AIRLEASE LTD
Form 10-Q
November 09, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549-1004

Form 10-Q

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

For the Quarterly Period Ended September 30, 2001

Commission file number 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, 4TH FLOOR, SAN FRANCISCO, CA. 94104
(Address of principal executive offices) (Zip Code)

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

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

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BALANCE SHEETS

(IN THOUSANDS EXCEPT UNIT DATA)	SEPTEMBER 30, 2001 (UNAUDITED)	DEC
ASSETS		
Cash	$ 9	$
Finance leases - net	46,885	
Operating leases - net	8,224	
Prepaid expenses and other assets	76	
Total assets	$ 55,194	$

LIABILITIES AND PARTNERS' EQUITY

LIABILITIES		
Distribution payable to partners	$ 1,402	$
Accounts payable and accrued liabilities	636	
Taxes payable	17	
Long-term notes payable	4,553	
Total liabilities	6,608	
COMMITMENTS AND CONTINGENCIES		
PARTNERS' EQUITY		
Limited partners (4,625,000 units outstanding)	48,100	
General partner	486	
Total partners' equity	48,586	
Total liabilities and partners' equity	$ 55,194	$

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AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF INCOME

(UNAUDITED; IN THOUSANDS EXCEPT PER UNIT AMOUNTS)	THREE MONTHS ENDED SEPTEMBER 30, 2001	2000	NINE MONTHS END SEPTEMBER 30, 2001	
REVENUES				
Finance lease income	$1,149	$1,657	$3,920	$5
Operating lease rentals	270	0	516	
Other income	9	0	32	
Total revenues	1,428	1,657	4,468	5
EXPENSES				
Interest	132	217	455	
Depreciation - operating lease	160	0	305	

Management fee - general partner	139	150	427	
Investor reporting	87	79	280	
General and administrative	36	40	89	
Tax on gross income	139	137	508	
Total expenses	693	623	2,064	1
Net Income	$ 735	$1,035	$2,404	$3
Net Income Allocated To:				
General Partner	$ 7	$ 10	$ 24	$
Limited Partners	$ 728	$1,025	$2,380	$3
Net Income Per Limited Partnership Unit	$ 0.16	$ 0.22	$ 0.51	$

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AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS

	NINE MONTHS E SEPTEMBER 30	
(UNAUDITED; IN THOUSANDS)	2001	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 2,404	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Operating lease depreciation	305	
(Increase) in accounts receivable	(90)	
Increase in accounts payable and accrued liabilities	168	
Increase/(decrease) in taxes payable	(122)	
Decrease in prepaid expenses and other assets	86	
Net cash provided by operating activities	2,751	

CASH FLOWS FROM INVESTING ACTIVITIES		
Rental receipts in excess of earned finance lease income	6,333	
Net cash provided by investing activities	6,333	
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings/(repayments) under lines of credit, net	(1,765)	
Repayment of long-term notes payable	(1,675)	
Distributions paid to partners	(5,652)	
Net cash used by financing activities	(9,092)	
Decrease in cash	(8)	
Cash at beginning of period	17	
Cash at end of period	$ 9	$
ADDITIONAL INFORMATION		
Interest paid	$ 353	$

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

NOTES TO FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2001

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION - The accompanying unaudited financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of the Partnership's management, necessary for a fair presentation of the financial position and results of operations for the presented periods. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The December 31, 2000 balance sheet included herein is taken from the audited financial statements included in the Partnership's Annual Report and incorporated by reference in the Form 10-K for the year ended December 31, 2000. The statements should be read in conjunction with the Organization and Significant Accounting Policies and other notes to financial statements included in the Partnership's Annual Report for the year ended December 31, 2000.

2. NET INCOME PER LIMITED PARTNERSHIP UNIT

Net Income Per Limited Partnership Unit is computed by dividing the net income allocated to the Limited Partners by the weighted average of the units outstanding (4,625,000).

3. INCOME TAXES

In January 1998, the Partnership made an election to pay an annual combined federal and state tax at the Partnership level of 4.5% tax on its applicable gross income beginning January 1, 1998. The election was made in order to avoid a limitation on the public trading of the Partnership's units.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

The Partnership presently has two long-term debt facilities. At September 30, 2001, the following amounts were outstanding: $3.7 million on a 7.4% non-recourse note collateralized by one aircraft leased to FedEx and a $0.9 million on a 9.35% non-recourse note collateralized by one aircraft on lease to American Airlines.

At September 30, 2001, long-term borrowings of $4.6 million represented 3.7% of the original cost of the aircraft presently owned by the Partnership, including capital expenditures for upgrades. The terms of the Limited Partnership Agreement permit debt to be at a level not exceeding 50% of such cost.

Cash distributions paid in the first nine months of 2001 were $1.21 per limited partnership unit, representing the regular 2000 fourth-quarter cash distribution of $0.45 per unit and the regular 2001 first and second quarter cash distributions of $0.38 per unit each.

In September 2001, the Partnership declared a third-quarter 2001 cash distribution of $0.30 per unit totaling $1,401,515 payable on November 15, 2001, to unitholders of record on September 28, 2001. Since this distribution and the first and second quarter 2001 distributions were in excess of earnings, Partnership equity declined to $48.6 million at September 30, 2001 from $51.1 million at December 31, 2000, and limited partner equity per unit declined to $10.40. The portion of the distribution in excess of net income constitutes a return of capital. The 2000 third-quarter cash distribution was $0.45 per unit.

RESULTS OF OPERATIONS

The Partnership earned $735,000 in the third quarter ended September 30, 2001, a decrease of $300,000 from last year's third quarter earnings of $1,035,000. Revenues for the 2001 third quarter were $1,428,000, compared with last year's third quarter revenues of $1,657,000.

Net income for the first nine months of 2001 was $2,404,000, a decrease of $792,000 compared with $3,196,000 for the first nine months of 2000. Revenues for the nine-month period were $4,468,000, compared with $5,140,000 for the first nine months of 2000.

The decline in the year to date net income is primarily due to lower net lease income resulting from the scheduled decline in finance lease income in 2001, as the balances due from the lessees continued to decline, and from the lower rent received under the lease that was assumed by American Airlines from TWA in April 2001.

Expenses for the first nine months of 2001 were $2,064,000, an increase of $120,000 from $1,944,000 for the comparable 2000 period. The increase in expenses is primarily due to an operating lease depreciation expense of $305,000 associated with the American Airlines lease, and an increase in tax payments, partially offset by lower interest expense. In 2000, no operating lease depreciation was recorded, as the lease assumed by American Airlines in April 2001 was previously classified as a finance lease.

PORTFOLIO MATTERS

As of September 30, 2001 the Partnership's portfolio consisted of six MD 82s aircraft (five to be returned by US Airways and one on lease to American Airlines), and one 727-200 FH aircraft (on lease to FedEx).

The finance lease with US Airways for five MD-82 aircraft was scheduled to terminate on October 1, 2001. However, the lease remains in effect as an operating lease while certain maintenance work on the aircraft is being performed as required by the lease agreement. In addition, the Partnership is in negotiation with US Airways concerning satisfaction of the aircraft return conditions stipulated in the lease. Until the aircraft is returned in accordance with the lease, US Airways is required to pay rent on a prorated basis. In the meantime, the Partnership continues to market these aircraft for sale or new leases, and it presently is in discussions to lease a number of these aircraft, but no definitive agreements have been reached at this time. Since quarterly distributions are made from cash available from operations, if the aircraft are not sold or leased when the aircraft are returned, quarterly distributions and net income will be adversely impacted.

The Partnership is in the process of selling one aircraft in the portfolio and expects the sale to close in December of 2001.

The Partnership believes that the events of September 11 have had an adverse effect on the general market for purchase and lease of used aircraft, thereby adversely affecting the Partnership's ability to sell or re-lease aircraft as they come off lease, including the aircraft to be returned by US Airways. The events of September 11 may also affect the ability of existing lessees to meet their obligations to the Partnership, and may have other adverse effects on the Partnership.

As the leases for the aircraft in the Partnership's portfolio near their maturity, distributions will depend more on the market value of the aircraft than on the rental payment obligation from existing lessees. In the current market, it is more likely that aircraft at lease end will be re-leased rather than sold. Although Airlease in the past has sold aircraft at prices in excess of book value or re-leased aircraft to others, aircraft values depend on supply and demand, economic conditions, and other factors. Consequently, the Partnership cannot precisely predict the values that will be ultimately attained, especially given the uncertainties in today's weakened market.

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

The Partnership has included in this quarterly 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 other press releases and public filings, 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 uncontemplated expenses or not to receive rental income as and when expected, (iv) the impact of the events of September 11, 2001 on the aircraft or aircraft leasing market and on the airline industry, (v) changes in interest rates and (vi) legislative or regulatory 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On September 11, 2001, four aircraft operated by United Airlines and American Airlines were hijacked and destroyed in terrorist attacks against the United States. Immediately after the attacks, the Federal Aviation Administration closed U.S. airspace for several days. In the weeks that have the attacks, most of the major U.S. based airlines have announced significant reductions in worldwide capacity, and many have announced plans to accelerate the retirement of certain types of aircraft or to defer the delivery of new aircraft.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The Partnership did not file any reports on Form 8-K during the quarter ended September 30, 2001.

SIGNATURES

Pursuant to the requirements 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.

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

By: Airlease Management Services, Inc.
General Partner

NOVEMBER 9, 2001	By: /S/ DAVID B. GEBLER
Date	David B. Gebler Chairman, Chief Executive Officer and President
NOVEMBER 9, 2001	By: /S/ ROBERT A. KEYES
Date	Robert A. Keyes Chief Financial Officer