AIRLEASE LTD
Form 10QSB
July 15, 2004

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 June 30, 2004

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

BALANCE SHEETS

(IN THOUSANDS EXCEPT UNIT DATA)	JUNE 30, 2004 UNAUDITED)	DECEMBER 31, 2003*
ASSETS		
Cash and cash equivalents	$ 4,952	$ 4,288
Investments - available for sale	-	43
Finance leases - net	-	3,718
Operating leases - net	-	2,250
Aircraft held for sale (1) MD-81	-	1,200
Prepaid expenses and other assets	-	33
Total assets	$ 4,952	$ 11,532
LIABILITIES AND PARTNERS' EQUITY		
LIABILITIES		
Distribution payable to partners	$ -	$ 1,448
Accounts payable to General Partner and Affiliates	6	238
Accounts payable and accrued liabilities	202	112
Aircraft sale security deposit	-	200
Maintenance reserves	-	1,425
Current portion of long-term notes payable	-	764
Long-term notes payable	-	1,256

Total liabilities	208	5,443
COMMITMENTS AND CONTINGENCIES		
PARTNERS' EQUITY		
Limited partners (4,625,000 units outstanding)	4,697	6,029
General partner (46,717 units outstanding)	47	60
Total partners' equity	4,744	6,089
Total liabilities and partners' equity	$ 4,952	$ 11,532

See accompanying notes to the condensed financial statements

*The amounts are derived from the December 31, 2003, audited financial statements

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF OPERATIONS

(UNAUDITED; IN THOUSANDS EXCEPT PER UNIT AMOUNTS)	THREE MONTHS ENDED JUNE 30, 2004	2003	SIX MONTHS ENDED JUNE 30, 2004	2003
REVENUES				
Finance lease income	$ -	$ 63	$ 43	$ 132
Operating lease rentals	154	360	402	760
Gain on sale of aircraft	468	-	468	-
Aircraft maintenance reserves income	1,187	-	1,187	
Other income	9	10	6	17
Total revenues	1,818	433	2,106	909

EXPENSES

Interest	116	48	156	101
Depreciation	0	637	18	1,275
Management fee - general partner	274	65	363	132
Investor reporting	197	86	292	171
General and administrative	117	35	281	64
Tax on gross income	250	30	325	59
Impairment charge on aircraft	-	7,652	561	7,652
Aircraft maintenance and refurbishing	1	66	7	99
Total expenses	955	8,619	2,003	9,553
Net Income (Loss)	$ 863	$ (8,186)	$ 103	$(8,644)
Net Income (Loss) Allocated To:				
General Partner	$ 9	$ (82)	$ 1	$ (86)
Limited Partners	$ 854	$ (8,104)	$ 102	$(8,558)
Net Income (Loss) Per Limited Partnership Unit	$ 0.18	$ (1.75)	$ 0.02	$ (1.85)

See accompanying notes to the condensed financials statements

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF CHANGES IN PARTNERS' EQUITY ACCOUNTS

SIX MONTHS ENDED JUNE 30, 2004

(UNAUDITED; IN THOUSANDS)	GENERAL PARTNER	LIMITED PARTNERS	TOTAL PARTNERSHIP
Balance, January 1, 2003	$ 258	$ 25,497	$25,755
Net Loss	(86)	(8,558)	(8,644)
Declared Distributions	(6)	(462)	(468)

Balance, June 30, 2003	$ 166	$ 16,477	$16,643
Balance, January 1, 2004	$ 60	$ 6,029	$ 6,089
Net Income	1	102	103
Declared Distributions	(14)	(1,434)	(1,448)
Balance, June 30, 2004	$ 47	$ 4,697	$ 4,744

See accompanying notes to the condensed financial statements

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AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

STATEMENTS OF CASH FLOWS

(UNAUDITED; IN THOUSANDS)	SIX MONTHS ENDED JUNE 30, 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 103	$(8,64
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Impairment charge on aircraft	561	7,65
Depreciation	18	1,27
Gain on sale of aircraft	(468)	
Loss on sale of investments	12	
Decrease in prepaid expenses and other assets	33	1
Increase (decrease) in accounts payable and accrued liabilities	90	(2
Increase (decrease) in accounts payable to General Partner and Affiliates	(232)	(7
Increase (decrease) in maintenance reserves	(1,425)	37
Net cash (used in) provided by operating activities	(1,308)	56
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of aircraft	6,245	
Proceeds from sale of investments	31	
Rental receipts in excess of finance lease income	612	52

Net cash provided by investing activities	6,888	52
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term notes payable	(2,020)	(34
Distributions paid to partners	(2,896)	(46
Net cash used in financing activities	(4,916)	(81
Increase in cash and cash equivalents	664	26
Cash and cash equivalents at beginning of period	4,288	2,56
Cash and cash equivalent at end of period	$ 4,952	$ 2,83
ADDITIONAL INFORMATION		
Interest paid	$ 186	$ 10

See accompanying notes to the condensed financials statements

AIRLEASE LTD., A CALIFORNIA LIMITED PARTNERSHIP

NOTES CONDENSED TO FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

1. 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, 2003, 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-KSB for the year ended December 31, 2003. 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, 2003.

DISSOLUTION, WINDING UP AND LIQUIDATION OF THE PARTNERSHIP

On March 17, 2004 the Board of Directors of the General Partner directed the General Partner to cease making new aircraft investments, sell the Partnership's remaining aircraft as attractive sale opportunities arise, distribute sales proceeds (after repaying debt and establishing appropriate reserves) to Unitholders after disposition, and dissolve the Partnership when all assets are sold. In May 2004, the Partnership sold all three of the Partnership's aircraft. On June 18, 2004, in response to these sales and pursuant to the provisions of the Amended and Restated Agreement of Limited Partnership of the Partnership, the Board of Directors of the General Partner approved the cessation of the Partnership's business and the dissolution and liquidation of the Partnership. On June 30, 2004, the General Partner of the Partnership filed with the California Secretary of State a certificate of dissolution.

As a consequence of the foregoing developments, the Partnership has now been dissolved and the General Partner has undertaken to wind up the affairs of the Partnership and liquidate its assets. The Partnership has ceased conducting business and, until the Partnership is terminated, the Partnership will engage only in such activities as are necessary to wind up its affairs, pay its creditors and satisfy its liabilities, and distribute its remaining assets. The General Partner presently intends to terminate the Partnership at or before the end of 2004.

On July 12, 2004, the Board of Directors of the General Partner declared a cash distribution of $0.88 per unit payable on August 6, 2004 to Unitholders of record on July 22, 2004, representing a majority of the net available funds. This distribution represents cash from the sale of aircraft net of cash from operations. In declaring this distribution, the Board of Directors determined that the Partnership's remaining assets are reasonably likely to satisfy all creditors and liabilities of the Partnership through termination of the Partnership.

The Board also has determined that it will not declare any further distributions until termination of the Partnership.

MD-82S AIRCRAFT SALE

Pursuant to the Board's directive and the authority granted to the General Partner by the unitholders to sell the Partnership's remaining assets as attractive sale opportunities arise, the General Partner, on May 10, 2004, sold

to Jetran International Ltd. the two MD-82 aircraft previously on lease to CSI for $1.3 million and $1.4 million, respectively, for a total of $2.7 million in cash and recognized a gain in the second quarter of $468,000.

B727-200FH AIRCRAFT SALE

On May 27, 2004, the Partnership completed the sale of one Boeing 727-2D4 aircraft to Federal Express Corporation ("FedEx"), the lessee of the aircraft. The total consideration paid by FedEx was $2,545,000 $794,000 of which was paid to the Partnership and $1,751,000 of which was applied in payment in full of a note collateralized by the aircraft. Included in the payment to the lender was a make-whole payment of $94,000 in accordance with the note agreement and primarily represented the interest expense for the difference of the coupon rate of 7.4% and the current market rate for a similar debt instrument with a corresponding remaining average life.

Since the sale price was expected to be lower than the book value of the lease, an impairment charge of $561,000 was recorded in the first quarter of 2004.

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

INVESTMENT SECURITIES - Investment securities available for sale at December 31, 2003 include 6,975 shares of US Airways Class A common stock received in December 2003 in partial settlement of a claim against US Airways for past due lease payments and damages resulting from US Airways' failure to return three aircraft in the condition prescribed in the lease agreement. These shares are reported at market value, with unrealized gains and losses, net of taxes, reported as a component of cumulative other comprehensive income (loss) in partners' equity. Unrealized gains and losses other-than-temporary impairments related to investment securities are determined using specific identification. Investment securities are regularly reviewed for impairment based on criteria that include the extent to which cost exceeds market value, the duration of the market decline and the financial health of and specific prospects of the issuer of the investment security. On March 30, 2004, the Partnership sold its 6,975 shares of Common A stock with a settlement date of April 2, 2004. The net sale price of the stock was $31,177. Since the sale price was lower than the investment book value, a loss on sale of $12,208 was recorded as a component of other income in the statement of operations.

MAINTENANCE RESERVES - On certain operating leases the Partnership required the lessees to pay aircraft maintenance reserves. The reserves are applied toward the aircraft's maintenance requirements as they occur. Reserves are collected for engines, airframe, and other aircraft components. The amount of the reserves is based on flight hours. As a result of the sale of the sale of the two MD-82 aircraft in the month of May 2004, the remaining maintenance reserves balance of $1,187,000 was recognized as other income in the second quarter of 2004.

LONG-LIVED ASSETS - 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 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.

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.

NET INCOME (LOSS) PER LIMITED PARTNERSHIP UNIT - Net income (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).

2. CASH DISTRIBUTIONS - In March 2004, the Partnership declared a regular first-quarter 2004 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 January 26, 2004 of one MD-81 off-lease aircraft. Both, the regular and the special cash distributions are payable on May 14, 2004 to unitholders of record on March 31, 2004.

The cash distributions paid in the first six months of 2004 totaled $2,896,464, of which $28,965 was allocated to the General Partner and $2,867,499 was allocated to the limited partners, or $0.62 per limited partnership unit. The cash distributions represent the regular fourth quarter 2003 and first quarter 2004 distributions of $0.05 per unit each, and two special cash distributions of $0.26 per unit each from the sale of two MD-81 off-lease aircraft.

DECLARED SPECIAL CASH DISTRIBUTIONS - On July 12, 2004, the Board of Directors of the General Partner declared a cash distribution of $0.88 per unit payable on August 6, 2004 to Unitholders of record on July 22, 2004, representing a majority of the net available funds. The $0.88 per unit distribution totals approximately $4,111,000 to be paid to on all units outstanding. Following payment of the $0.88 per unit distribution, the Partnership will have approximately $841,000 in cash and cash equivalents then remaining on hand, which will be used to pay and satisfy the Partnership's creditors and outstanding liabilities, and pay expenses associated with winding up, liquidating and terminating the Partnership. The Board anticipates terminating the Partnership and making a final cash distribution to Unitholders out of its then remaining net available funds at or before the end of 2004.

3. ASSETS AND LIABILITIES LISTING AS OF JUNE 30, 2004 - As part of the dissolution and termination process, the Partnership agreement provides for a listing of the Partnership's assets and liabilities at the time of the Partnership's dissolution and termination. Following is a listing of the Partnership's assets and liabilities as of June 30, 2004, the date of the Partnership's filing of the dissolution certificates with the California Secretary of State:

ASSETS & Liabilities Schedule as of June 30, 2004

ASSETS (IN THOUSANDS):	
Cash and Cash Equivalents	$4,952
Warrants for 4,278 of US Airways' Class A Preferred Stock (1)	0
Total Assets	$4,952
LIABILITIES (IN THOUSANDS):	
Accounts payable to General Partner and Affiliaties	$ 6
Accounts Payable and Accrued Liabilities:	
K-1 Processing, Printing and Mailing	$ 85
SEC and Investor Reporting	19
Tax and Audit Fees	30
Legal Fees	65
General and Administrative	3
Total Accounts Payable and Accrued Liabilities	202
Total Liabilities	$ 208

(1) The strike price of these warrants is $7.42 per share, substantially lower than the trading price of the stock.

ITEM 2. 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 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 filings with the Securities and Exchange Commission, including (i) changes in interest rates; (ii) the costs satisfying and providing for the Partnership's liabilities; and (iii) the costs of winding up, liquidating and dissolving the Partnership. 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.

DISSOLUTION, WINDING UP AND LIQUIDATION OF THE PARTNERSHIP

On March 17, 2004, the Board of Directors of the General Partner directed the General Partner to cease making new aircraft investments, sell the Partnership's remaining aircraft as attractive sale opportunities arise, distribute sales proceeds (after repaying debt and establishing appropriate reserves) to Unitholders after disposition, and dissolve the Partnership when all assets are sold. In May 2004, the Partnership sold all three of the Partnership's aircraft. On June 18, 2004, in response to these sales and pursuant to the provisions of the Amended and Restated Agreement of Limited Partnership of the Partnership, the Board of Directors of the General Partner approved the cessation of the Partnership's business and the dissolution and liquidation of the Partnership. On June 30, 2004, the General Partner of the Partnership filed with the California Secretary of State a certificate of dissolution.

As a consequence of the foregoing developments, the Partnership has now been dissolved and the General Partner has undertaken to wind up the affairs of the Partnership and liquidate its assets. The Partnership has ceased conducting business and, until the Partnership is terminated, the Partnership will engage only in such activities as are necessary to wind up its affairs, pay its creditors and satisfy its liabilities, and distribute its remaining assets. The General Partner presently intends to terminate the Partnership at or before the end of 2004.

On July 12, 2004, the Board of Directors of the General Partner declared a cash distribution of $0.88 per unit payable on August 6, 2004 to Unitholders of record on July 22, 2004, representing a majority of the net available funds. This distribution represents both cash from the sale of aircraft in May 2004 and cash from operations. In declaring this distribution, the Board of Directors determined that the Partnership's remaining assets are reasonably likely to satisfy all creditors and liabilities of the Partnership through termination of the Partnership.

The Board also has determined that it will not declare any further distributions until termination of the Partnership.

RESULTS OF OPERATIONS

The Partnership reported net income $863,000 in the second quarter ended June 30, 2004, compared with last year's second quarter loss of $8,186,000. Revenues for the 2004 second-quarter were $1,818,000, compared with last year's second quarter revenues of $433,000. Net income for the first six months of 2004 was $103,000, compared with a net loss of $8,644,000 for the first six months of 2003. Revenues for the six-month period of 2004 were $2,106,000, compared with revenues of $909,000 for the first six months of 2003.

The increased earnings in the first half of 2004 as compared with the same period of 2003 is primarily due to increased revenues and reduced expenses for the first six months of 2004 compared to the first six months of 2003. Increased revenues and reduced expenses also led to net income for the three months ended June 30, 2004 compared to a net loss for the comparable period of 2003.

Revenue increased in during the first six months of 2004 compared to the first six months of 2003 primarily as a result of the recording of $468,000 in gain on sale associated with the two MD-82 aircraft that were sold in May 2004 and to the recognition in other income of $1,187,000 of maintenance reserves associated with two sold aircraft.

Expenses for the first six months of 2004 were $2,003,000, a decrease of $7,550,000 from $9,553,000 for the comparable 2003 period. The decrease in expenses is primarily due to lower aircraft impairment charges of $561,000 during the first six months of 2004 compared to $7,652,000 of impairment charges for the first six months of 2003. Expenses for the three months ended June 30, 2004 also decreased compared to expenses for the comparable period in 2003 primarily for the same reason. Taxes on gross income increased substantially during the three months ended June 2004 due to the payment of taxes associated with sale of aircraft in May 2004.

CLOSING AND POST-CLOSING EXPENSE ESTIMATES

In the course of winding up, liquidating and terminating the Partnership, certain operating expenses will be incurred until the Partnership is terminated. Among these expenses are expenses relating to processing and producing Unitholders' Form K-1 reports for the 2004 taxable year, expenses associated with preparing and filing periodic reports with the Securities and Exchange Commission, preparing the Partnership's 2004 tax return, accounting and legal fees, and various other miscellaneous expenses. Following is a schedule outlining the estimates of these expenses:

2004 K-1 Processing, Printing and Mailing	$170,000
SEC and Investor Reporting (including transfer agent fees)	47,000
Tax and Accounting Services	51,000
Legal Fees (including fees associated with aircraft sales)	110,000
General, Administrative, and Other Expenses	37,000
Total Estimated Closing and Post-Closing Expenses	$415,000

These estimates are based on information currently available to the General Partner and represent the General Partner's current belief as to the types and amounts of expenses that the General Partner presently expects will be incurred through termination of the Partnership. The actual expenses incurred by the Partnership through termination may be greater or less than these estimates since many of these estimates cannot be quantified precisely at this time.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004, the Partnership's assets consisted of only cash and cash equivalents in the amount of $4,952,000. Since the Partnership has now been dissolved, it will not conduct any business activities and will only undertake such other activities as are necessary to wind up the Partnership's affairs, pay its creditors and satisfy its liabilities, and distribute its remaining assets. As discussed below under "Declared Distributions," the Board of Directors of the General Partnership declared on July 12, 2004 a distribution to Unitholders representing a majority of the Partnership's net available funds.

In conjunction with the sale of the FedEx aircraft, the Partnership paid off its only long-term debt facility. This 7.4% non-recourse note collateralized by one aircraft leased to FedEx was due to mature in April 2006. The pay-off amount was $1,751,000, which included a make-whole payment of $94,000 in accordance with the note agreement and primarily represented the interest expense for the difference of the coupon rate of 7.4% and the current market rate for a similar debt instrument with a corresponding remaining average life.

In March 2004, the Partnership declared a regular first-quarter 2004 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 January 26, 2004 of one MD-81 off-lease aircraft. Both, the regular and the special cash distributions are payable on May 14, 2004 to Unitholders of record on March 31, 2004.

The cash distributions paid in the first six months of 2004 totaled $2,896,464, of which $28,965 was allocated to the General Partner and $2,867,499 was allocated to the limited partners, or $0.62 per limited partnership unit. The cash distributions represent the regular fourth quarter 2003 and first quarter 2004 distributions of $0.05 per unit each, and two special cash distributions of $0.26 per unit each from the sale of two MD-81 off-lease aircraft.

DECLARED DISTRIBUTIONS

On July 12, 2004, the Board of Directors of the General Partner declared a cash distribution of $0.88 per unit payable on August 6, 2004 to Unitholders of record on July 22, 2004, representing a majority of the net available funds. The $0.88 per unit distribution totals approximately $4,111,000 to be paid to on all units outstanding. Following payment of the $0.88 per unit distribution, the Partnership will have approximately $841,000 in cash and cash equivalents then remaining on hand, which will be used to pay and satisfy the Partnership's creditors and outstanding liabilities, pay expenses associated with winding up, liquidating and terminating the Partnership. The Board anticipates terminating the Partnership and making a final cash distribution to Unitholders out of its then remaining net available funds at or before the end of 2004.

PORTFOLIO MATTERS

Pursuant to the Board's directive and the authority granted to the General Partner by the Unitholders to sell the Partnership's remaining assets as attractive sale opportunities arise, the General Partner, on May 10, 2004, sold to Jetran International Ltd. the two MD-82 aircraft previously on lease to CSI for $1.3 million and $1.4 million, respectively, for a total of $2.7 million in cash and recognized a gain in the second quarter of $468,000.

On May 27, 2004, the Partnership completed the sale of one Boeing 727-2D4 aircraft to Federal Express Corporation ("FedEx"), the lessee of the aircraft. The total consideration paid by FedEx was $2,545,000, of which $1,751,000 was paid to the lender in payment in full of a note collateralized by the aircraft. Since the sale price was expected to be lower than the book value of the lease, an impairment charge of $561,000 was recorded in the first quarter of 2004.

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 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.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 2002, the Partnership commenced litigation against US Airways seeking to recover damages for US Airways' failure to return three aircraft leased to US Airways in the condition prescribed in the lease following lease expiration on October 1, 2001 and to pay rent due on such aircraft. US 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 $13.0 million with respect to the aircraft. In September 2003, the Owner Trustee and US Airways entered into a stipulation providing for the allowance of an unsecured claim in the bankruptcy case in the amount of $9.3 million. In its Disclosure Statement dated January 17, 2003, filed as part of its proposed plan of reorganization, US Airways projected that it would pay between 1.2% and 1.8% on unsecured claims. In December 2003, the Partnership received a partial distribution from US Airways in the form of company Class A Common stock and Warrants redeemable for Class A Preferred stocks. The Partnership received 6,975 shares of Class A Common stock, which were valued as of December 31, 2003 at $43,385 ($6.22 per share) and warrants for 4,278 of Class A Preferred stock. No value was recorded on the Preferred stock since the per share strike price of $7.42 was higher than the closing stock price of $6.22 at December 31, 2003. On March 30, 2004, the Partnership sold its 6,975 shares of Common A stock with a settlement date of April 2, 2004. The net sale price of the stock was $31,177. Since the sale price was lower than the investment book value, a loss on sale of $12,208 was recorded in the first quarter of 2004 and included in other income in the statement of operations.

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

(a) Exhibits:

3.1	Fourth Amendment to Amended and Restated Partnership Agreement
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
99.1	Press release issued by the Partnership on July 12, 2004
99.2	Independent Accountant's Report

Reports on Form 8-K

On May 14, 2004, the Partnership filed a report on Form 8-K dated May 10, 2004, disclosing under Item 2 the completion of the sale by the Partnership of two MD-82 aircraft and related assets to Jetran International Ltd.

On June 6, 2004, the Partnership filed a report on Form 8-K dated May 27, 2004, disclosing under Item 2 the completion of the sale by the Partnership of one B727-200FH aircraft and related assets to FedEx Corporation.

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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 15, 2004	By: /s/ DAVID B. GEBLER
Date	David B. Gebler Chairman, Chief Executive Officer and President
July 15, 2004	By: /s/ ROBERT A. KEYES
Date	Robert A. Keyes Chief Financial Officer

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION

(a) Exhibits:

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