

Edgar Filing: AIRLEASE LTD - Form 10-K

AIRLEASE LTD
Form 10-K
March 25, 2003

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2002

Commission File No. 1-9259

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

California

94-3008908

(State of Organization)

(I.R.S. Employer Identification No.)

555 California Street, Fourth Floor, San Francisco, CA 94104

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (415) 765-1814

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

TITLE OF EACH CLASS:
N/A

NAME OF EACH EXCHANGE
ON WHICH REGISTERED:
N/A

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Depository Units Representing Limited Partnership Interests
(Title of Class)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as designated in Exchange Act Rule 12b-2). YES [] NO [X]

Aggregate market value of Depository Units, held by non-affiliates of the registrant as of the close of business at March 10, 2003 was \$2,871,880.00.

Edgar Filing: AIRLEASE LTD - Form 10-K

TABLE OF CONTENTS

	Page
PART I	
ITEM 1. BUSINESS.....	4
ITEM 2. PROPERTIES.....	14
ITEM 3. LEGAL PROCEEDINGS.....	14
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.....	14
PART II	
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.....	15
ITEM 6. SELECTED FINANCIAL DATA.....	18
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.....	19
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.....	23
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.....	24
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.....	24
PART III	
ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.....	24
ITEM 11. EXECUTIVE COMPENSATION.....	26
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT....	26
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.....	27
ITEM 14. CONTROLS AND PROCEDURES.....	28
PART IV	
ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K.....	29
SIGNATURES.....	33
CERTIFICATIONS.....	34
INDEX TO EXHIBITS.....	A-12

Edgar Filing: AIRLEASE LTD - Form 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

PART I

ITEM 1. BUSINESS

GENERAL

Airlease Ltd., A California Limited Partnership (the "Partnership"), engages in the business of acquiring, either directly or through joint ventures, commercial jet aircraft, and leasing such aircraft or parts thereof to domestic and foreign airlines and freight carriers. The general partner of the Partnership (the "General Partner") is Airlease Management Services, Inc. From 1999 to June 2002, the General Partner was a wholly owned subsidiary of Banc of America Leasing and Capital, LLC, a Delaware limited liability company ("BALCAP"), in turn a wholly owned subsidiary of Bank of America National Association ("BANA"). In June 2002, BALCAP transferred its stock of the General Partner to BANA and the General Partner became a wholly owned subsidiary of BANA. BALCAP also holds 793,750 limited partnership units and United States Airlease Holding, Inc. ("Holding"), also a wholly owned subsidiary of BANA, holds 231,250 limited partnership units. An additional 3,600,000 units are publicly held.

PRINCIPAL INVESTMENT OBJECTIVES

The Partnership's principal investment objectives are to generate income for quarterly cash distributions to Unitholders and to own a portfolio of leased aircraft. The Partnership's original intent was that until January 1, 2005, it would use a substantial portion of the cash derived from the sale, refinancing or other disposition of aircraft to purchase additional aircraft if attractive investment opportunities were available.

As previously reported, as part of a plan to mitigate the adverse financial effects of changes in tax law, in 1997 Unitholders authorized the General Partner to decide not to make new aircraft investments, to sell aircraft when attractive opportunities arise, to distribute the proceeds and to liquidate the Partnership when all assets are sold. The General Partner will consider whether it is in the best interest of Unitholders to cease making new aircraft investments as opportunities arise, in light of market conditions and the Partnership's competitive position. Based on its investment experience and its knowledge of the market, the General Partner believes that attractive investment opportunities like those made by the Partnership in the past probably will not be available. In the event that aircraft are sold and appropriate alternative investments are not available, the Partnership will distribute sale proceeds to Unitholders (after repaying debt and establishing appropriate reserves), and this would result in a further reduction of the Partnership's portfolio.

AIRCRAFT PORTFOLIO

The Partnership's aircraft portfolio consists of narrow-body (single-aisle) twin and tri-jet commercial aircraft which were acquired as used aircraft. Although the Partnership is permitted to do so, the Partnership does not own interests in aircraft which were acquired as new aircraft; nor does the Partnership own any wide-body aircraft, such as the Boeing 747 and MD-11, or any turboprop or prop-fan powered aircraft.

Edgar Filing: AIRLEASE LTD - Form 10-K

The following table describes the Partnership's aircraft portfolio at December 31, 2002:

Lessee	Number & type; year of Delivery	Ownership Interest	Acquired by Partnership	Current lease expiration	Type of lease	Noise compliance
CSI Aviation	2 MD-82 1981	100%	1986	2003	Operating	Stage
FedEx	1 727-200FH 1979	100%	1987	2006	Direct finance	Stage
Held for lease	3 MD-81 1981	100%	1986	N/A	N/A	Stage

At December 31, 2002, the book value of aircraft by lessee as a percent of total assets was as follows: FedEx, 19.9%; CSI, 42.8%; and off-lease aircraft, 28.5%. Revenues by lessee as a percentage of total revenue for 2002 and 2001, respectively, were as follows: US Airways, 0% and 55.4%; TWA/American Airlines, 0% and 17.2%; CSI, 88.2% and 4.9%; and FedEx, 9.9% and 5.7%.

At December 31, 2002, the Partnership's portfolio consisted of six Stage-III commercial aircraft. Two are leased to CSI Aviation Services, Inc. ("CSI"), one to FedEx, and three are being marketed for lease.

The leases of the two aircraft leased to CSI expired October 1, 2002. CSI and the Partnership entered into an agreement extending the leases for another five months through March 1, 2003, at a monthly rental rate of \$70,000 per aircraft. In March 2003, the Partnership reached an agreement with CSI to extend the leases on the two aircraft on a month-to-month basis, at a reduced monthly rental rate. The Partnership expects the renewed leases to be of short duration.

In the third quarter of 2002, the book value of the three off-lease aircraft was written down to \$2,900,000 per aircraft. The reduction in book value reflects the continued decline in used aircraft values and the write-downs were recorded in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets".

In June 2002, the Partnership commenced litigation against U.S. Airways seeking to recover damages for U.S. Airways' failure to return three aircraft

Edgar Filing: AIRLEASE LTD - Form 10-K

leased to U.S. Airways in the condition prescribed in the lease following lease expiration on October 1, 2001 and to pay rent due on the aircraft. U.S. Airways has since filed for bankruptcy. The Partnership has filed a proof of claim in the bankruptcy case in the amount of \$13 million. The outcome of the litigation and bankruptcy are both uncertain and there can be no assurance as to the amount or timing of any final settlement or award resulting from the litigation. In its Disclosure Statement dated January 17, 2003, filed as part of its proposed plan of reorganization, US Airways projects that it will pay between 1.2 percent and 1.8 percent on unsecured claims. If US Airways' projections prove to be accurate, Airlease could receive up to \$234,000 in settlement. At December 31, 2002, the Partnership had not recorded a contingent gain for any possible settlement.

The Partnership also leases a 727-200 FH aircraft to Federal Express Corporation ("FedEx"). This lease is scheduled to terminate in 2006.

See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" for a further discussion of the Partnership's lessees.

The Partnership's lessees have the following fair market value renewal options: Fedex has the right to renew its lease for one six-month term at the current rent payable under the lease, and thereafter for four successive one year terms at a fair market value rental.

COMPETITIVE POSITION OF THE PARTNERSHIP

The aircraft leasing industry has become increasingly competitive. In making aircraft investments, leasing aircraft to lessees, and seeking purchasers of aircraft, the Partnership competes with large leasing companies, aircraft manufacturers, airlines and other operators, equipment managers, financial institutions and other parties engaged in leasing, managing, marketing or remarketing aircraft. Affiliates of the General Partner are engaged in many of these businesses and may be deemed to be in competition with the Partnership. There are many large leasing companies which have the financial strength to borrow at very low rates and to obtain significant discounts when purchasing large quantities of aircraft. The lower capital and acquisition costs enjoyed by these large leasing companies permit them to offer airlines lower lease rates than smaller leasing companies can offer. The Partnership does not have the resources to purchase newer aircraft or to purchase aircraft at volume discounts and has only a limited ability to use tax deferrals in its pricing.

As previously reported to Unitholders, the Partnership's access to capital is limited. Since all Cash Available from Operations, as defined in the Limited Partnership Agreement, is distributed, there is no build up of equity capital, and acquisitions must be funded from proceeds available when aircraft are sold or from debt. Access to debt is limited because the Partnership's aircraft leased under long-term leases are generally used to collateralize existing borrowings. In general, the Partnership's pricing is uncompetitive for new acquisitions because of its limited sources and high cost of capital.

Because of these factors, finding new aircraft investments like those made by the Partnership in the past and that offer an appropriate balance of risk and reward has been difficult. During the past nine years the Partnership has made only two aircraft investments, both of which were possible because of special circumstances.

In 1996, 1997 and 2001, the Partnership sold interests in nine aircraft (a 50% interest in an aircraft on lease to Finnair, a one-third interest in six

Edgar Filing: AIRLEASE LTD - Form 10-K

aircraft on lease to Continental, a 50% interest in one aircraft leased to Sun Jet International, Inc., and a 100% interest in an aircraft previously on lease to TWA and American Airlines). See "Disposition of Aircraft" below. However, because of the factors described above, the Partnership was unable to reinvest the proceeds in aircraft at an acceptable return, and the General Partner determined that the best use of the net proceeds was to distribute them to Unitholders. These sales and distributions have reduced the size of the Partnership's portfolio.

DESCRIPTION OF LEASES

The 727-200FH aircraft on lease to FedEx is leased pursuant to a full-payout (direct finance) lease, and the two MD-82 aircraft on lease to CSI are leased pursuant to operating leases. The two MD-82 aircraft on lease to CSI, together with the three off-lease aircraft, were previously leased to US Airways pursuant to full-payout leases

Generally, operating leases are for a shorter term than full-payout leases and, therefore, it is necessary to remarket the aircraft in order to recover the full investment. Full-payout leases are generally for a longer term and hence provide more predictable revenue than operating leases.

All of the Partnership's leases are net leases, which provide that the lessee will bear the direct operating costs and the risk of physical loss of the aircraft; pay sales, use or other similar taxes relating to the lease or use of the aircraft; maintain the aircraft; indemnify the Partnership-lessor against any liability suffered by the Partnership as the result of any act or omission of the lessee or its agents; maintain casualty insurance in an amount equal to the specific amount set forth in the lease (which may be less than the fair value of the aircraft); and maintain liability insurance naming the Partnership as an additional insured with a minimum coverage which the General Partner deems appropriate. In general, substantially all obligations connected with the ownership and operation of the leased aircraft are assumed by the lessee and minimal obligations are imposed upon the Partnership. Default by a lessee may cause the Partnership to incur unanticipated expenses. See "Government Regulation" below.

Certain provisions of the Partnership's leases may not be enforceable upon a default by a lessee or in the event of a lessee's bankruptcy. The enforceability of leases will be subject to limitations imposed by Federal, California, or other applicable state law and equitable principles.

In order to encourage equipment financing to certain transportation industries, Federal bankruptcy laws traditionally have afforded special treatment to certain lenders or lessors who have provided such financing. Section 1110 ("Section 1110") of the United States Bankruptcy Code, as amended (the "Bankruptcy Code"), implements this policy by creating a category of aircraft lenders and lessors whose rights to repossession are substantially improved. If a transaction is eligible under Section 1110, the right of the lender or lessor to take possession of the equipment upon default is not affected by the automatic stay provisions of the Bankruptcy Code, unless within 60 days after commencement of a bankruptcy proceeding the trustee agrees to perform all obligations of the debtor under the agreement or lease and all defaults (except those relating to insolvency or insolvency proceedings) are cured within such 60-day period or 30 days after the default. One court has recently held that Section 1110 does not apply after the 60-day period, and thus the automatic stay may apply after such 60-day period.

Edgar Filing: AIRLEASE LTD - Form 10-K

On October 22, 1994, the President signed the Bankruptcy Reform Act of 1994 (the "Reform Act"). The Reform Act made several changes to Section 1110, such that it now protects all transactions involving qualifying equipment, whether the transaction is a lease, conditional sale, purchase money financing or customary refinancing. For equipment first placed in service on or prior to the date of enactment, the requirement that the lender provide purchase money financing continues to apply, but there is a "safe harbor" definition for leases, so that Section 1110 benefits will be available to the lessor without regard to whether or not the lease is ultimately determined to be a "true"

lease. This safe harbor is not the exclusive test so that other leases which do not qualify under the safe harbor, but which are true leases, will continue to be covered as leases by Section 1110. The Partnership may not be entitled to the benefits of Section 1110 upon insolvency of a lessee airline under all of its leases.

In the past, the Partnership had interests in aircraft leased to operators based outside the United States. It is possible that the Partnership's aircraft could be leased or subleased to foreign airlines. Aircraft on lease to such foreign operators are not registered in the United States and it is not possible to file liens on such foreign aircraft with the Federal Aviation Administration (the "FAA"). Further, in the event of a lessee default or bankruptcy, repossession and claims would be subject to laws other than those of the United States.

AIRCRAFT REMARKETING

On termination of a lease and return of the aircraft to the Partnership, the Partnership must remarket the aircraft to realize its full investment. Under the Amended and Restated Agreement of Limited Partnership, as amended ("Limited Partnership Agreement"), the remarketing of aircraft may be through a lease or sale. The terms and conditions of any such lease would be determined at the time of the re-lease, and it is possible (although not anticipated at this time) that the lease may not be a net lease. The General Partner will evaluate the risks associated with leases which are not net leases prior to entering into any such lease. The General Partner has not established any standards for lessees to which it will lease aircraft and, as a result, there is no investment restriction prohibiting the Partnership from doing business with any lessee, including "start-up" airlines. However, the General Partner will analyze the credit of a potential lessee and evaluate the aircraft's potential value prior to entering into any lease.

DISPOSITION OF AIRCRAFT

The Partnership's original intent was to dispose of all its aircraft by the year 2011, subject to prevailing market conditions and other factors. However, in 1997 unitholders authorized the General Partner not to make new investments, to sell aircraft when attractive opportunities arise, to distribute the proceeds and to liquidate the Partnership when all assets are sold. See "Principal Investment Objectives" above.

Under the Limited Partnership Agreement, aircraft may be sold at any time whether or not the aircraft are subject to leases if, in the judgment of the General Partner, it is in the best interest of the Partnership to do so.

In March 1996, the Partnership sold its 50% interest in one MD-82 on lease to Finnair to a third party for approximately \$6.9 million, resulting in a net gain of approximately \$556,000. The Partnership had acquired its interest in

Edgar Filing: AIRLEASE LTD - Form 10-K

this aircraft in April 1992, for approximately \$8.5 million. A portion of the sale proceeds were used to pay off the outstanding balance under a non-recourse loan which was collateralized by this aircraft and the balance, after retaining a reserve for liquidity purposes, was distributed to Unitholders.

The Partnership sold its one-third interest in six 737-200 aircraft on lease to Continental at lease expiration on December 31, 1996, at a sale price of approximately \$3.1 million, resulting in a net gain of approximately \$1.9 million. The proceeds were distributed to Unitholders in the first quarter of 1997.

On September 29, 1997 the Partnership sold its one-half ownership interest in a DC9-51 aircraft on lease to Sun Jet International, Inc. The sale price was \$1.2 million, resulting in a gain of \$393,000 even though the lessee had filed for bankruptcy in June 1997, and had ceased making the rent payments. The proceeds were distributed to Unitholders in the fourth quarter of 1997.

In December 2001, the Partnership sold its 100% interest in an MD-82 aircraft previously on lease to American Airlines, at a sale price of approximately \$9 million, resulting in a net gain of approximately \$965,000. The proceeds were distributed to Unitholders in the first quarter of 2002.

See "Competitive Position of the Partnership" above for a discussion of the General Partner's determination to distribute the proceeds of the sale of these aircraft to Unitholders.

The Partnership is permitted to sell aircraft to affiliates of the General Partner at the fair market value of the aircraft at the time of sale as established by an independent appraisal. The General Partner will receive a Disposition or Remarketing Fee for any such sale.

JOINT VENTURES/GENERAL ARRANGEMENTS

Under the Limited Partnership Agreement, the Partnership may enter into joint ventures with third parties to acquire or own aircraft. No such joint ventures presently exist.

BORROWING POLICIES

Under the Limited Partnership Agreement, the Partnership may borrow funds or assume financing in an aggregate amount equal to less than 50% of the higher of the cost or fair market value at the time of the borrowing of all aircraft owned by the Partnership. The Partnership may exceed such 50% limit for short-term borrowing so long as the General Partner uses its best efforts to comply with such 50% limit within 120 days from the date such indebtedness is incurred or if the borrowed funds are necessary to prevent foreclosure on any Partnership asset. There is no limitation on the amount of such short-term indebtedness. The General Partner is authorized to borrow for working capital purposes and to make distributions. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS--Liquidity and Capital Resources" and Note 6 of Notes to Financial Statements.

MANAGEMENT OF AIRCRAFT PORTFOLIO

Edgar Filing: AIRLEASE LTD - Form 10-K

Aircraft management services are provided by the General Partner and its affiliates. The fees and expenses for these services are reviewed annually and are subject to approval by the Audit Committee of the Partnership. See Note 8 of Notes to Financial Statements.

REGISTRATION OF AIRCRAFT; UNITED STATES PERSON

Under the Federal Aviation Act, as amended (the "FAA Act"), the operation of an aircraft not registered with the Federal Aviation Administration (the "FAA") in the United States is generally unlawful. Subject to certain limited exceptions, an aircraft may not be registered under the FAA Act unless it is owned by a "citizen of the United States" or a "resident alien" of the United States. In order to attempt to ensure compliance with the citizenship requirements of the FAA Act, the Limited Partnership Agreement requires that all Unitholders (and all transferees of Units) be United States citizens or resident aliens within the meaning of the FAA Act.

GOVERNMENT REGULATION

GENERAL

The ownership and operation of aircraft in the United States are strictly regulated by the FAA, which imposes certain minimum restrictions and economic burdens upon the use, maintenance and ownership of aircraft. The FAA Act and FAA regulations contain strict provisions governing various aspects of aircraft ownership and operation, including aircraft inspection and certification, maintenance, equipment requirements, general operating and flight rules, noise levels, certification of personnel and record keeping in connection with aircraft maintenance. FAA policy has given high priority to aviation safety, and a primary objective of FAA regulations is that an aircraft be maintained properly during its service life. FAA regulations establish standards for repairs, periodic overhauls and alterations and require that the owner or operator of an aircraft establish an airworthiness inspection program to be carried out by certified mechanics qualified to perform aircraft repairs. Each aircraft in operation is required to have a Standard Airworthiness Certificate issued by the FAA.

MAINTENANCE

The Partnership, as the beneficial owner of aircraft, bears the ultimate responsibility for compliance with certain federal regulations. However, under all of the Partnership's aircraft leases, the lessee has the primary obligation to ensure that at all times the use, operation, maintenance and repair of the aircraft are in compliance with all applicable governmental rules and regulations and that the Partnership/lessor is indemnified from loss by the lessee for breach of any of these lessee responsibilities. Changes in government regulations after the Partnership's acquisition of aircraft may increase the cost to, and other burdens on, the Partnership of complying with such regulations.

The General Partner monitors the physical condition of the Partnership's aircraft and periodically inspects them to attempt to ensure that the lessees comply with their maintenance and repair obligations under their respective leases. Maintenance is further regulated by the FAA which also monitors compliance. At lease termination, the lessees are required to return the aircraft in airworthy condition. The Partnership may incur unanticipated maintenance expenses if a lessee were to default under a lease and the Partnership were to take possession of the leased aircraft without such

Edgar Filing: AIRLEASE LTD - Form 10-K

maintenance having been completed. If the lessee defaulting is in bankruptcy, the General Partner will file a proof of claim for the required maintenance expenses in the lessee's bankruptcy proceedings and attempt to negotiate payment and reimbursement of a portion of these expenses. The bankruptcy of a lessee could adversely impact the Partnership's ability to recover maintenance expense.

From time to time, aircraft manufacturers issue service bulletins and the FAA issues airworthiness directives. These bulletins and directives provide instructions to aircraft operators in the maintenance of aircraft and are intended to prevent the occurrence of accidents arising from flaws discovered during maintenance or as the result of aircraft incidents. Compliance with airworthiness directives is mandatory.

A formal program to control corrosion in all aircraft is included in the FAA mandatory requirements for maintenance for each type of aircraft. These FAA rules and proposed rules evidence the current approach to aircraft maintenance developed by the manufacturers and supported by the FAA in conjunction with an aircraft industry group. The Partnership may be required to pay for these FAA requirements if a lessee defaults or if necessary to re-lease or sell the aircraft.

AIRCRAFT NOISE

The FAA, through regulations, has categorized certain aircraft types as Stage I, Stage II and Stage III according to the noise level as measured at three designated points. Stage I aircraft create the highest measured noise levels. Stage I and Stage II aircraft are no longer allowed to operate from civil airports in the United States.

See "Aircraft Portfolio" above, for a description of the Partnership's aircraft portfolio. At December 31, 2002, all of the aircraft in the Partnership's portfolio were Stage III aircraft.

ACQUISITION OF ADDITIONAL AIRCRAFT

In 1997 Unitholders authorized the General Partner to decide not to make new aircraft investments, to sell aircraft when attractive opportunities arise, to distribute the proceeds and to liquidate the Partnership when all assets are sold. See "Principal Investment Objectives" above.

Notwithstanding the above, if the Partnership were to acquire additional aircraft, it could do so in many different forms, such as in sale/leaseback transactions, by purchasing interests in existing leases from

other lessors, by making loans secured by aircraft or by acquiring or financing leasehold interests in aircraft. The Partnership is permitted to acquire aircraft from affiliates of the General Partner subject to limitations set forth in the Limited Partnership Agreement.

FEDERAL INCOME TAXATION

The Partnership is considered a publicly traded partnership ("PTP") under the Revenue Act of 1987 with a special tax status, whereby it has not been subject to federal income taxation. This special tax status was scheduled to expire at the beginning of 1998. However, during 1997 federal and California tax laws were amended to provide that PTPs may elect to continue to be publicly traded and retain their Partnership tax status if they pay a federal tax of 3.5% and a California state tax of 1% on their applicable annual gross income

Edgar Filing: AIRLEASE LTD - Form 10-K

beginning in January 1998. The Partnership made an election to pay this tax beginning in 1998.

EMPLOYEES

The Partnership has no employees. See "DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT - General" below. Employees of the General Partner provide services on behalf of the Partnership.

ITEM 2. PROPERTIES

The Partnership does not own any real property, and shares office space in the offices of BALCAP and its affiliates.

ITEM 3. LEGAL PROCEEDINGS

In June 2002, the Partnership commenced litigation against U.S. Airways in the Superior Court of California in the County of Los Angeles, seeking to recover damages for U.S. Airways' failure to return three aircraft leased to U.S. Airways in the conditions prescribed in the lease following lease expiration on October 1, 2001 and to pay rent due on the aircraft. U.S. Airways has since filed for bankruptcy. The Partnership has filed a proof of claim in the bankruptcy case in the amount of \$13 million. See "BUSINESS - AIRCRAFT PORTFOLIO" above.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

UNITS OUTSTANDING

Since September 9, 2002, the Units have been trading on the OTC Bulletin Board ("OTCBB") under the symbol AIRL. Prior to that date, the Units were traded on the New York Stock Exchange ("NYSE") under the symbol FLY. The units were delisted from the NYSE because the Partnership ceased to meet the NYSE's continued listing criteria. As of February 24, 2003, there were 781 Unitholders of record.

MARKET PRICE

The following chart sets forth the high and low closing prices on the New York Stock Exchange or the high and low bid information as reported on the over-the-counter market and the trading volume for each of the quarters in the years ended December 31, 2002 and 2001. Over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

Quarter Ended	Trading Volume (in thousands)	Unit Prices (high-low)
March 31, 2002	378	\$6.60 - \$4.95
June 30, 2002	361	\$5.99 - \$3.03
September 30, 2002	438	\$3.30 - \$1.50

Edgar Filing: AIRLEASE LTD - Form 10-K

December 31, 2002	678	\$1.25 - \$0.61
March 31, 2001	409	\$13.05 - \$11.56
June 30, 2001	630	\$11.89 - \$8.75
September 30, 2001	573	\$10.35 - \$4.26
December 31, 2001	640	\$8.85 - \$5.30

DISTRIBUTIONS TO UNITHOLDERS

CASH DISTRIBUTIONS

The Partnership makes quarterly cash distributions to Unitholders which are based on Cash Available from Operations (as defined in the Limited Partnership Agreement) and are partially tax sheltered. From time to time the

Partnership also has made cash distributions from Cash Available from Sale or Refinancing (as defined in the Limited Partnership Agreement.) Information on the tax status of such payments, which is necessary in the preparation of individual tax returns, is prepared and mailed to Unitholders as quickly as practical after the close of each year. The size of the Partnership's portfolio, whether the aircraft is leased and future aircraft sales will affect distributions.

Distributions declared during 2002 and 2001 were as follows:

Record Date	Payment Date	Per Unit
March 29, 2002	May 15, 2002	11 cents
June 28, 2002	August 15, 2002	11 cents
October 4, 2002	November 15, 2002	5 cents
December 31, 2002	February 14, 2003	5 cents
March 31, 2001	May 14, 2001	38 cents
June 29, 2001	August 15, 2001	38 cents
September 28, 2001	November 15, 2001	30 cents
December 31, 2001	February 15, 2002	11 cents

CASH AVAILABLE FROM OPERATIONS

The Partnership distributes all Cash Available from Operations (as defined in the Limited Partnership Agreement). The Partnership is authorized to make distributions from any source, including reserves and borrowed funds. Distributions of Cash Available from Operations are allocated 99% to Unitholders and 1% to the General Partner. The Partnership makes distributions each year of Cash Available from Operations generally on the fifteenth day of February, May, August and November to Unitholders of record on the last business day of the calendar quarter preceding payment.

CASH AVAILABLE FROM SALE OR REFINANCING

The Partnership's original intent was that Cash Available From Sale or Refinancing (as defined in the Limited Partnership Agreement) received prior to January 1, 2005 would be retained for use in the Partnership's business, provided that if the General Partner did not believe that attractive investment opportunities exist for the Partnership, the Partnership could distribute Cash Available from Sale or Refinancing. Any Cash Available from Sale or Refinancing received after January 1, 2005 was not to be reinvested but was to be

Edgar Filing: AIRLEASE LTD - Form 10-K

distributed. However, in 1997, Unitholders authorized the General Partner to decide not to make new aircraft investments, to sell aircraft when attractive opportunities arise, to distribute the proceeds and to liquidate the Partnership when all assets are sold. See "BUSINESS--Principal Investment Objectives." For information as to the sales giving rise to distributions from Cash Available from Sales or Refinancing, see "BUSINESS--Disposition of Aircraft."

TAX ALLOCATIONS

Allocations for tax purposes of income, gain, loss deduction, credit and tax preference are made on a monthly basis to Unitholders who owned Units on the first day of each month. Thus, for example, if an aircraft were sold at a gain, that gain would be allocated to Unitholders who owned Units on the first day of the month in which the sale occurred. If proceeds from this sale were distributed to Unitholders, such proceeds would be distributed to Unitholders who owned Units on the record date for such distribution, which, because of notice requirements, likely would not occur in the same month as the sale. In addition, a Unitholder who transfers his or her Units after the commencement of a quarter but prior to the record date for that quarter will be allocated a share of tax items for the first two months of that quarter without any corresponding distribution of Cash Available from Operations for, among other things, payment of any resulting tax.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial data and other data concerning the Partnership for each of the last five years:

(In thousands except per-unit amounts)	For years ended December 31,				
	2002	2001	2000	1999	1998
OPERATING RESULTS					
Lease and other income	\$ 3,027	\$ 5,102	\$ 6,736	\$ 7,614	\$ 8,400
Gain on disposition of aircraft	--	965	--	--	--
Total revenues	3,027	6,067	6,736	7,614	8,400
Interest expense	231	550	909	1,270	1,704
Depreciation expense	3,206	1,268	--	--	--
Other expenses	1,397	1,742	1,082	1,088	1,123
Impairment charge on aircraft	11,086	--	--	--	--

Edgar Filing: AIRLEASE LTD - Form 10-K

Tax on gross income	142	884	548	548	699
Total expenses	16,062	4,444	2,539	2,906	3,526
Net income/(loss)	\$(13,035)	\$ 1,623	\$ 4,197	\$ 4,708	\$ 4,874
Net income/(loss) per unit(1)	\$ (2.79)	\$ 0.35	\$ 0.90	\$ 1.01	\$ 1.04
Cash distributions declared per unit(2)	\$ 0.32	\$ 2.67	\$ 1.80	\$ 1.64	\$ 1.64

For years ended December 31,

(In thousands except per-unit amounts) 2002 2001 2000 1999 1998

FINANCIAL POSITION

Total assets	\$ 29,811	\$52,529	\$ 61,836	\$ 67,787	\$ 75,813
Long-term obligations	\$ 2,729	\$ 3,389	\$ 7,992	\$ 10,092	\$ 14,505
Total partners' equity	\$ 25,755	\$40,285	\$ 51,135	\$ 55,347	\$ 58,301
Limited partners' equity per unit	\$ 5.51	\$ 8.62	\$ 10.95	\$ 11.85	\$ 12.48

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

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Partnership has included in this annual report certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 concerning the Partnership's business, operations and financial condition. The words or phrases "can be", "may affect", "may depend", "expect", "believe", "anticipate", "intend", "will", "estimate", "project" and similar words and phrases are intended to identify such forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties and the Partnership cautions you that any forward-looking information provided by or on behalf of the Partnership is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond the Partnership's control, in addition to those discussed in the Partnership's public filings and press releases, including (i) changes in the aircraft or aircraft leasing market, (ii) economic downturn in the airline industry, (iii) default by lessees under leases causing the Partnership to incur unanticipated expenses or not to receive rental income as and when expected, (iv) the impact of the events of September 11, 2001, and war or other military involvement by the U.S. or others Iraq or other regions, on the aircraft or aircraft leasing market and on the airline industry, (v) changes in interest rates and (vi) legislative or regulatory

Edgar Filing: AIRLEASE LTD - Form 10-K

changes that adversely affect the value of aircraft. All such forward-looking statements are current only as of the date on which such statements were made. The Partnership does not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

CRITICAL ACCOUNTING POLICIES

In response to the SEC's financial release FR-60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Partnership has identified the most critical accounting principles upon which its financial reporting depends. It determined the critical principles by considering accounting policies that involve the most complex or subjective decisions or assessments. The Partnership identified its most critical accounting policies to be those related to lease revenue recognition, depreciation policies, and valuation of aircraft. These accounting policies are stated in the notes to the financial statements and in relevant sections in this discussion and analysis.

LIQUIDITY AND CAPITAL RESOURCES

The Partnership presently has one long-term debt facility. At December 31, 2002, the 7.4% non-recourse note collateralized by one aircraft leased to FedEx had an outstanding balance of \$2.7 million. The facility matures in April 2006.

Long-term borrowings at December 31, 2002 represented 2.57% of the original cost of the aircraft presently owned by the Partnership, including capital expenditures for upgrades.

Total scheduled debt service in 2003 is \$0.9 million. Debt service will be paid from the rental payments received under the FedEx lease.

Net cash provided by operating activities was \$4.5 million for 2000, \$2.7 million for 2001, and \$1.6 million for 2002. The decrease in 2002 was primarily due to having three aircraft off-lease for all of 2002. The decrease in 2001 as compared with 2000 was primarily due to reduced revenue as a result of the termination on October 1, 2001 of the US Airways leases.

Total debt service on the fixed loan as a percentage of net cash provided by operating activities was 67%, 123%, and 57% for 2000, 2001 and 2002, respectively. However, cash flow from operating activities does not fully reflect cash receipts from lease payments. When the excess of rental receipts above finance lease income is added to cash flow from operating activities, the ratios become 29%, 27%, and 35%, respectively.

Regular cash distributions paid by the Partnership were \$8.2 million (\$1.76 per unit) in 2000, \$7.1 million (\$1.51 per unit) in 2001, and \$1.8 million (\$0.38 per unit) in 2002. There were no special cash distributions paid in 2000 or 2001. A special cash distribution of \$7.0 million (\$1.50 per unit) was declared in December 2001, and was paid in the first quarter of 2002.

Pursuant to the Limited Partnership Agreement, the Partnership distributes all Cash Available from Operations net of expenses and reserves. Since such distributions were in excess of earnings, and because of the Partnership's net loss in 2002, Partnership equity declined from \$40.3 million at December 31, 2001 to \$25.8 million at December 31, 2002, and limited partner equity per unit declined from \$8.62 to \$5.51. Included in the equity decline are

Edgar Filing: AIRLEASE LTD - Form 10-K

the non-cash aircraft impairment charges of \$11.1 million or \$2.37 per unit recorded in 2002.

At December 31, 2002, the Partnership had cash on hand in the amount of \$2.3 million (net of amounts payable to unitholders on February 14, 2003). In the event that the Partnership's cash on hand is significantly reduced as a result of unanticipated expenses, including unanticipated maintenance and refurbishing expenses with respect to the three MD-81 aircraft currently off lease or the two aircraft leased by CSI following their lease expirations, cash distributions to unitholders may be reduced or eliminated.

RESULTS OF OPERATIONS

2002 vs. 2001

Net loss in 2002 was \$13,035,000, compared with a net income of \$1,623,000 in 2001. The decline in earnings results from an increase in expenses, primarily due to aircraft impairment charges and an increase in depreciation expense, and from reduced revenues.

In 2002, revenues were earned from only three of the six aircraft in the Partnership's portfolio. The remaining three aircraft were off-lease throughout the year. Two of the leased aircraft were leased to CSI and the other was leased to Federal Express.

Revenues in 2002 were \$3,027,000 compared with \$6,067,000 in 2001. The revenue reductions were primarily due to the expiration of the lease with US Airways for five aircraft in the fourth quarter of 2001, three of which remain off-lease as of December 31, 2002; the sale of one aircraft in December 2001; and the scheduled decline in finance lease income in 2002 associated with the aircraft leased to Federal Express.

Expenses in 2002 were \$16,062,000, an increase of \$11,618,000 from \$4,444,000 for the comparable 2001 period. The increase in expenses was primarily due to the aircraft impairment charges in the third quarter of 2002 of \$11,086,000, as the three off-lease aircraft were deemed impaired under Statement of Financial Accounting Standards ("SFAS") 144, and to depreciation expense of \$3,206,000 in 2002 compared to depreciation expense of \$1,268,000 for the comparable 2001 period. The 2002 depreciation expense related to aircraft subject to operating leases and to aircraft available for lease. A note receivable from US Airways recorded on the Partnership's books in 2001 for \$34,000 (net of discount and deferred income) was written off as a loss. The note was written off as a result of US Airways' bankruptcy filing, in August 2002, and the uncertainty of collection. Interest expense was lower in 2002 as a result of the reduction in the Partnership's debt balances. Management fees and taxes were lower due to a smaller asset base and lower revenues.

Maintenance expenses and any refurbishing expenses incurred with respect to the three aircraft currently off lease or the two aircraft currently on lease to CSI in preparation of these aircraft for delivery to future lessees will result in additional expenses to the Partnership. Management cannot estimate the amount of such additional expenses, although such expenses, if significant, could have a material adverse effect on the Partnership's results of operations or financial condition and result in reduced cash distributions to unitholders.

For information regarding the percentage of total Partnership assets represented by aircraft owned and leased by the Partnership, see "Aircraft Portfolio."

Edgar Filing: AIRLEASE LTD - Form 10-K

2001 vs. 2000

In 2001, revenues were earned from seven aircraft subject to finance and operating leases and from the gain on sale of one aircraft. The lease revenue reduction in 2001 as compared with 2000 was primarily due to the scheduled decline in finance lease income as the balances due from the lessees declined, the expiration of the lease with US Airways for five aircraft, three of which remain off lease, and the restructure of the TWA lease.

In 2001, five MD-82 aircraft leased to US Airways generated \$3,363,000 in finance lease income prior to their return upon lease expiration. Two of the five aircraft were leased to CSI Aviation Services, Inc. ("CSI") in November 2001 under operating leases, which generated \$296,000 in operating lease income (before depreciation expense). The remaining three aircraft were being held for lease as of December 31, 2001.

The finance lease of one MD-82 aircraft with TWA was assumed by American Airlines in April of 2001, and was reclassified as an operating lease. In 2001, the finance lease generated \$293,000 in finance lease income, and the operating lease generated \$750,000 in operating lease rental income (before depreciation expense). In December of 2001, the aircraft was sold, generating a gain on sale before remarketing fee of \$965,000.

The lease of one 727-200FH aircraft to FedEx generated \$346,000 in finance lease income.

Interest expense decreased in 2001 by \$359,000 as compared with 2000, as a result of declining debt balances.

Depreciation expense of \$1,268,000 in 2001 related to aircraft subject to operating leases and to aircraft available for lease. No depreciation expense was recorded in 2000 as the Partnership's portfolio did not include any aircraft subject to operating lease or held for lease.

Management fees and tax on gross income increased in 2001 as compared with the prior year as a result of the sale of the MD-82 aircraft.

The increase in general and administrative expenses is primarily due to aircraft maintenance and refurbishing expenses incurred in the preparation of two MD-82 aircraft for delivery to CSI.

The lease with US Airways for five MD-82 aircraft was scheduled to terminate on October 1, 2001. However, US Airways failed to satisfy the aircraft return conditions relating to aircraft maintenance as specified in the lease agreement. Under the lease, US Airways was obligated to pay rent for each aircraft on a prorated basis until the required maintenance has been completed and the aircraft has been returned. The lease required the maintenance to be completed within 60 days of the expiration of the lease term.

In November 2001 the Partnership entered into an agreement with US Airways with respect to the two MD-82 aircraft now leased to CSI, providing for US Airways to pay hold-over rent and to pay for certain agreed-upon maintenance work. US Airways made a cash payment covering a portion of the rent and maintenance costs and delivered an unsecured note for the remaining amount. The note was written off as a result of US Airways' bankruptcy filing, in August 2002, and the uncertainty of collection, resulting in a charge to bad debt expense of \$34,000. See Note 4 of the Notes to Financial Statements.

Edgar Filing: AIRLEASE LTD - Form 10-K

Outlook

The market conditions for aircraft leasing continue to be weak, as the supply of aircraft exceeds demand. Consequently, the Partnership continues to experience significant competitive pressure in marketing the three aircraft

currently off lease. Management is not able to predict when these three aircraft, or the two aircraft on lease to CSI following lease expiration, may be leased again or the terms of any such future leasing.

Although the market conditions are not favorable, the airline industry is cyclical. We experienced an imbalance between supply and demand in the early 1990's and over time, the imbalance adjusted. While circumstances are very difficult today, we remain committed to our objective of generating value from the Airlease aircraft portfolio while returning this value to unitholders through distributions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Partnership believes that as of December 31, 2002, it does not have any material interest rate risk exposures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and Notes to Financial Statements described in Item 14(a) are set forth in Appendix A and are filed as part of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

GENERAL

The Partnership has no directors or executive officers. Under the Limited Partnership Agreement, the General Partner has full power and authority in the management and control of the business of the Partnership, subject to certain provisions requiring the consent of the Limited Partners.

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information about the directors and executive officers of the General Partner as of February 28, 2003. As used below, "BALCAP" refers both to BALCAP and to BA Leasing and Capital prior to its BALCAP in September 1999.

Edgar Filing: AIRLEASE LTD - Form 10-K

NAME	POSITION WITH GENERAL PARTNER	AGE	PRINCIPAL OCCUPATION AND EMPLOYMENT FOR LAST 5 Y
David B. Gebler	Chairman of the Board, President, Chief Executive Officer and a Director	53	Mr. Gebler is a Managing Director National Association ("Bank of BALCAP. He has been with BALCAP 1996. From 1993 to September 1996 President of the Transportation Financing business unit of USL Capital been President of the General Partner Director since 1990, and has been Cha since September 1996. Mr. Gebler hold degree in mathematics from Clarkson U graduate degrees in Engineering and M University of Michigan.
William A. Hasler	Director	61	Mr. Hasler has been the Co-Chief Executive Officer of Apton Corporation, a biopharmaceutical since July 1998 and a Director of the since 1995. From August 1991 to July 1995 Dean of the Haas School of Business of California at Berkeley. From 1991 vice chairman and director of KPMG was responsible for its world business. He is a member of the board of The Pacific Stock Exchange and directors of Selectron Corp., Schwab West, Tenera, Walker Interactiv Corporation. He is a graduate of Po earned his MBA from Harvard.
Leonard Marks, Jr.	Director	81	Mr. Marks retired as Executive Vice President of Castle & Cooke, Inc., in 1985. Prior was also President of the real estate activities group of that company. a Director of the General Partner previously was a Director to the General Partner 1986 to 1997. For many years, assistant professor of Finance at the School and a professor of Finance Business School. He was Assistant United States Air Force from 1964 to holds a Ph.D in Business Administration University.
Richard P. Powers	Director	62	Mr. Powers is a Financial Consultant Investor. From 1996 to 2000 he was a President of Finance and Administration Surgical Technologies, Inc., a company. He has been a Director Partner since 1996. From 1981 to Syntex Corporation, a pharmaceutical as Senior Vice President and Chief of that company from 1986 to 1994.

Edgar Filing: AIRLEASE LTD - Form 10-K

he served as consultant to va including advising and assisting in Corporation to Roche Corporation i holds a Bachelor of Science degree i Canisius College and a Maste Administration from the University of

K. Thomas Rose	Director	57	Mr. Rose has been Managing Director, since 1992. He has been a Director Partner since October 1996. Prior responsibilities, Mr. Rose was with Leasing Corporation as Executive Lease Services since 1973. Mr. Rose California State University, Fuller Doctorate degree from Golden Gate U of Law.
Robert A. Keyes	Chief Financial Officer and a Director	50	Mr. Keyes has been Senior Vice Pre Finance Manager of BALCAP since Dece to assuming his present responsibi Mr. Keyes was with Citicorp Bankers L President and Head of Operations from From 1990 to 1997 Mr. Keyes was with Corporation (former parent of the Gen Vice President and Corporate Control Capital, Mr. Keyes served as Chief Fi and as a Director of the General Part 1990 Mr. Keyes held various Finance p Wells Fargo Leasing Corporation, incl President and Chief Financial Officer a Bachelor of Science degree in Econo College and a Masters in Business Adm Accounting from Rutgers University.

ITEM 11. EXECUTIVE COMPENSATION

The Partnership does not pay or employ directly any directors or officers. Each of the officers of the General Partner is also an officer or employee of BALCAP and is not separately compensated by the General Partner or the Partnership for services on behalf of the Partnership. Thus, there were no deliberations of the General Partner's Board of Directors with respect to compensation of any officer or employee.

The Partnership reimburses the General Partner for fees paid to Directors of the General Partner who are not otherwise affiliated with the General Partner or its affiliates. In 2002, such unaffiliated directors were paid an annual fee of \$14,500 plus \$500 for each meeting attended.

The Partnership has not established any plans pursuant to which cash or non-cash compensation has been paid or distributed during the last fiscal year or is proposed to be paid or distributed in the future. The Partnership has not issued or established any options or rights relating to the acquisition of its securities or any plans therefor.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

UNIT OWNERSHIP BY CERTAIN BENEFICIAL OWNERS

Edgar Filing: AIRLEASE LTD - Form 10-K

As of February 28, 2003, the following persons were known to the Partnership to be beneficial owners of more than five percent of the Partnership's equity securities:

Title of Class	Name and Address Of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of
Depository Units	United States Airlease Holding, Inc. 555 California Street San Francisco, CA 94104	231,250 (1) (2)	5%
Depository Units	BALCAP 555 California Street San Francisco, CA 94104	793,750 (3)	17.2

UNIT OWNERSHIP BY MANAGEMENT

Set forth below is information regarding interests in the Partnership owned by each director of and all directors and executive officers, as a group, of the General Partner. Unless otherwise noted, each person has sole voting and investment power over all units owned.

Title of Class	Name Of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of
Depository Units	David B. Gebler	700 (1)	(2)
Depository Units	William A. Hasler	8,700	(2)
Depository Units	Leonard Marks Jr.	750	(2)
	All directors and executive officers as a group	10,150	(2)

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For a discussion of certain fees, expenses and reimbursements payable and paid to the General Partner and its affiliates by the Partnership, see Note 8 of Notes to Financial Statements. From time to time, the Partnership has borrowed funds from BALCAP or BA Leasing & Capital, including advances for expense payments. All such borrowings were unsecured and bore interest at a floating rate not exceeding the prime rate. At December 31, 2002 Airlease owed BALCAP \$170,413 for such borrowings.

Edgar Filing: AIRLEASE LTD - Form 10-K

ITEM 14. CONTROLS AND PROCEDURES

(a) The Chief Executive Officer and the Chief Financial Officer of the General Partner of the Partnership, after evaluating the effectiveness of the Partnership's disclosure controls and procedures as of a date within 90 days before the filing date of this annual report, have concluded that the Partnership's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Partnership in this annual report is accumulated and communicated to the Partnership's management to allow timely decisions regarding required disclosure.

(b) No significant changes were made in the Partnership's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

(a) The following financial statements of the Partnership are included in this report as Appendix A:

	Page
Management's Responsibility for Financial Statements.....	A-1
Report of Independent Auditors	A-2
Financial Statements:	
Statements of Income for the Years Ended December 31, 2002, 2001 and 2000	A-3
Balance Sheets, as of December 31, 2002 and 2001.....	A-4
Statements of Cash Flows for the Years Ended December 31, 2002, 2001 and 2000.....	A-5
Statements of Changes in Partners' Equity for the Years Ended December 31, 2002, 2001 and 2000.....	A-6
Notes to Financial Statements	A-6

Financial statement schedules other than those listed above are omitted because the required information is included in the financial statements or the notes thereto or because of the absence of conditions under which they are required.

(b) The Partnership did not file any reports on Form 8-K during the last quarter of the fiscal year ended December 31, 2002.

(c) Exhibits required by Item 601 of Regulation S-K:

Edgar Filing: AIRLEASE LTD - Form 10-K

Exhibit No.	Description
3.1(1)	Amended and Restated Agreement of Limited Partnership of Partnership.
3.2(1)	Form of Certificate for Limited Partnership Units of Partnership.
3.3(1)	Form of Depositary Agreement among Partnership, Chase-Mellon Shareholder Services (formerly Manufacturers Hanover Trust Company), the General Partner and Limited Partners and Assignees holding Depositary Receipts.
3.4(1)	Form of Depositary Receipt for Units of Limited Partners' Interest in the Partnership
3.5(2)	Amendments to Amended and Restated Partnership Agreement.
4.1(1)	Form of Application for Transfer of Depositary Unit.
10.1(1)	Trust Agreement, together with Trust Agreement Supplement No. 1-5, dated as of July 10, 1986, between the Registrant, Meridian Trust Company and the General Partner.
10.3(1)	Lease Agreement, together with Lease Supplement Nos. 1-5, dated as of July 10, 1986, between Meridian Trust Company, not in its individual capacity but solely as Trustee, and Pacific Southwest Airlines.
<hr/>	
(1)	Incorporated by reference to the Partnership's Registration Statement on Form S-1 (File No. 33-7985), as amended.
(2)	Incorporated by reference to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2001.
10.44(3)	Aircraft Lease Agreement dated as of April 15, 1993 between Taurus Trust Company, Inc. (formerly Trust Company for USL, Inc.) as Owner Trustee, Lessor, and Federal Express Corporation, Lessee with respect to one (1) Boeing 727-2D4 Aircraft, U.S. Registration No. 362PA (manufacture serial no. 21850).
10.52(4)	Assignment, Assumption and Amendment Agreement dated April 9, 2001 among Trans World Airlines, Inc., American Airlines, Inc., the registrant and First Security Bank, National Association, as Owner Trustee.
10.53(2)	Certificate of Redelivery and Agreement dated as of November 26, 2001, 2001 between First Union National Bank, not in its individual capacity but solely as Owner Trustee, and US Airways, Inc., with respect to one MD-82 Aircraft, U.S. Registration No. 806USAirframe.
10.54(2)	Certificate of Redelivery and Agreement dated as of November 26, 2001, 2001 between First Union National Bank, not in its individual capacity but solely as Owner Trustee, and US Airways, Inc., with respect to one MD-82 Aircraft, U.S. Registration No. 807USAirframe.
10.55(2)	Aircraft Lease Agreement dated as of November 21, 2001, between First Union National Bank (formerly Meridian Trust Company), not in its individual capacity but solely as Owner Trustee, and CSI Aviation Services, Inc., Lessee with respect to one (1) MD-82 Aircraft, U.S. Registration No. N806US (manufacture serial no. 48038).

Edgar Filing: AIRLEASE LTD - Form 10-K

- 10.56(2) Aircraft Lease Agreement dated as of November 21, 2001, between First Union National Bank (formerly Meridian Trust Company), not in its individual capacity but solely as Owner Trustee, and CSI Aviation Services, Inc., Lessee with respect to one (1) MD-82 Aircraft, U.S. Registration No. N807US (manufacture serial no. 48039).
- 99.1 Certification of Chief Executive Officer
- 99.2 Certification of Chief Financial Officer
-

- (2) Incorporated by reference to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2001.
- (3) Incorporated by reference to the Partnership's Annual Report on Form 10-K for the year ended December 31, 2000.
- (4) Incorporated by reference to the Partnership's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 25, 2003.

AIRLEASE LTD., A CALIFORNIA LIMITED
PARTNERSHIP
(Registrant)

By: Airlease Management Services, Inc.,
General Partner

By: /s/ DAVID B. GEBLER

David B. Gebler
Chairman, Chief Executive Officer and
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

For Airlease Management
Services, Inc. ("AMSI"), General Partner

Edgar Filing: AIRLEASE LTD - Form 10-K

/s/ DAVID B. GEBLER

March 25, 2003

David B. Gebler
Chairman, Chief Executive Officer, President
and Director of AMSI

/s/ ROBERT A. KEYES

March 25, 2003

Robert A. Keyes
Chief Financial Officer and Director of AMSI

/s/ K. THOMAS ROSE

March 25, 2003

K. Thomas Rose
Director of AMSI

/s/ WILLIAM A. HASLER

March 25, 2003

William A. Hasler
Director of AMSI

/s/ LEONARD MARKS, JR.

March 25, 2003

Leonard Marks, Jr.
Director of AMSI

/s/ RICHARD P. POWERS

March 25, 2003

Richard P. Powers
Director of AMSI

The foregoing constitute a majority of the members of the Board of Directors of Airlease Management Services, Inc. (the General Partner).

CERTIFICATIONS

I, David B. Gebler, Chairman, Chief Executive Officer and President of Airlease Management Services, Inc., the General Partner of Airlease Ltd., A California Limited Partnership, certify that:

1. I have reviewed this annual report on Form 10-K of Airlease Ltd., A California Limited Partnership;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in

Edgar Filing: AIRLEASE LTD - Form 10-K

this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 25, 2003

/s/ DAVID B. GEBLER

David B. Gebler
Chairman, Chief Executive Officer
and President

I, Robert A. Keyes, Chief Financial Officer of Airlease Management Services, Inc., the General Partner of Airlease Ltd., A California Limited Partnership, certify that:

1. I have reviewed this annual report on Form 10-K of Airlease Ltd., A California Limited Partnership;

Edgar Filing: AIRLEASE LTD - Form 10-K

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 25, 2003

/s/ ROBERT A. KEYES

Robert A. Keyes
Chief Financial Officer

Edgar Filing: AIRLEASE LTD - Form 10-K

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Airlease Management Services, Inc. ("AMSI"), the general partner of the Partnership, is responsible for the preparation of the Partnership's financial statements and the other financial information in this report. This responsibility includes maintaining the integrity and objectivity of the financial records and the presentation of the Partnership's financial statements in conformity with accounting principles generally accepted in the United States.

The general partner maintains an internal control structure designed to provide, among other things, reasonable assurance that Partnership records include the transactions of its operations in all material respects and to provide protection against significant misuse or loss of Partnership assets. The internal control structure is supported by careful selection and training of financial management personnel, by written procedures that communicate the details of the control structure to the Partnership's activities, and by staff of operating control specialists of Banc of America Leasing and Capital, LLC (a wholly owned subsidiary of Bank of America National Association, which also owns 100% of the stock of AMSI), who conduct reviews of adherence to the Partnership's procedures and policies.

The Partnership's financial statements have been audited by Ernst & Young LLP, independent auditors for the years ended December 31, 2002 and 2001. Their audits were conducted in accordance with auditing standards generally accepted in the United States. The Independent Auditor's Report appears on page A-2.

The board of directors of the general partner, acting through its Audit Committee composed solely of directors who are not employees of the general partner, is responsible for overseeing the general partner's fulfillment of its responsibilities in the preparation of the Partnership's financial statements and the financial control of its operations. The independent auditors have full and free access to the Audit Committee and meet with it to discuss their audit work, the Partnership's internal controls, and financial reporting matters.

/s/ DAVID B. GEBLER

David B. Gebler
Chairman, Chief Executive Officer and President
Airlease Management Services, Inc.

/s/ ROBERT A. KEYES

Robert A. Keyes
Chief Financial Officer
Airlease Management Services, Inc.

REPORT OF INDEPENDENT AUDITORS

To the Partners of Airlease Ltd.,
A California Limited Partnership:

We have audited the accompanying balance sheets of Airlease Ltd. (the "Partnership") as of December 31, 2002 and 2001, and the related statements of

Edgar Filing: AIRLEASE LTD - Form 10-K

operations, changes in partners' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Airlease Ltd. at December 31, 2002 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & Young LLP

Ernst & Young LLP
San Francisco, California
January 31, 2003

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF OPERATIONS

(In thousands except per unit amounts)	For the years ended December 31,		
	2002	2001	2000
REVENUES			
Finance lease income	\$ 300	\$ 4,002	\$ 6,736
Operating lease rentals	2,670	1,046	0
Gain on sale of aircraft	0	965	0
Other income	57	54	0
Total revenues	3,027	6,067	6,736
EXPENSES			
Interest	231	550	909
Depreciation - aircraft	3,206	1,268	0
Management fee - general partner	355	984	603
Investor reporting	425	365	316
General and administrative	269	167	163

Edgar Filing: AIRLEASE LTD - Form 10-K

Tax on gross income	142	884	548
Aircraft maintenance	314	226	0
Impairment charge on aircraft	11,086	0	0
Bad debt expense	34	0	0
	<hr/>	<hr/>	<hr/>
Total expenses	16,062	4,444	2,539
	<hr/>	<hr/>	<hr/>
NET INCOME/(LOSS)	\$ (13,035)	\$ 1,623	\$ 4,197
	<hr/>	<hr/>	<hr/>
NET INCOME/(LOSS) ALLOCATED TO:			
GENERAL PARTNER	\$ (130)	\$ 16	\$ 42
	<hr/>	<hr/>	<hr/>
Limited partners	\$ (12,905)	\$ 1,607	\$ 4,155
	<hr/>	<hr/>	<hr/>
NET INCOME/(LOSS) PER LIMITED PARTNERSHIP UNIT	\$ (2.79)	\$ 0.35	\$ 0.90
	<hr/>	<hr/>	<hr/>

See notes to financial statements

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

BALANCE SHEETS

(IN THOUSANDS EXCEPT UNITS OUTSTANDING)	As of December 31,	
	2002	2001
<hr/>		
ASSETS		
Cash and cash equivalents	\$ 2,569	\$ 9,432
Finance leases - net	5,939	6,949
Operating leases - net	12,753	14,218
Aircraft held for lease - net	8,500	21,326
Notes receivable (interest and discount)	0	544
Prepaid expenses and other assets	50	60
	<hr/>	<hr/>
Total assets	\$ 29,811	\$ 52,529
	<hr/>	<hr/>
LIABILITIES AND PARTNERS' EQUITY		
LIABILITIES:		
Distribution payable to partners	\$ 234	\$ 7,521
Deferred income	0	509
Accounts payable and accrued liabilities	1,093	602
Taxes payable	0	223
Long-term note payable	2,729	3,389
	<hr/>	<hr/>
Total liabilities	4,056	12,244
	<hr/>	<hr/>
COMMITMENTS AND CONTINGENCIES		

Edgar Filing: AIRLEASE LTD - Form 10-K

PARTNERS' EQUITY:

Limited partners (4,625,000 units outstanding)	25,498	39,883
General partner (46,717 units outstanding)	257	402
Total partners' equity	<u>25,755</u>	<u>40,285</u>
TOTAL LIABILITIES AND PARTNERS' EQUITY	\$ 29,811	\$ 52,529
	=====	=====

See notes to financial statements

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS

(In thousands)	For the years ended December 31,		
	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income/(loss)	\$ (13,035)	\$ 1,623	\$ 4,1
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:			
Depreciation - aircraft	3,206	1,268	
Increase in deferred income	0	509	
Bad debt expense	34	0	
Gain on sale of aircraft	0	(965)	
Increase in accounts payable and accrued liabilities	492	134	
Decrease in prepaid expenses and other assets	10	94	1
Impairment charge on aircraft	11,086	0	
Increase/(decrease) in taxes payable	(224)	84	1
Net cash provided by operating activities	<u>1,569</u>	<u>2,747</u>	<u>4,4</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Rental receipts in excess of earned finance and operating lease income	1,010	9,869	5,8
Proceeds from sale of equipment	0	9,000	
Increase in notes receivable	0	(544)	
Net cash provided by investing activities	<u>1,010</u>	<u>18,325</u>	<u>5,8</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Revolving credit repayment-net	0	(1,765)	(
Repayment of long-term notes payable	(660)	(2,838)	(2,0
Distributions paid to partners	(8,782)	(7,054)	(8,2

Edgar Filing: AIRLEASE LTD - Form 10-K

Net cash used by financing activities	(9,442)	(11,657)	(10,3
Increase/(decrease) in cash and cash equivalents	(6,863)	9,415	
Cash at beginning of year	9,432	17	
Cash and cash equivalents at end of year	\$ 2,569	\$ 9,432	\$
Additional information:			
Cash paid for interest	\$ 244	\$ 510	\$ 8

See notes to financial statements

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF CHANGES IN PARTNERS' EQUITY

(In thousands except per unit amounts)	For the years ended December 31, 2002, 2001, and 2000		
	General Partner	Limited Partners	Total
Balance, December 31, 1999	553	54,794	55,347
Net Income - 2000	42	4,155	4,197
Distributions to partners declared (\$1.80 per limited partnership unit)	(84)	(8,325)	(8,409)
Balance, December 31, 2000	511	50,624	51,135
Net Income - 2001	16	1,607	1,623
Distributions to partners declared (\$2.67 per limited partnership unit)	(125)	(12,348)	(12,474)
Balance, December 31, 2001	402	39,883	40,285
Net Loss - 2002	(130)	(12,905)	(13,035)
Distributions to partners declared (\$0.32 per limited partnership unit)	(15)	(1,480)	(1,495)
BALANCE, DECEMBER 31, 2002	\$ 257	\$ 25,498	\$ 25,755

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES ORGANIZATION - Airlease Ltd., A California Limited Partnership (the "Partnership"), engages in the business of

Edgar Filing: AIRLEASE LTD - Form 10-K

acquiring, either directly or through joint ventures, commercial jet aircraft, and leasing such aircraft or parts thereof to domestic and foreign airlines and freight carriers. The general partner of the Partnership (the "General Partner") is Airlease Management Services, Inc. From 1999 to June 2002, the General Partner was a wholly owned subsidiary of Banc of America Leasing and Capital, LLC, a Delaware limited liability company ("BALCAP"), in turn a wholly owned subsidiary of Bank of America National Association ("BANA"). In June 2002, BALCAP transferred its stock of the General Partner to BANA and the General Partner became a wholly owned subsidiary of BANA. BALCAP also holds 793,750 limited partnership units and United States Airlease Holding, Inc. ("Holding"), also a wholly owned subsidiary of BANA, holds 231,250 limited partnership units. An additional 3,600,000 units are publicly held.

BASIS OF PRESENTATION - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH EQUIVALENTS - The Partnership considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

FINANCE LEASES - Lease agreements, under which the Partnership recovers substantially all its investment from the minimum lease payments are accounted for as finance leases. At lease commencement, the Partnership records the lease receivable, estimated residual value of the leased aircraft, and unearned lease income. The original unearned income is equal to the receivable plus the residual value less the cost of the aircraft (including the acquisition fee paid to an affiliate of the general partner). The remaining unearned income is recognized as revenue over the lease term so as to approximate a level rate of return on the investment.

OPERATING LEASES - Leases that do not meet the criteria for finance leases are accounted for as operating leases. The Partnership's undivided interests in aircraft subject to operating leases are recorded at carrying value of the aircraft at lease inception. Aircraft are depreciated over the related lease terms, generally five to nine years on a straight-line basis to an estimated salvage value, or over their estimated useful lives for aircraft held for lease, on a straight-line basis to an estimated salvage value.

NET INCOME/(LOSS) PER LIMITED PARTNERSHIP UNIT is computed by dividing the net income/(loss) allocated to the Limited Partners by the weighted average units outstanding (4,625,000).

LONG LIVED ASSETS - The Partnership accounts for its long-lived assets, including Operating Leases and Aircraft Held for Lease, in accordance with Statement of Financial Accounting Standards ("SFAS") No 144 "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS".

SFAS 144, was issued in October 2001 and addresses how and when to measure impairment on long-lived assets and how to account for long-lived assets that an entity plans to dispose of either through sale, abandonment, exchange, or distribution to owners. The statement's provisions supersede SFAS 121, "ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF", which addressed asset impairment, and certain provisions of APB Opinion 30 related to reporting the effects of the disposal of a business

Edgar Filing: AIRLEASE LTD - Form 10-K

segment and requires expected future operating losses from discontinued operations to be recorded in the period in which the losses are incurred rather than the measurement date. Under SFAS 144, more dispositions may qualify for discontinued operations treatment in the income statement. SFAS 144 retains the requirements of SFAS 121 whereby an impairment loss is recognized in an amount equal to the difference between the carrying value and the fair value if the carrying value of an asset is not recoverable based on undiscounted future cash flows. (See Note 5).

2. FINANCE LEASES

During 2002, the Partnership owned one aircraft, which was subject to a finance lease. The aircraft is leased to Federal Express Corporation (FedEx) under a 13-year finance lease which expires in 2006. In 2002, 2001, and 2000 this lease with FedEx resulted in finance lease income of \$300,000, \$346,000, and \$389,000, respectively. As of December 31, 2002, this lease was the only finance lease on the Partnership's balance sheet.

The finance leases at December 31, 2002 and 2001, are summarized as follows (in thousands):

	2002	2001
Receivable in installments	\$ 4,582	\$ 5,893
Residual valuation	2,000	2,000
Unearned lease income	(643)	(944)
	\$ 5,939	\$ 6,949
	=====	=====

Residual valuation, which is reviewed annually, represents the estimated amount to be received from the disposition of aircraft after lease termination. If necessary, residual adjustments are made which result in an immediate charge to earnings and/or a reduction in earnings over the remaining term of the lease.

Finance lease receivables at December 31, 2002 are due in installments of \$1,310,000 in each year from 2003 through 2005, and \$652,000 in 2006.

3. OPERATING LEASES

During 2002, the Partnership had two aircraft that were subject to operating lease treatment. The two aircraft were leased to CSI Aviation Services, Inc. (CSI) and generated \$2,670,000 and \$269,000 in operating lease rental income in 2002 and 2001, respectively. Future minimum rental payments amount under the leases with CSI is \$280,000 for the period ending March 1, 2003.

The operating leases at December 31, 2002 and 2001 are summarized as follows (in thousands):

	2002	2001
Leased aircraft (at cost)	\$14,560	\$14,560
Accumulated depreciation	(1,807)	(342)
	\$12,753	\$14,218
	=====	=====

Edgar Filing: AIRLEASE LTD - Form 10-K

4. NOTE RECEIVABLE

In November 2001, the Partnership accepted a note receivable of \$606,231 from US Airways in exchange for past due rent obligations owed to the Partnership on two of the five leased aircraft. The note accrues interest at a rate of 7% and provides for twelve equal monthly payments beginning in January 2003. The note was recorded at fair market value determined by discounting the future cash flows. Rental income associated with this note was deferred and was to be recognized as the note was repaid. The entire note was written off, as a result of US Airways' bankruptcy filing, in August 2002 and the uncertainty of collection, resulting in a charge to bad debt expense of \$34,000.

5. AIRCRAFT HELD FOR LEASE

In October 2001, US Airways, Inc. returned five aircraft that had been on lease under a finance lease to the Partnership. Since their return from US Airways, two of these aircraft were re-leased under two operating lease agreements to

another lessee prior to December 31, 2001, and are included in the Operating Leases-net in the accompanying balance sheet as of December 31, 2002. The other three aircraft had not been re-leased by the Partnership as of December 31, 2002 and the Partnership is marketing them for re-lease. These aircraft are classified as held for lease at December 31, 2002. The aircraft are being depreciated while held in inventory. In the third quarter of 2002, the three off-lease MD-81 aircraft were considered impaired as defined by SFAS No. 144 as a result of the Partnership's continued inability to lease these aircraft and the decline in projected rental rates for this type of aircraft. In the third quarter of 2002, the Partnership recorded an impairment charge of approximately \$3,695,000 per aircraft. Values of the aircraft were determined by discounting the estimated future cash flows.

	2002	2001
Leased aircraft (at cost)	\$21,840	\$21,840
Impairment charges	(11,086)	0
Accumulated depreciation	(2,254)	(514)
Net Investment	\$ 8,500	\$21,326

6. LONG-TERM NOTE PAYABLE

As of December 31, 2002 and 2001, the Partnership had one long-term note payable, a 7.4% non-recourse loan facility collateralized by the aircraft leased to FedEx, due in semi-annual installments of principle and interest of \$451,000 through April 2006. At December 31, 2002 and 2001, \$2,729,000 and \$3,389,000, were outstanding, respectively.

Based upon amounts outstanding at December 31, 2002, the minimum future principal payments on the outstanding fixed-rate long-term note payable are due as follows (in thousands):

2003	\$	710
2004		764
2005		822

Edgar Filing: AIRLEASE LTD - Form 10-K

2006	433
Total Long Term Debt	<u>\$ 2,729</u>
	=====

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents carrying amounts and fair values of the Partnership's financial instruments at December 31, 2002 and 2001. The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

(In thousands)	2002 Carrying Amount	2002 Fair Value	2001 Carrying Amount	2001 Fair Value
Long-term notes payable				
Long-term debt (Note 5)				
(Note 6)	\$2,729	\$2,762	\$3,389	\$3,540

The carrying amounts presented in the table are included in the balance sheets under the indicated captions.

Long-term debt is estimated by discounting the future cash flows using rates that are assumed would be charged to the Partnership for debt with similar terms and remaining maturities.

8. TRANSACTIONS WITH THE GENERAL PARTNER AND AFFILIATES

In accordance with the Agreement of Limited Partnership, the General Partner and its affiliates receive expense reimbursement, fees and other compensation for services provided to the partnership.

Amounts earned by the general partner and affiliates for the years ended December 31, 2002, 2001, and 2000, were as follows (in thousands):

	2002	2001	2000
Management fees	\$303	\$481	\$551
Disposition and remarketing fees	52	503	52
Reimbursement of other costs	79	79	79
Reimbursement of interest costs	2	10	8
TOTAL	<u>\$436</u>	<u>\$1,073</u>	<u>\$690</u>
	=====	=====	=====

The General Partner was allocated its 1% share of the Partnership net income/(loss) and cash distributions. Holding and BALCAP, each a limited partner

Edgar Filing: AIRLEASE LTD - Form 10-K

and an affiliate of the General Partner, were also allocated their share of income/(loss) and cash distributions. As of December 31, 2002 and 2001, the Partnership had accounts payable to the General Partner or its affiliates of approximately \$170,000 and \$324,000 respectively.

9. FEDERAL INCOME TAX STATUS

The Partnership is considered a publicly traded Partnership ("PTP") under the Revenue Act of 1987. Under that Act, the partnership was not subject to federal income tax as a partnership until 1998. Effective January 1, 1998, PTP's were required to choose to retain PTP status and be subjected to federal income tax as a corporation or to delist their units thereby removing themselves from the scope of the PTP rules. Faced with these alternatives, the Partnership initially recommended that its units be delisted.

In August and October 1997, respectively, federal and California tax laws were amended to provide PTP's a third alternative. Under these amended laws, PTP's are allowed to continue to be publicly traded during 1998 and subsequent years without becoming subject to corporate income tax if they elect to pay a 3.5% federal tax and a 1% California tax on their applicable gross income.

The board of directors of the General Partner unanimously concluded, after authorization from the unitholders and consideration of a number of factors, including the 1997 tax law changes and the benefits of liquidity, that it was in the best interests of the unitholders for the Partnership to remain publicly traded at that time. Accordingly, in January 1998, the Partnership made an election to pay the annual gross income tax at the Partnership level.

10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following is a summary of the quarterly results of operations for the years ended December 31, 2002 and 2001 (in thousands, except per unit amounts):

2002	MARCH 31	JUNE 30	SEPT. 30	DECEMBER 31
Total Revenues	\$ 859	\$ 833	\$ 833	\$ 2,525
Net Income/(Loss)	\$ (422)	\$ (337)	\$ (11,567)	\$ (12,326)
Net Income/(Loss) Per Limited Partnership Unit	\$(0.09)	\$(0.07)	\$ (2.48)	\$ (3.91)
Unit Trading Data:				
Unit Prices (high-low) on NYSE/OTCBB	\$6.60-\$4.95	\$5.99-\$3.03	\$3.30-\$1.50	\$1.20-\$0.50
Unit Trading Volumes on NYSE/OTCBB	378	361	438	1,000
2001	MARCH 31	JUNE 30	SEPT. 30	DECEMBER 31
Total Revenues	\$ 1,550	\$ 1,490	\$ 1,428	\$ 5,368
Net Income/(Loss)	\$ 923	\$ 746	\$ 735	\$ 2,404
Net Income/(Loss) Per Limited Partnership Unit	\$ 0.20	\$ 0.16	\$ 0.16	\$ 0.38
Unit Trading Data:				
Unit Prices (high-low) on NYSE	\$13.05-\$11.56	\$11.89-\$8.75	\$10.35-\$4.26	\$8.80-\$4.26

Edgar Filing: AIRLEASE LTD - Form 10-K

Unit Trading Volumes on NYSE

409

630

573

INDEX TO EXHIBITS

Exhibit No.	Description
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer