Company's consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," that eliminates "Step 2" from the goodwill impairment test. The Company has made the election to early adopt ASU 2017-04 as of January 1, 2018 and the standard was applied on a prospective basis, as required. The adoption of this standard did not have an impact on the consolidated financial statements or the related disclosures.

In May 2017, the FASB issued ASU 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The new guidance became effective for the Company on January 1, 2018 and was applied on a prospective basis, as required. The adoption of this standard did not have an impact on the consolidated financial statements or the related disclosures.

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" to address stakeholder concerns about the guidance in current GAAP that requires deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date. The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The ASU must be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. The Company made the election to early adopt ASU 2018-02 as of January 1, 2018 (the period of adoption) and recorded a reclassification of $59 thousand between Other comprehensive income and Retained earnings as of January 1, 2018.

In September 2018, the FASB issued ASU 2018-15, "Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" which requires cloud computing arrangements in a service contact to follow the internal-use software guidance provided by ASC 350-40 in determining the accounting treatment of implementation costs. ASC 350-40 states that only qualifying costs incurred during the application development stage may be capitalized. The Company made the election to early adopt ASU 2018-15 on a retrospective basis, and during 2018 has capitalized $1.0 million in cloud computing arrangement implementation costs. There was no prior period impact related to the adoption of ASU 2018-15.

Recent Accounting Pronouncements To Be Adopted by the Company

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." The ASU is targeted at simplifying the application of hedge accounting and aims at aligning the recognition and presentation of the effects of hedge instruments and hedge items. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted. The Company plans to adopt this guidance effective January 1, 2019 and is currently evaluating the potential impact adoption will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). The FASB issued ASU 2016-02 to increase transparency and comparability among organizations recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, lessors will account for leases using an approach that is substantially equivalent to existing GAAP for sales-type leases, direct financing leases and operating leases. Unlike current guidance, however, a lease with collectability uncertainties may be classified as a sales-type lease. If collectability of lease payments, plus any amount necessary to satisfy a lessee residual value guarantee, is not probable, lease payments received will be recognized as a deposit liability and the underlying assets will not be derecognized until collectability of the remaining amounts becomes probable. ASU 2016-02 is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted, and must be adopted using a modified retrospective transition. The Company plans to adopt this guidance effective January 1, 2019 utilizing the lessor practical expedient and is currently evaluating the potential impact adoption will have on the consolidated financial statements and related disclosures.

2. Revenue from Contracts with Customers

As of January 1, 2018, the Company adopted ASU 2014-09 and all subsequent ASUs that modified ASC 606. While only a portion of the Company's revenues is impacted by this guidance as it does not apply to contracts falling under the leasing standard, as part of the implementation process the Company performed an analysis to identify accounting policies that needed to change and additional disclosures that are required. The Company considered factors such as customer contracts with unique revenue recognition considerations, the nature and type of goods and services offered, the degree to which contracts include multiple performance obligations or variable consideration, and the pattern in which revenue is currently recognized, among other things. All revenue streams applicable to the new standard (Spare parts and equipment sales and Managed services which is reflected within Other revenue) were evaluated by management. The Company considered recognition under the new standard and concluded the timing of the Company's revenue recognition will remain the same. The Company has also evaluated the changes in controls and processes that are necessary to implement the new standard, and no material changes were required.

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The following table disaggregates revenue by major source for the three and nine months ended September 30, 2018 (in thousands):

Three months ended September 30, 2018	Leasing and Related Operations	Spare Parts Sales	Eliminations (1)	Total
Leasing revenue (2)	$ 67,240	$ —	$ —	$ 67,240
Gain on sale of leased equipment (3)	1,150	106	—	1,256
Spare parts and equipment sales	—	8,354	—	8,354
Managed services	1,124	—	—	1,124
Other revenue	—	274	(274)	—
Total revenue	$ 69,514	$ 8,734	$ (274)	$ 77,974

Nine months ended September 30, 2018	Leasing and Related Operations	Spare Parts Sales	Eliminations (1)	Total
Leasing revenue (2)	$ 188,984	$ —	$ —	$ 188,984
Gain on sale of leased equipment (3)	1,917	225	—	2,142
Spare parts and equipment sales	—	21,701	—	21,701
Managed services	3,297	—	—	3,297
Other revenue	—	1,596	(1,550)	46
Total revenue	$ 194,198	$ 23,522	$ (1,550)	$ 216,170

(1) Represents revenue generated between our reportable segments.
(2) Leasing revenue is recognized under the lease accounting guidance in ASC 840 Leases, and therefore qualifies for the scope exception under ASC 606.
(3) Gain on sale of leased equipment is accounted for under ASC 610-20, Gains and losses from the derecognition of nonfinancial assets.

Leasing revenue

Revenue from leasing of engines, aircraft and related parts and equipment is recognized as operating lease revenue on a straight-line basis over the terms of the applicable lease agreements. Revenue is not recognized when cash collection is not reasonably assured. When collectability is not reasonably assured, the customer is placed on non-accrual status and revenue is recognized when cash payments are received.

Under the terms of some of the Company’s leases, the lessees pay use fees (also known as maintenance reserves) to the Company based on usage of the leased asset, which are designed to cover expected future maintenance costs. Some of these amounts are reimbursable to the lessee if they make specifically defined maintenance expenditures. Use fees received are recognized in revenue as maintenance reserve revenue if they are not reimbursable to the lessee. Use fees that are reimbursable are recorded as a maintenance reserve liability until they are reimbursed to the lessee, the lease terminates, or the obligation to reimburse the lessee for such reserves ceases to exist, at which time they are recognized in revenue as maintenance reserve revenue.

Certain lessees may be significantly delinquent in their rental payments and may default on their lease obligations. As of September 30, 2018, the Company had an aggregate of approximately $5.0 million in lease rent and $2.1 million in maintenance reserve receivables more than 30 days past due. Inability to collect receivables or to repossess engines or other leased equipment in the event of a default by a lessee could have a material adverse effect on the Company. The Company estimates an allowance for doubtful accounts for lease receivables it does not consider fully collectible. The allowance for doubtful accounts includes the following: (1) specific reserves for receivables which are impaired for which management believes full collection is doubtful; and (2) a general reserve for estimated losses based on historical experience.

Gain on sale of leased equipment

The Company regularly sells equipment from its lease portfolio. This equipment may or may not be subject to a lease at the time of sale. The gain or loss on such sales is recognized as revenue and consists of proceeds associated with the sale less the net book value of the asset sold and any direct costs associated with the sale. To the extent that deposits associated with the engine are not included in the sale, any such amount is included in the calculation of gain or loss.

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Spare parts sales

The Spare Parts Sales reportable segment primarily engages in the sale of aircraft engine parts and materials through the acquisition or consignment of engines from third parties. The parts are sold at a fixed price with no right of return. In determining the performance obligation, management has identified the promise in the contract to be the shipment of the spare parts to the customer. Title passes to the buyer when the goods are shipped, and the buyer is responsible for any loss in transit, and the Company has a legal right to payment for the spare parts. Management has determined that physical acceptance of the spare parts to be a formality in accordance with ASC 606-10-5-86 and as the Company is not obliged to perform additional services under these arrangements, the shipment of the spare parts is the performance obligation.

The spare parts transaction price is a fixed dollar amount and is stated on each purchase order for a fixed amount by total number of parts. Spare parts revenue is based on a set price for a set number of parts as defined in the purchase order. The performance obligation is completed once the parts have shipped and, as a result, all of the transaction price is allocated to that performance obligation. Management has determined that it is appropriate for the Company to recognize spare parts sales at a point in time (i.e., the date the parts are shipped) under ASC 606. Additionally, there is no impact to the timing and amounts of revenue recognized for spare parts sales related to the implementation of ASC 606.

Equipment Sales

Equipment sales represent the selective purchase and resale of commercial aircraft engines and other aircraft equipment. The Company and customer enter into an agreement which outlines the place and date of sale, purchase price, payment terms, condition of the asset, bill of sale, and the assignment of rights and warranties from the Company to the customer. Management has identified the promise in the equipment sale contract to be the transfer of ownership of the asset. Management believes the asset holds standalone value to the customer as it is not dependent on any other services for functionality purposes and therefore is distinct within the context of the contract and as described in ASC 606-10. As such, management has identified the transfer of the asset as the performance obligation. The transaction price is set at a fixed dollar amount per fixed quantity (number of assets) and is explicitly stated in each contract. Equipment sales revenue is based on a set price for a set number of assets, which is allocated to the performance obligation discussed above, in its entirety. The Company has determined the date of transfer to the customer to be the date the customer obtains control and title over the asset and the date which revenue is to be recognized and payment is due. As such, there is no impact to the timing and amounts of revenue recognized for equipment sales related to the implementation of ASC 606.

Managed Services

Managed Services revenue predominantly represents fleet management and engine storage services which may be combined on a single contract with a customer. Fleet management services are performed for a stated fixed fee as agreed upon in the services agreement. Engine storage services are for a fixed monthly fee. For a contract containing more than one performance obligation, the allocation of the transaction price is generally performed on the basis of the relative stand-alone selling price of each distinct good or service in the contract. The result of allocation consideration on this basis is consistent with the overall core principal of ASC 606 (to recognize revenue in an amount that depicts the consideration to which the Company expects to be entitled in exchange for the promised goods or services). As each of the services provided within the contract have separate prices, the Company allocates the stated price to its related performance obligation described above. Management has determined each of the revenue elements contain performance obligations that are satisfied over time and therefore recognizes revenue over time in accordance with ASC 606-10-25-27. The Company will continue utilizing the percentage-of-completion method (input method) for recognizing Fleet Management services and will calculate revenues based on labor hours incurred. Additionally, as is required by ASC 606-10-25-35, as circumstances change over time, the Company will update its measure of progress to reflect any changes in the outcome of the performance obligation. Engine storage services will continue to be recognized on a monthly basis utilizing the input method of days passed. Therefore, there is no impact to the timing and amounts of revenue recognized for Managed Services related to the implementation of ASC 606.

Amounts owed for Managed services are typically billed upon contract completion. At January 1, 2018, $0.4 million of unbilled revenue associated with outstanding contracts was reported in Other Assets, all of which was recognized by September 30, 2018. At September 30, 2018, unbilled revenue was $0.8 million and the Company

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expects it to be fully recognized by March 31, 2019. Additionally, Managed services are presented within the Other revenue line in the condensed consolidated statements of income.

3. Investments

The Company is a partner with Mitsui & Co., Ltd. in a joint venture based in Dublin, Ireland — Willis Mitsui & Company Engine Support Limited ("WMES") which acquires and leases jet engines. Each partner holds a fifty percent interest in the joint venture and the Company uses the equity method in recording investment activity. WMES owned a lease portfolio of 35 engines and one aircraft with a net book value of $266.1 million as of September 30, 2018.

The Company is a partner with China Aviation Supplies Company Ltd. ("CASC") in a joint venture named CASC Willis Engine Lease Company Limited ("CASC Willis"), which is based in Shanghai, China. The Company holds a fifty percent interest in the joint venture and uses the equity method in recording investment activity. CASC Willis acquires and leases jet engines to Chinese airlines and concentrates on the demand for leased commercial aircraft engines and aviation assets in the People's Republic of China. CASC Willis owned a lease portfolio of four engines with a net book value of $52.8 million as of September 30, 2018.

Nine Months Ended September 30, 2018	WMES	CASC Willis	Total
	(in thousands)		
Investment in joint ventures as of December 31, 2017	$ 36,014	$ 14,627	$ 50,641
Earnings (losses) from joint ventures	1,831	(262)	1,569
Deferred gain on engine sale	(1,280)	—	(1,280)
Distribution	(5,730)	—	(5,730)
Foreign currency translation adjustment	—	(762)	(762)
Investment in joint ventures as of September 30, 2018	$ 30,835	$ 13,603	$ 44,438

"Other revenue" on the Consolidated Statements of Income includes management fees earned of $0.6 million and $0.5 million during the three months ended September 30, 2018 and 2017, respectively, and $1.8 million during the nine months ended September 30, 2018 and 2017, respectively. These fees related to the servicing of engines for the WMES lease portfolio. During the nine months ended September 30, 2018, the Company sold two engines to WMES for $23.2 million. During the nine months ended September 30, 2017, the Company sold two engines to WMES for $14.8 million.

There were no engine sales to CASC Willis during the nine months ended September 30, 2018. During the nine months ended September 30, 2017, the Company sold one engine to CASC Willis for $11.2 million.

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