

Edgar Filing: AIRLEASE LTD - Form 10-Q

AIRLEASE LTD
Form 10-Q
May 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 March 31, 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
=====

I N D E X

Edgar Filing: AIRLEASE LTD - Form 10-Q

Part I - Financial Information:

Item 1.	Financial Statements	
	Balance Sheets --	
	March 31, 2001 and December 31, 2000.....	3
	Statements of Income --	
	Three months ended March 31, 2001 and 2000.....	4
	Statements of Cash Flows	
	Three months ended March 31, 2001 and 2000.....	5
	Notes to Financial Statements.....	6
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.....	8

Part II - Other Information:

Item 6.	Exhibits and Reports on Form 8-K.....	9
	Signatures.....	10

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

=====

BALANCE SHEETS

(IN THOUSANDS EXCEPT UNIT DATA)	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000
ASSETS		
Cash	\$ 390	\$ 17
Finance leases - net	59,434	61,657
Prepaid expenses and other assets	133	162
	-----	-----
Total assets	\$ 59,957	\$ 61,836
	=====	=====

LIABILITIES AND PARTNERS' EQUITY

Edgar Filing: AIRLEASE LTD - Form 10-Q

LIABILITIES

Distribution payable to partners	\$ 1,775	\$ 2,102
Accounts payable and accrued liabilities	367	468
Taxes payable	2	139
Long-term notes payable	7,530	7,992
	-----	-----
Total liabilities	9,674	10,701
	-----	-----

COMMITMENTS AND CONTINGENCIES

PARTNERS' EQUITY

Limited partners (4,625,000 units outstanding)	49,780	50,624
General partner	503	511
	-----	-----
Total partners' equity	50,283	51,135
	-----	-----
Total liabilities and partners' equity	\$ 59,957	\$ 61,836
	=====	=====

See NOTES TO CONDENSED FINANCIAL STATEMENTS

3

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

STATEMENTS OF INCOME

(UNAUDITED; IN THOUSANDS EXCEPT PER UNIT AMOUNTS)	THREE MONTHS ENDED	
	2001	MARCH 31, 2000
REVENUES		
Finance lease income	\$1,536	\$1,771
Other income	14	0
	-----	-----
Total revenues	1,550	1,771
	-----	-----

Edgar Filing: AIRLEASE LTD - Form 10-Q

EXPENSES

Interest	174	263
Management fee - general partner	146	153
Investor reporting	106	79
General and administrative	16	42
Tax on gross income	185	137
	-----	-----
Total expenses	627	674
	-----	-----
Net Income	\$ 923	\$1,097
	=====	=====
Net Income Allocated To:		
General Partner	\$ 9	\$ 11
	=====	=====
Limited Partners	\$ 914	\$1,086
	=====	=====
Net Income Per Limited Partnership Unit	\$ 0.20	\$ 0.23
	=====	=====

See NOTES TO CONDENSED FINANCIAL STATEMENTS

4

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

STATEMENTS OF CASH FLOWS

(UNAUDITED; IN THOUSANDS)

THREE MONTHS ENDED
MARCH 31,
2001 2000

Edgar Filing: AIRLEASE LTD - Form 10-Q

CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 923	\$ 1,097
Adjustments to reconcile net income to net cash provided by operating activities:		
(Decrease)/increase in accounts payable and accrued liabilities	(101)	14
(Decrease)/increase in taxes payable	(137)	137
Decrease in prepaid expenses and other assets	29	29
	-----	-----
Net cash provided by operating activities	714	1,277
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Rental receipts in excess of earned finance lease income	2,223	1,788
	-----	-----
Net cash provided by investing activities	2,223	1,788
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings/(repayments) under lines of credit, net	75	(783)
Repayment of long-term notes payable	(537)	(365)
Distributions paid to partners	(2,102)	(1,916)
	-----	-----
Net cash used by financing activities	(2,564)	(3,064)
	-----	-----
Increase in cash	373	1
Cash at beginning of period	17	2
	-----	-----
Cash at end of period	\$ 390	\$ 3
	=====	=====
ADDITIONAL INFORMATION		
Interest paid	\$ 101	\$ 163
	=====	=====

See NOTES TO CONDENSED FINANCIAL STATEMENTS

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 federal tax of 3.5% and a 1% California tax at the Partnership level of 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.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Edgar Filing: AIRLEASE LTD - Form 10-Q

The Partnership presently has three long-term debt facilities. At March 31, 2001, the following amounts were outstanding: \$4.0 million on a 7.4% non-recourse note collateralized by one aircraft leased to FedEx; \$1.7 million on a 9.35% non-recourse note collateralized by one aircraft on lease to Trans World Airlines (since April 10, 2001 on lease to American Airlines); and \$1.8 million on a long-term variable rate revolving loan facility guaranteed by the Partnership and collateralized by two aircraft on lease to US Airways. At March 31, 2001 approximately \$2.5 million remains available under the revolving loan facility.

At March 31, 2001, long-term borrowings of \$7.5 million represented 6.2 % 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 three months of 2001 were \$0.45 per limited partnership unit, representing the regular 2000 fourth-quarter cash distribution.

In March 2001, the Partnership declared a first-quarter 2001 cash distribution of \$0.38 per unit totaling \$1,775,252 and payable on May 15, 2001 to unitholders of record on March 30, 2001. Since this distribution was in excess of earnings, Partnership equity declined to \$50.3 million at March 31, 2001, and limited partner equity per unit declined to \$10.76. The portion of the distribution in excess of net income constitutes a return of capital.

RESULTS OF OPERATIONS

The Partnership earned \$923,000 in the first quarter ended March 31, 2001, a decrease of \$174,000 or 16% from the 2000 first-quarter earnings of \$1,097,000. First-quarter revenues were \$1,550,000, compared with last year's first-quarter revenues of \$1,771,000.

The revenue reduction in the first three months of 2001 is primarily due to the scheduled decline in finance lease income as the net investment in finance leases continued to decline. Although revenues declined, cash receipts remained about the same, largely reflecting rental receipts in excess of earned finance lease income.

Expenses for the first three months of 2001 were \$627,000, a decrease of \$47,000 from \$674,000 for the comparable 2000 period. The decline in expenses is primarily due to lower interest expense in 2001 as a result of the Partnership's reduced debt balances from \$8,943,000 as of March 31, 2000 to \$7,530,000 as of March 31, 2001. Lower interest expense was partially offset by higher tax expenses.

7

PORTFOLIO

As of March 31, 2001 the Partnership's portfolio consisted entirely of Stage III aircraft; six are MD 82s and one is a 727-200 FH. Stage III aircraft meet the

Edgar Filing: AIRLEASE LTD - Form 10-Q

FAA noise compliance regulations for aircraft operated in the continental United States after December 31, 1999.

On January 10, 2001 TWA (the lessee of one of the MD-82 aircraft) filed for bankruptcy under Chapter 11 of the Bankruptcy Code. TWA was initially delinquent on its December 2000 and January and February 2001 rent payments, but later brought the rent current. On April 9, 2001 the Partnership entered into an agreement with American Airlines completing the assumption by American Airlines of the TWA aircraft lease, subject to a reduced monthly rent, and an extension of the lease expiration date from 2002 to 2009.

On September 30, 2001, the leases with US Airways for five aircraft in the Partnership's aircraft portfolio expire. Since US Airways did not exercise its renewal option, the Partnership will market the aircraft to others for either sale or a new lease. While these MD-82 aircraft are comparable to the aircraft recently leased to American Airlines, the market for commercial aircraft is influenced by a number of factors, including the supply and demand for aircraft and economic conditions. Consequently, at this point we cannot precisely determine the values we will receive from a sale or a new lease of these aircraft, though we remain committed to our objective of maximizing the value from the aircraft portfolio.

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 DISCLOSURE 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.

Edgar Filing: AIRLEASE LTD - Form 10-Q

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits
10.52 Assumption and Lease Agreement dated as of February 27, 2001, as amended, among the Registrant, First Security Bank National Association, as Owner Trustee, and American Airlines, Inc.
- (b) The Partnership did not file any reports on Form 8-K during the quarter ended March 31, 2001.

9

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

May 09, 2001

Date

By: /s/ DAVID B. GEBLER

David B. Gebler
Chairman, Chief Executive Officer
and President

May 09, 2001

Date

By: /s/ ROBERT A. KEYES

Robert A. Keyes
Chief Financial Officer

