

Edgar Filing: AIRLEASE LTD - Form 10QSB

AIRLEASE LTD  
Form 10QSB  
November 06, 2003

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

Form 10-QSB

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

For the Quarterly Period Ended September 30, 2003

Commission file number 1-9259

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

\_\_\_\_\_  
(Exact name of small business issuer 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

\_\_\_\_\_  
(Issuer's telephone number, including area code)

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

I N D E X

Page No.

Part I - Financial Information:

Item 1.	Condensed Financial Statements (Unaudited)	
	Condensed Balance Sheets --	
	September 30, 2003 and December 31, 2002.....	3
	Condensed Statements of Operations --	

## Edgar Filing: AIRLEASE LTD - Form 10QSB

	Three and nine months ended September 30, 2003 and 2002.....	4
	Condensed Statements of Changes of Partners' Equity Accounts Nine months ended September 30, 2003 and 2002.....	5
	Condensed Statements of Cash Flows Nine months ended September 30, 2003 and 2002.....	6
	Notes to Condensed Financial Statements.....	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
Item 3.	Controls and Procedures.....	12
Part II - Other Information:		
Item 1.	Legal Proceedings.....	13
Item 6.	Exhibits and Reports on Form 8-K..... Signatures.....	13 14

### PART I. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

##### AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

##### BALANCE SHEETS

(In thousands except unit data)	September 30, 2003 (Unaudited)	December 31, 2002*
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,543	\$ 2,569
Finance leases - net	5,482	5,939
Operating leases - net	8,345	12,753
Aircraft held for sale	1,200	-
Aircraft held for lease	-	8,500
Prepaid expenses and other assets	36	50
Total assets	\$ 20,606 =====	\$ 29,811 =====
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>LIABILITIES</b>		
Distribution payable to partners	\$ 1,448	\$ 234
Accounts payable and accrued liabilities	431	345
Sale deposit	200	-
Maintenance reserves	1,321	748

## Edgar Filing: AIRLEASE LTD - Form 10QSB

Long-term notes payable	2,381	2,729
Total liabilities	5,781	4,056
COMMITMENTS AND CONTINGENCIES		
PARTNERS' EQUITY		
Limited partners (4,625,000 units outstanding)	14,677	25,498
General partner (46,717 units outstanding)	148	257
Total partners' equity	14,825	25,755
Total liabilities and partners' equity	\$ 20,606	\$ 29,811

See accompanying notes to the condensed financial statements

\*The amounts are derived from the December 31, 2002, audited financial statements

3

### AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

#### STATEMENTS OF OPERATIONS

(Unaudited; in thousands except per unit amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
REVENUES				
Finance lease income	\$ 63	\$ 75	\$ 195	\$ 230
Operating lease rentals	330	750	1,090	2,250
Other income	6	8	23	45
Total revenues	399	833	1,308	2,525
EXPENSES				
Interest	47	60	148	175
Depreciation	381	856	1,656	2,568
Management fee - general partner	49	94	181	287
Investor reporting	94	92	265	289
General and administrative	35	110	99	194
Tax on gross income	79	42	138	127
Bad debt expense	-	34	-	34
Impairment charge on aircraft	-	11,086	7,652	11,086
Aircraft maintenance and refurbishing	85	26	184	91

Edgar Filing: AIRLEASE LTD - Form 10QSB

Total expenses	770	12,400	10,323	14,851
Net Loss	\$ (371)	\$ (11,567)	\$ (9,015)	\$ (12,326)
Net Loss Allocated To:				
General Partner	\$ (4)	\$ (116)	\$ (90)	\$ (123)
Limited Partners	\$ (367)	\$ (11,451)	\$ (8,925)	\$ (12,203)
Net Loss Per Limited Partnership Unit	\$ (0.08)	\$ (2.48)	\$ (1.93)	\$ (2.64)
Cash distributions declared Per partnership unit	\$ 0.31	\$ 0.05	\$ 0.41	\$ 0.27

See accompanying notes to the condensed financials statements

4

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF CHANGES IN PARTNERS' EQUITY ACCOUNTS

Nine Months Ended September 30, 2003

(Unaudited; in thousands)	General Partner	Limited Partners	Total Partnership
Balance, January 1, 2002	\$ 402	\$ 39,883	\$ 40,285
Net Loss	(123)	(12,203)	(12,326)
Declared Distributions	(12)	(1,249)	(1,261)
Balance, September 30, 2002	\$ 267	\$ 26,431	\$ 26,698
Balance, January 1, 2003	\$ 257	\$ 25,498	\$ 25,755
Net Loss	(90)	(8,925)	(9,015)
Declared Distributions	(19)	(1,896)	(1,915)
Balance, September 30, 2003	\$ 148	\$ 14,677	\$ 14,825

# Edgar Filing: AIRLEASE LTD - Form 10QSB

See accompanying notes to the condensed financial statements

5

## AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

### STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)	Nine Months Ended September 30,	
	2003	2002
<hr/>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (9,015)	\$ (12,326)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Impairment charge on aircraft	7,652	11,086
Depreciation	1,656	2,568
Bad Debt Expense	-	34
Changes in assets and liabilities:		
Increase (decrease) in accounts payable and accrued liabilities	86	(243)
Increase in sale deposit	200	-
Increase in maintenance reserves	573	608
Increase (decrease) in taxes payable	-	(132)
Decrease (increase) in prepaid expenses and other assets	14	(6)
Net cash provided by operating activities	1,166	1,589
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment	2,400	-
Rental receipts in excess of finance lease income	457	425
Net cash provided by investing activities	2,857	425
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term notes payable	(348)	(324)
Distributions paid to partners	(701)	(8,548)
Net cash used in financing activities	(1,049)	(8,872)
Increase (decrease) in cash and cash equivalents	2,974	(6,858)
Cash and cash equivalents at beginning of period	2,569	9,432
Cash and cash equivalents at end of period	\$ 5,543	\$ 2,574

ADDITIONAL INFORMATION

## Edgar Filing: AIRLEASE LTD - Form 10QSB

Interest paid	\$ 106	\$ 134
	=====	=====

See accompanying notes to the condensed financials statements

6

### AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

#### NOTES TO CONDENSED FINANCIAL STATEMENTS

##### 1. SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION** - The accompanying unaudited condensed financial statements of Airlease Ltd., A California Limited Partnership (the Partnership) reflect all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of the Partnership, necessary to fairly state the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. The December 31, 2002, balance sheet included herein is derived 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, 2002. The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required by accounting principles generally accepted in the United States for complete financial statements. 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, 2002.

**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, less any impairment charges. 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

## Edgar Filing: AIRLEASE LTD - Form 10QSB

useful lives for aircraft held for lease, on a straight-line basis to an estimated salvage value.

MAINTENANCE RESERVES - On certain operating leases the Partnership requires the lessees to pay aircraft maintenance reserves. The reserves will be applied toward the aircraft's future maintenance requirements. Reserves are collected for engines, airframe, and other aircraft components. The amount of the reserves is based on flight hours.

LONG LIVED ASSETS IMPAIRMENT - The Partnership accounts for its long-lived assets, including Operating Leases and Aircraft Held for Lease and assets held for sale, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets".

SFAS No. 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. Under SFAS No. 144, 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. Assets held for sale are carried at estimated fair value, less estimated disposal costs.

7

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

### NOTES TO CONDENSED FINANCIAL STATEMENTS (continued)

#### 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

On July 7, 2003, the Board of Directors of the General Partner of the Partnership approved a plan to sell the three off-lease MD-81 aircraft. The Partnership signed a purchase agreement with OLSF, LLC ("OLSF") to sell the three aircraft in intervals of 120 days, with the first aircraft being delivered on August 12, 2003. The purchase price per aircraft is \$1,200,000. As a result of the contractual sale of the aircraft being lower than its book value, the aircraft were written-down in the second quarter of 2003. The amount of the write-down per aircraft of \$1,500,000 was equal to the difference between the carrying book value of \$2,700,000 and the sale amount of \$1,200,000.

In the second quarter of 2003, management prepared an impairment evaluation on the two MD-82 aircraft currently on lease to CSI Aviation Services, Inc. ("CSI") on month-to-month basis. The evaluation indicated that the aircraft were impaired as defined by SFAS No. 144, and an impairment charge of \$1,576,000 per aircraft was recorded. The new book value per aircraft after the impairment charge is \$4,363,000. The fair values of these two MD-82 aircraft were determined by discounting the estimated future cash flows from leasing activities.

NET LOSS PER LIMITED PARTNERSHIP UNIT - Net loss per limited partnership unit is computed by dividing the net loss allocated to the Limited Partners by the weighted average limited partner units outstanding (4,625,000).

## Edgar Filing: AIRLEASE LTD - Form 10QSB

RECLASSIFICATION - Certain reclassifications have been made to the prior year's financial statements to conform to the current year's presentation.

2. CASH DISTRIBUTIONS - In September 2003, the Partnership declared a regular third-quarter 2003 cash distribution of \$0.05 per unit totaling approximately \$234,000. The Partnership also declared a special cash distribution of \$0.26 as a result of the sale on August 12, 2003 of one MD-81 off-lease aircraft. Both, the regular and the special cash distributions are payable on November 14, 2003 to unitholders of record on September 30, 2003. As a result of these distributions and the first and second quarter 2003 distributions, and the Partnership loss in the first nine-months period, Partnership equity declined to \$14.8 million at September 30, 2003 from \$25.8 million at December 31, 2002, and limited partner equity per unit declined to \$3.17 from \$5.51. The 2003 third-quarter cash distribution constitutes a return of capital. The 2002 third-quarter regular cash distribution was also \$0.05 per unit.

The cash distributions paid in the first nine months of 2003 totaled \$701,000, of which \$7,010 was allocated to the General Partner and \$693,990 was allocated to the limited partners, or \$0.15 per limited partnership unit, representing the regular fourth quarter 2002, and first and second quarter 2003, distributions.

### 3. PORTFOLIO TRANSACTIONS

AIRCRAFT SALE - On September 26, 2003, the Partnership, completed the sale of a second off-lease MD-81 aircraft to OLSF, pursuant to an Aircraft Sales Agreement, dated as of August 12, 2003 (the "Sales Agreement"), among Wachovia Bank, National Association as trustee, the Partnership and OLSF, as amended by a First Amendment to Aircraft Sales Agreement, dated as of September 26, 2003 (together with the Sales Agreement, the "Agreement"), among the same parties. As part of the sale of these assets, the Partnership also sold two engines installed on the aircraft, installed or attached appliances, parts, instruments and other equipment, related flight, engineering and maintenance documents and data, and related operational and maintenance records. In addition to providing for the sale of these assets, the Agreement also provides for the sale of the one remaining off-lease MD-81 aircraft and related assets by the Partnership, which is expected to

8

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

### NOTES TO CONDENSED FINANCIAL STATEMENTS

#### 3. PORTFOLIO TRANSACTIONS (continued)

##### AIRCRAFT SALE (continued)

be completed within the next four months. The consideration paid to the Partnership in connection with sale of assets completed on September 26, 2003 was \$1,200,000, as purchase price, plus a \$100,000 deposit. The consideration paid to the Partnership in connection with sale of assets completed on August 12, 2003 was \$1,200,000, as purchase price, plus a \$100,000 deposit. The combined \$200,000 deposit now held by the Partnership and included on the balance sheet as sale deposit will be credited against the \$1,200,000 purchase price for the third aircraft (which would be payable to the Partnership at the



## Edgar Filing: AIRLEASE LTD - Form 10QSB

time that this aircraft is sold to OLSF pursuant to the Agreement). The obligations of OLSF under the Agreement are guaranteed by GA Telesis Turbine Technologies, L.L.C. The total consideration paid and payable to the Partnership for assets sold pursuant to the Agreement was determined through arm's-length negotiations between representatives of the Partnership and OLSF.

LEASE RENEGOTIATION - CSI operates the two aircraft it leases under a contract for charter services to the United States Marshals Service ("USMS"). In March 2003, the CSI leases were extended on a month-to-month basis at a monthly rental rate of \$60,000 per aircraft. In September 2003, the CSI leases were amended to provide for a reduced lease rate of \$45,000 per aircraft, so long as CSI is leasing both aircraft, and a lease rate of \$60,000 per aircraft if CSI is leasing only one of the two aircraft. CSI may terminate the lease for either aircraft upon 30 days' notice so long as the lease for the other aircraft has not been terminated. If CSI is leasing only one aircraft, it may terminate the lease for that aircraft upon 30 days' notice if CSI's contract with USMS has terminated. CSI's contract with USMS is expected to terminate in January 2004. The Partnership expects that CSI will return the aircraft at the earlier of the termination of the USMS contract or the date on which the required C-Check maintenance (FAA required extensive maintenance work after a certain number of flight hours) for the aircraft becomes due. The performance of the C-check at this time is not cost effective due to the lack of a long term lease commitment by a lessee. Depending on CSI's usage of the aircraft, the C-Check on either aircraft may become due prior to the date of termination of the USMS contract. The Partnership continues to actively search for new potential lessees for these two aircraft.

US AIRWAYS CLAIM SETTLEMENT - In June 2002, the Partnership commenced litigation against U.S. Airways seeking to recover damages for U.S. Airways' failure to return three aircraft 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 subsequently filed for bankruptcy, and the owner trustee for the Partnership (the "Owner Trustee") filed a proof of claim in the bankruptcy case in the amount of \$13 million with respect to the aircraft. In September 2003, the Owner Trustee and U.S. Airways entered into a stipulation providing for the allowance of an unsecured claim in the bankruptcy case in the amount of \$9.3 million. The Partnership expects that it will receive a distribution on the U.S. Airways claim in the form of common stock and other securities of U.S. Airways. However, there can be no assurance as to the amount, value or timing of any distribution on the claim. In its Disclosure Statement dated January 17, 2003, filed as part of its proposed plan of reorganization, U.S. Airways projected that it would pay between 1.2 percent and 1.8 percent on unsecured claims. However, this projection may no longer be accurate. At September 30, 2003, the Partnership had not recorded a contingent gain for any possible settlement.

9

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

The Partnership reported a loss of \$371,000 in the third quarter ended September 30, 2003, compared with last year's third quarter loss of \$11,567,000. Revenues for the 2003 third quarter were \$399,000, compared with last year's third quarter revenues of \$833,000. Net loss for the first nine months of 2003 was

## Edgar Filing: AIRLEASE LTD - Form 10QSB

\$9,015,000, compared with a net loss of \$12,326,000 for the first nine months of 2002. Revenues for the nine-month period of 2003 were \$1,308,000, compared with \$2,525,000 for the first nine months of 2002.

The decline in net losses for the first nine months of 2003 results from a decrease in expenses, primarily due to lower aircraft impairment charges and reduced depreciation expense.

The revenue reductions are primarily due to lower operating lease rental income associated with the two aircraft on lease to CSI Aviation Services, Inc. ("CSI"), and the scheduled decline in finance lease income in 2003 associated with the aircraft leased to FedEx. The lease terms for the CSI leases were extended in the fourth quarter of 2002 and again in the first and third quarters of 2003, each time at a reduced monthly rental rate that reflects current market conditions. The FedEx aircraft lease had a scheduled decline in finance lease income of \$35,000 in the first nine months of 2003 as compared with the first nine months of 2002.

Expenses for the first nine months of 2003 were \$10,323,000, a decrease of \$4,528,000 from \$14,851,000 for the comparable 2002 period. The decrease in expenses is primarily due to the lower aircraft impairment charges of \$7,652,000 recorded in 2003 compared with the aircraft impairment charges of \$11,086,000 recorded in the first nine months of 2002. During the 2003 second quarter, the General Partner evaluated the carrying values of the three off-lease aircraft and the two aircraft on lease to CSI under SFAS No. 144 and determined that these five aircraft were impaired. Accordingly, the carrying values were adjusted to the estimated fair values. In addition, expenses were lower in 2003 due to the lower aircraft depreciation expense of \$1,656,000 recorded in the first nine months of 2003 compared with the \$2,568,000 aircraft depreciation expense recorded in the comparable period of 2002. The decline in depreciation expense reflects the lower carrying value and the fact that fewer aircraft are being depreciated in 2004.

### PORTFOLIO MATTERS

At September 30, 2003, the Partnership's portfolio consisted of four Stage-III commercial aircraft. Two were leased to CSI, one was leased to FedEx, and one was off-lease.

CSI operates the two aircraft it leases under a contract for charter services to the United States Marshals Service ("USMS"). In March 2003, the CSI leases were extended on a month-to-month basis at a monthly rental rate of \$60,000 per aircraft. In September 2003, the CSI leases were amended to provide for a reduced lease rate of \$45,000 per aircraft, so long as CSI is leasing both aircraft, and a lease rate of \$60,000 per aircraft if CSI is leasing only one of the two aircraft. CSI may terminate the lease for either aircraft upon 30 days' notice so long as the lease for the other aircraft has not been terminated. If CSI is leasing only one aircraft, it may terminate the lease for that aircraft upon 30 days' notice if CSI's contract with USMS has terminated. CSI's contract with USMS is expected to terminate in January 2004. The Partnership expects that CSI will return the aircraft at the earlier of the termination of the USMS contract or the date on which the required C-Check maintenance (FAA required extensive maintenance work after a certain number of flight hours) for the aircraft becomes due. The performance of the C-check at this time is not cost effective due to the lack of a long term lease commitment by a lessee. Depending on CSI's usage of the aircraft, the C-Check on either aircraft may become due prior to the date of termination of the USMS contract. The Partnership continues to actively search for new potential lessees for these two aircraft.

On August 12, 2003, the Partnership entered into an agreement with OLSF, LLC to sell the three off-lease MD-81 aircraft in intervals of up to 120 days. The first aircraft was sold and delivered on August 12, 2003. The second aircraft was sold

## Edgar Filing: AIRLEASE LTD - Form 10QSB

and delivered on September 26, 2003. Subject to satisfaction of customary closing

10

conditions, the third aircraft is to be sold and delivered February 24, 2004, 120 days after the sale and delivery of the second aircraft, unless OLSF exercises an option to purchase the aircraft prior to that date or OLSF and the Partnership mutually agree to a different date. The purchase price per aircraft is \$1,200,000, which is equal to the carrying book value for the aircraft after giving effect to the impairment charges recorded in the second quarter of 2003. The obligations of OLSF to purchase the aircraft are guaranteed by GA Telesis Turbine Technologies, LLC.

The lease for a 727-200 FH aircraft to FedEx is scheduled to terminate in 2006.

In June 2002, the Partnership commenced litigation against U.S. Airways seeking to recover damages for U.S. Airways' failure to return three aircraft 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 subsequently filed for bankruptcy, and the owner trustee for the Partnership (the "Owner Trustee") filed a proof of claim in the bankruptcy case in the amount of \$13 million with respect to the aircraft. In September 2003, the Owner Trustee and U.S. Airways entered into a stipulation providing for the allowance of an unsecured claim in the bankruptcy case in the amount of \$9.3 million. The Partnership expects that it will receive a distribution on the U.S. Airways claim in the form of common stock and other securities of U.S. Airways. However, there can be no assurance as to the amount, value or timing of any distribution on the claim. In its Disclosure Statement dated January 17, 2003, filed as part of its proposed plan of reorganization, U.S. Airways projected that it would pay between 1.2 percent and 1.8 percent on unsecured claims. However, this projection may no longer be accurate. At September 30, 2003, the Partnership had not recorded a contingent gain for any possible settlement.

### OUTLOOK

The market conditions for aircraft leasing continue to be weak, as the supply of aircraft exceeds demand. The two aircraft on lease to CSI are leased on a month-to-month basis. The Partnership expects that CSI will return each aircraft it leases in January 2004 or on such earlier date as the C-Check for the aircraft may become due. Management is not able to predict when the aircraft may be leased again after their return from CSI. If the leases with CSI were to terminate, management's best estimate at the present time is that the Partnership would be able to recover net book value through a combination of lease rentals and sales proceeds; however, if the Partnership's assumptions regarding renewal lease rates and terms are not realized, the Partnership could record additional impairment charges with respect to these aircraft.

### LIQUIDITY AND CAPITAL RESOURCES

The Partnership presently has one long-term debt facility. At September 30, 2003, the 7.4% non-recourse note collateralized by one aircraft leased to FedEx corporation ("Fed Ex") had an outstanding balance of \$2.4 million. This outstanding balance is 3.46% of the original cost of all 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. The lease and debt facility mature in April 2006.

## Edgar Filing: AIRLEASE LTD - Form 10QSB

In September 2003, the Partnership declared a regular third-quarter 2003 cash distribution of \$0.05 per unit totaling approximately \$234,000. The Partnership also declared a special cash distribution of \$0.26 per unit as a result of the sale on August 12, 2003 of one MD-81 off-lease aircraft. Both the regular and the special cash distributions are payable on November 14, 2003 to unitholders of record on September 30, 2003. As a result of these distributions and the first and second quarter 2003 distributions, and the Partnership loss in the first nine-months period, Partnership equity declined to \$14.8 million at September 30, 2003 from \$25.8 million at December 31, 2002, and limited partner equity per unit declined to \$3.17 from \$5.51. Both the regular and the special 2003 cash distribution constitute a return of capital. The 2002 third-quarter regular cash distribution was also \$0.05 per unit.

The cash distributions paid in the first nine months of 2003 totaled \$701,000, of which \$7,010 was allocated to the General Partner and \$693,990 was allocated to the limited partners, or \$0.15 per limited partnership unit, representing the regular fourth quarter 2002, and first and second quarter 2003, distributions.

11

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 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, additional terrorist threats or attacks, and war or other military involvement by the U.S. or others in 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 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.

### ITEM 3. 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 the end of the period

## Edgar Filing: AIRLEASE LTD - Form 10QSB

covered by this quarterly report, have concluded that the Partnership's disclosure of the controls and procedures are effective to ensure that information required to be disclosed by the Partnership in this quarterly report is accumulated and communicated to the Partnership's management to allow timely decisions regarding required disclosure.

(b) No change was made in the Partnership's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Partnership's internal control over financial reporting.

12

### PART II - OTHER INFORMATION

#### ITEM 1. 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 condition prescribed in the lease following lease expiration on October 1, 2001 and to pay rent due on the aircraft. U.S. Airways subsequently filed for bankruptcy, and the owner trustee for the Partnership (the "Owner Trustee") filed a proof of claim in the bankruptcy case in the amount of \$13 million with respect to the aircraft. In September 2003, the Owner Trustee and U.S. Airways entered into a stipulation providing for the allowance of an unsecured claim in the bankruptcy case in the amount of \$9.3 million, and the Owner Trustee dismissed the claim against U.S. Airways in the Superior Court of California. See "Portfolio Matters" under Part I, Item 2 above.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

##### (a) Exhibits:

10.58 Lease Supplement Number Four dated September 10, 2003, among Wachovia Bank, National Association, as successor to First Union National Bank, not in its individual capacity but solely as Trustee, the Partnership and CSI Aviation Services, Inc.

10.59 (1) Aircraft Sales Agreement, dated as of August 12, 2003, among Wachovia Bank, National Association as trustee, Airlease Ltd., a California limited partnership, and OLSF, L.L.C., a Delaware limited liability company.

10.60 (1) First Amendment to Aircraft Sales Agreement, dated as of September 26, 2003, among Wachovia Bank, National Association as trustee, Airlease Ltd., a California limited partnership, and OLSF, L.L.C., a Delaware limited liability company.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Edgar Filing: AIRLEASE LTD - Form 10QSB

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

b) On September 17, 2003, the Partnership filed a report on Form 8-K dated September 17, 2003, disclosing under Item 5 the Partnership's regular third quarter cash distribution and a special cash distribution resulting from the sale of one MD-81 aircraft.

(1) Incorporated by reference to the Partnership's Form 8-K dated September 26, 2003 filed on October 2, 2003.

13

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 6, 2003

\_\_\_\_\_  
Date

By: /s/ DAVID B. GEBLER

\_\_\_\_\_  
David B. Gebler  
Chairman, Chief Executive Officer  
and President

November 6, 2003

\_\_\_\_\_  
Date

By: /s/ ROBERT A. KEYES

\_\_\_\_\_  
Robert A. Keyes  
Chief Financial Officer

14

# Edgar Filing: AIRLEASE LTD - Form 10QSB

## EXHIBIT INDEX

Exhibit Number	Description
----------------	-------------

(a) Exhibits:

10.58 Lease Supplement Number Four dated September 10, 2003, among Wachovia Bank, National Association, as successor to First Union National Bank, not in its individual capacity but solely as Trustee, the Partnership and CSI Aviation Services, Inc.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002