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AIRLEASE LTD
Form 10-Q
July 20, 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 June 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

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP
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I N D E X

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BALANCE SHEETS

(IN THOUSANDS EXCEPT UNIT DATA)	JUNE 30, 2001 (UNAUDITED)	DECEMBER 31, 2000
<hr/>		
ASSETS		
Cash	\$ 85	\$ 17
Finance leases - net	48,696	61,657
Operating leases - net	8,383	0
Prepaid expenses and other assets	105	162
	-----	-----
Total assets	\$ 57,269	\$ 61,836
	=====	=====

LIABILITIES AND PARTNERS' EQUITY

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LIABILITIES

Distribution payable to partners	\$ 1,757	\$ 2,102
Accounts payable and accrued liabilities	802	468
Taxes Payable	3	139
Long-term notes payable	5,436	7,992
	-----	-----
Total liabilities	7,998	10,701
	-----	-----

COMMITMENTS AND CONTINGENCIES

PARTNERS' EQUITY

Limited partners (4,625,000 units outstanding)	48,778	50,624
General partner	493	511
	-----	-----
Total partners' equity	49,271	51,135
	-----	-----
Total liabilities and partners' equity	\$ 57,269	\$ 61,836
	=====	=====

See NOTES TO CONDENSED FINANCIAL STATEMENTS

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AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

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STATEMENTS OF INCOME

(UNAUDITED; IN THOUSANDS EXCEPT PER UNIT AMOUNTS)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
REVENUES				
Finance lease income	\$ 1,235	\$ 1,712	\$ 2,771	\$ 3,483
Operating lease rentals	246	0	246	0
Other income	9	0	23	0
	-----	-----	-----	-----
Total revenues	1,490	1,712	3,040	3,483
	-----	-----	-----	-----

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EXPENSES

Interest	149	238	323	501
Depreciation - operating leases	145	0	145	0
Management fee - general partner	142	152	288	305
Investor reporting	87	79	193	158
General and administrative	37	41	53	83
Tax on gross income	184	137	369	274
	-----	-----	-----	-----
Total expenses	744	647	1,371	1,321
	-----	-----	-----	-----
Net Income	\$ 746	\$ 1,066	\$ 1,669	\$ 2,162
	=====	=====	=====	=====
Net Income Allocated To:				
General Partner	\$ 7	\$ 11	\$ 17	\$ 22
	=====	=====	=====	=====
Limited Partners	\$ 739	\$ 1,055	\$ 1,652	\$ 2,140
	=====	=====	=====	=====
Net Income Per Limited Partnership Unit	\$ 0.16	\$ 0.23	\$ 0.36	\$ 0.46
	=====	=====	=====	=====

See NOTES TO CONDENSED FINANCIAL STATEMENTS

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STATEMENTS OF CASH FLOWS

(UNAUDITED; IN THOUSANDS)	SIX MONTHS ENDED	
	2001	JUNE 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 1,669	\$ 2,162
Adjustments to reconcile net income to net cash provided		

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by operating activities:		
Operating lease depreciation	145	0
Increase/(Decrease) in accounts payable and accrued liabilities	334	(105)
Decrease in taxes payable	(136)	(3)
Increase in accounts receivable	(90)	0
Decrease in prepaid expenses and other assets	57	57
	-----	-----
Net cash provided by operating activities	1,979	2,111
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Rental receipts in excess of earned finance lease income	4,522	4,291
	-----	-----
Net cash provided by investing activities	4,522	4,291
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings/(repayments) under lines of credit, net	(1,765)	(1,353)
Repayment of long-term notes payable	(791)	(1,018)
Distributions paid to partners	(3,877)	(4,017)
	-----	-----
Net cash used by financing activities	(6,433)	(6,388)
	-----	-----
Increase (decrease) in cash	68	14
Cash at beginning of period	17	2
	-----	-----
Cash at end of period	\$ 85	\$ 16
	=====	=====
ADDITIONAL INFORMATION		
Interest paid	\$ 310	\$ 477
	=====	=====

See NOTES TO CONDENSED FINANCIAL STATEMENTS

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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 three long-term debt facilities. At June 30, 2001, the following amounts were outstanding: \$3.7 million on a 7.4% non-recourse note collateralized by one aircraft leased to FedEx; \$1.3 million on a 9.35% non-recourse note collateralized by one aircraft on lease to American Airlines; and \$0.5 million on a variable rate revolving loan facility expiring September 30, 2001 and guaranteed by the Partnership and collateralized by two aircraft on lease to USAirways. At June 30, 2001 approximately \$3.2 million remains available under the revolving loan facility.

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At June 30, 2001, long-term borrowings of \$5.4 million represented 4.5% 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 six months of 2001 were \$0.83 per limited partnership unit, representing the regular 2000 fourth-quarter cash distribution of \$0.45 per unit and the regular 2001 first-quarter cash distribution of \$0.38 per unit.

In June 2001, the Partnership declared a second-quarter 2001 cash distribution of \$0.38 per unit totaling \$1,775,252 payable on August 15, 2001 to unitholders of record on June 29, 2001. Since this distribution and the first-quarter 2001 distribution were in excess of earnings, Partnership equity declined to \$49.3 million at June 30, 2001 from \$51.1 million at December 31, 2000, and limited partner equity per unit declined to \$10.55. The portion of the distribution in excess of net income constitutes a return of capital. The 2000 second-quarter cash distribution was \$0.45 per unit.

RESULTS OF OPERATIONS

The Partnership earned \$746,000 in the second quarter ended June 30, 2001, a decrease of \$320,000 from last year's second quarter earnings of \$1,066,000. Revenues for the 2001 second-quarter were \$1,490,000, compared with last year's second quarter revenues of \$1,712,000.

Net income for the first six months of 2001 was \$1,669,000, a decrease of \$493,000 compared with \$2,162,000 for the first six months of 2000. Revenues for the six-month period were \$3,040,000, compared with \$3,483,000 for the first six months of 2000.

The decline in 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 recently assumed by American Airlines from TWA.

Expenses for the first-half of 2001 were \$1,371,000, an increase of \$50,000 from \$1,321,000 for the comparable 2000 period. The slight increase in expenses is primarily due to the operating lease depreciation expense of \$145,000 associated with the recently assumed lease by American Airlines from TWA, 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 was previously classified as a finance lease.

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PORTFOLIO MATTERS

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

On April 9, 2001 the Partnership entered into an agreement with American Airlines completing the assumption by American Airlines of the aircraft previously on lease to TWA, subject to a reduced monthly rent and an extension of the lease expiration date from 2002 to 2009.

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The leases of the Partnership's five MD-82 aircraft to US Airways expire on September 30, 2001, at which time US Airways will be required to return the aircraft. The Partnership has been marketing the aircraft to others for either sale or a new lease since April 1, 2001, when US Airways declined to renew the leases for the aircraft. In the Partnership's experience, under normal market conditions, it often takes more than six months to remarket aircraft. While the Partnership has identified a level of interest in these aircraft, it has not received an attractive offer at this time and therefore continues its marketing efforts. Since quarterly distributions are made in part from cash available from operations, if the aircraft are not sold or leased when the aircraft are returned, distributions could be adversely impacted.

As the leases for the aircraft in the Partnership's portfolio near their maturity, distributions will depend more on the residual value of the aircraft than on the rental payment obligation from existing lessees (the booked residual value for the entire portfolio is \$8.97 per unit). Although the Partnership has consistently sold aircraft at prices in excess of book value, aircraft values depend on the supply and demand for aircraft, economic conditions, and other factors. The Partnership's initial feedback from marketing the aircraft leased to US Airways indicates that market conditions have softened somewhat. Consequently, the Partnership cannot determine precisely either the proceeds available from or the timing of a sale or release of the aircraft.

FORWARD-LOOKING STATEMENTS

The information set forth in this quarterly report contains certain forward-looking statements, which reflect the current view of the partnership with respect to future events and financial performance. The words, "expect", "intend", "believe", "anticipate", "likely" and "will" and similar expressions generally identify forward-looking statements. These statements are subject to certain risks and uncertainties, which could cause actual results, and events to differ materially from those anticipated in the forward-looking statements.

Factors that could cause the partnership's actual results to differ from current expectations include, among others, changes in the aircraft or aircraft leasing market, economic downturn in the airline industry, default by lessees under leases causing the partnership to incur unanticipated expenses or not to receive rental income as and when expected, changes in interest rates and legislative or regulatory changes that adversely affect the value of aircraft.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The General Partner believes there has been no material change in the Partnership's exposure to market risk from that discussed in the Partnership's Annual Report on Form 10-k for the year ended December 31, 2000.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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10.52 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.

- (b) The Partnership did not file any reports on Form 8-k during the quarter ended June 30, 2001.

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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

JULY 20, 2001

Date

By: /s/ DAVID B. GEBLER

David B. Gebler
Chairman, Chief Executive Officer
and President

JULY 20, 2001

Date

By: /s/ ROBERT A. KEYES

Robert A. Keyes
Chief Financial Officer

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