KERR WILLIAM T
Form 4
October 01, 2009

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
KERR WILLIAM T

(Last) (First) (Middle)

9705 PATUXENT WOODS DRIVE

(Street)

COLUMBIA, MD 21046

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
ARBITRON INC [ARB]

3. Date of Earliest Transaction (Month/Day/Year)
09/30/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)

Derivative Security			Code	V	Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) (A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Deferred Stock Units	(1)	09/30/2009	A		506		(2)	(2)	Common Stock	506	$ 20.7

Reporting Owners

Reporting Owner Name / Address	Relationships: Director	10% Owner	Officer	Other
KERR WILLIAM T 9705 PATUXENT WOODS DRIVE COLUMBIA, MD 21046	X			

Signatures

/s/ Timothy T. Smith, Attoney in Fact for William T. Kerr	10/01/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) These Deferred Stock Units convert on a one for one basis.

(2) These Deferred Stock Units are payable following retirement of the reporting person from the Board of Directors.

(3) Includes an aggregate of 50.4262 Deferred Stock Units acquired through dividend reinvestment.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ations, borrowings, and the sale of equipment and business segments. The level of liquidity in 2002 and beyond will depend, in part, on the management of existing sponsored programs and the effectiveness of cost control programs. Management believes PLM will have sufficient liquidity and capital resources for the future. During the period from February 7, 2001 (date of inception) to December 31, 2001, the cash and cash equivalents of MILPI Holdings, LLC increased approximately $9.6 million from approximately $4.4 million to approximately $14.0 million. The increase during the period primarily resulted from approximately $13.8 million of net cash provided by PLM's investing activities offset by approximately $3.4 million of net cash used in PLM's operating activities. The net cash provided by investing activities primarily reflects PLM's receipt of proceeds of approximately $10.3 million from the sale to its affiliated programs of certain equipment held for sale. In April 2001, PLM entered into a $15.0 million warehouse facility, which is shared by PLM Equipment Growth Fund VI, PLM Equipment Growth & Income Fund VII, and Professional Lease Management Income Fund I, LLC, which allows PLM to purchase equipment prior to its designation to a specific program. Borrowings under this facility by the other eligible borrowers reduced the amount available to be borrowed by PLM. This facility was amended in December 2001 to lower the amount available to be

borrowed to $10.0 million. This facility expires in July 2002. As of December 31, 2001, PLM had no borrowings outstanding under this facility and there were no borrowings outstanding under this facility by any other eligible borrower. In March 2001, the Internal Revenue Service notified PLM that it would conduct an audit regarding PLM's tax withholding of payments to foreign entities. The audit occurred in 2001 and related to two partnerships in which PLM formerly held interests as the 100% direct and indirect owner. One audit relates to the years between 1997 and 1999, while the other audit relates to the years 1998 and 1999. PLM is awaiting the results of the audit from the Internal Revenue Service. Management believes that the positions taken on the withholding tax returns will be upheld by the Internal Revenue Service upon audit. If PLM's position is not upheld by the Internal Revenue Service, the foreign entities are legally obligated to indemnify PLM for any losses. If the Internal Revenue Service does not uphold the PLM's position and the foreign entities do not honor the indemnification, PLM's financial condition, results of operations, and liquidity would be materially impacted. REAL ESTATE OPERATIONS ----------------------- The Company owns approximately 270 acres of undeveloped land north of Malibu, California called Rancho Malibu. Prior to May, 2000, the Company owned a 98.6% interest in the property, with the remaining 1.4% interest owned by an affiliate, Legend Properties, Inc ("Legend"). In May, 2000, the Company purchased Legend's ownership interest for nominal consideration and a mutual general release. Approximately 40 acres of the property are zoned for development of a 46-unit residential community. The remainder is divided as follows: (i) 167 acres are dedicated to a public agency, (ii) 47 acres are deed restricted within privately-owned lots, and (iii) 20 acres are preserved as private open space. The Company capitalized approximately $2.4 million and $1.3 million of costs during fiscal 2001 and 2000, respectively. At December 31, 2001, the Company has obtained all transfer development credits and has began development of the property. As described above, at December 31, 2001, MILPI Holdings, LLC, through a wholly owned subsidiary, owned approximately 83% of the outstanding common stock of PLM. During 2001, the Company recorded an impairment of approximately $2.5 million in connection with the Malibu property. Consistent with SFAS No. 121, it is the Company's policy to reduce the carrying value of real estate held for development and sale when future undiscounted cash flows are estimated to be insufficient to recover the carrying value. The amount of the write-down is equivalent to the difference between the estimated future cash flows of the property and its unadjusted carrying value. Estimated future cash flows were based on management's current development plans and assessment of the current real estate market. Actual values could differ from management's estimates. Through December 31, 2001, the AFG Trusts and Semele collectively expended approximately $10.7 million to acquire their respective interests in EFG Kirkwood LLC ("EFG Kirkwood"), a wholly-owned subsidiary which has an indirect ownership interest in two winter resorts: Mountain Resort Holdings LLC ("Mountain Resort") and Mountain Springs Resort LLC ("Mountain Springs"). Mountain Resort, through four wholly-owned subsidiaries, owns and operates the Kirkwood Mountain Resort, a ski resort located in northern California, a public utility that services the local community, and land that is held for residential and commercial development. Mountain Springs, through a wholly-owned subsidiary, owns a controlling interest in Purgatory Ski resort in Durango, Colorado. The risks generally associated with real estate include, without limitation, the existence of senior financing or other liens on the properties, general or local economic conditions, property values, the sale of properties, interest rates, real estate taxes, other operating expenses, the supply and demand for properties involved, zoning and environmental laws and regulations, and other governmental rules. The Company's involvement in real estate development also introduces financial risks, including the potential need to joint venture and/or borrow funds to develop the real estate projects. While the Company's management presently does not foresee any unusual risks in this regard, it is possible that factors beyond the control of the Company, its affiliates and joint venture partners, such as a tightening credit environment, could limit or reduce its ability to secure adequate credit facilities at a time when they might be needed in the future. The ski resorts are subject to a number of risks, including weather-related risks. The ski resort business is seasonal in nature and insufficient snow during the winter season can adversely affect the profitability of a given resort. Many operators of ski resorts have greater financial resources and experience in the industry than either the Company or its partners. The Company's real estate activities involve several risks, including, but not limited to, market factors that could influence the demand for and pricing of the Company's residential development projects. Rancho Malibu is intended to be a high-end residential community with individual home prices in excess of $1 million. Kettle Valley is a large-scale community, offering single-family homes priced from approximately $250,000 (CDN) to $350,000 (CDN). This project is located in British Columbia, Canada and, therefore, subject to economic and market factors not necessarily similar to those in the United States. Adverse developments in general economic conditions could have a negative affect on the marketability of either Rancho Malibu or Kettle Valley. Potential effects of September 11, 2001 -- The events of September 11, 2001 adversely affected market demand for both new and used commercial aircraft and weakened the financial position of several airlines. No direct damage occurred to any of the Company's assets as a result of these events and while it currently is not possible for the Company to determine the ultimate long-term economic consequences of these events to the AFG Trusts, PLM or to the Company, management expects that the resulting decline in air travel will suppress market prices for used aircraft in the short-term and could inhibit the viability of some airlines. In the event of a lease default by an aircraft lessee, the Company could experience material losses. At December 31, 2001, the AFG Trusts have collected substantially all rents owed to them from aircraft lessees. In addition, the Company's membership interest in two ski resorts could be aversely affected by potential declines in vacation travel resulting from the events of September 11, 2001. The Company is monitoring developments in the airline and resort industries and will continue to evaluate potential implications to the Company's financial position and future liquidity. ITEM 8. FINANCIAL STATEMENTS REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS To the Stockholders of Semele Group Inc. We have audited the accompanying consolidated balance sheets of Semele Group Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' capital (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of MILPI Holdings, LLC, a majority-owned subsidiary, which statements reflect total assets of $43,399,000 as of December 31, 2001 and total revenues of $10,376,000 for the period February 7, 2001 (date of inception) through December 31, 2001. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to data included for MILPI Holdings, LLC, is based solely on the report of other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion. In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Semele Group Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. The accompanying financial statements for the year ended December 31, 2000 have been restated as discussed in Note 1. Tampa, Florida April 9, 2002 SEMELE GROUP INC. CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2001 AND 2000 2001 2000 (Restated) -------------- -------------- ASSETS Cash and cash equivalents $ 19,953,899 $ 27,830,365 Restricted cash 452,370 - Rents and other receivables 1,183,127 1,749,074 Due from affiliates 4,624,498 4,201,307 Equipment held for lease, net of accumulated depreciation of $62,491,363 and $53,615,656 at December 31, 2001 and 2000, respectively 53,385,432 73,577,695 Real estate held for development and sale 11,279,856 11,388,698 Land 1,929,000 1,929,000 Buildings, net of accumulated depreciation of $1,884,896 and $1,530,263 at December 31, 2001 and 2000, respectively 10,048,101 10,402,733 Interests in affiliated companies 24,321,861 2,934,186 Interests in non-affiliated companies 16,471,490 17,417,275 Other assets 3,648,170 2,556,728 Goodwill, net of accumulated amortization of $764,762 at December 31, 2001 4,590,299 - -------------- -------------- Total assets $ 151,888,103 $ 153,987,061 -------------- -------------- LIABILITIES Accounts payable and accrued expenses $ 8,811,499 $ 2,859,713 Deferred rental income 583,535 77,771 Other liabilities 3,154,507 3,013,207 Indebtedness 52,918,296 60,418,448 Indebtedness and other obligations to affiliates 39,408,049 36,609,568 Deferred income taxes 9,751,000 - -------------- -------------- Total liabilities 114,626,886 102,978,707 -------------- -------------- Minority interests 55,408,679 65,226,735 -------------- -------------- Commitments and contingencies STOCKHOLDERS' CAPITAL (DEFICIT) Common stock, $0.10 par value; 5,000,000 shares authorized; 2,916,647 shares issued at December 31, 2001 and December 31, 2000 291,665 291,665 Additional paid in capital 144,680,487 144,680,487 Accumulated deficit (148,886,608) (144,957,527) Deferred compensation, 164,279 shares at December 31, 2001 and 2000 (816,767) (816,767) Treasury stock at cost, 837,929 shares at December 31, 2001 and 2000 (13,416,239) (13,416,239) -------------- -------------- Total stockholders' deficit (18,147,462) (14,218,381) -------------- -------------- Total liabilities, minority interests and stockholders' deficit

$ 151,888,103 $ 153,987,061 -------------- -------------- The accompanying notes are an integral part of these consolidated financial statements. SEMELE GROUP INC. CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000 2001 2000 (Restated) ------------- ----------- REVENUES Lease revenue $ 14,558,714 $18,260,855 Management fee income - affiliates 5,216,909 - Acquisition and lease negotiation fees - affiliates 2,032,000 - Interest and investment income 884,387 2,045,814 Interest income - affiliates 262,343 248,914 Gain on sales of marketable securities - 175,238 Gain on sales of equipment 535,415 4,028,354 Loss from real estate held for development or sale - (181,453) Equity income in affiliated companies 2,155,675 - Equity loss in non-affiliated companies (628,463) (2,866,789) Other income 1,736,487 1,017,974 ------------- ----------- Total revenues 26,753,467 22,728,907 EXPENSES Depreciation and amortization expense 10,991,750 10,889,061 Write-down of impaired assets 14,061,732 - Interest on indebtedness 4,895,012 5,715,850 Interest on indebtedness and other obligations- affiliates 1,850,616 2,289,405 General and administrative expenses 5,120,796 1,179,406 Fees and expenses - affiliates 4,420,572 2,898,608 ------------- ----------- Total expenses 41,340,478 22,972,330 Loss before income taxes and minority interests (14,587,011) (243,423) Provision for income taxes 1,611,000 - Elimination of consolidated subsidiaries' minority interests (12,268,930) 665,742 ------------- ----------- Net loss $ (3,929,081) $ (909,165) ------------- ----------- Net loss per common share - basic and diluted Net loss $ (1.89) $ (0.56) ------------- ----------- Basic and diluted weighted average number of common shares outstanding 2,078,718 1,622,887 ------------- ----------- The accompanying notes are an integral part of these consolidated financial statements. SEMELE GROUP INC. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' CAPITAL (DEFICIT) FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000 Common Additional Accumulated Deferred Treasury Stock Paid in Capital Deficit Compensation Stock -------- --------------- ------------- -------------- ------------- Balance at December 31, 1999 $259,019 $ 143,667,489 $(144,048,362) $ (576,767) $(14,308,195) Deferred compensation 52,468 shares of treasury stock - (651,956) - (240,000) 891,956 Issuance of common stock 32,646 1,664,954 - - - Net loss (restated) - - (909,165) - - -------- --------------- ------------- -------------- ------------- Balance at December 31, 2000 (restated) 291,665 144,680,487 (144,957,527) (816,767) (13,416,239) Net loss - - (3,929,081) - - -------- --------------- ------------- -------------- ------------- Balance at December 31, 2001 $291,665 $ 144,680,487 $(148,886,608) $ (816,767) $(13,416,239) -------- --------------- ------------- -------------- ------------- Total ------------ Balance at December 31, 1999 $(15,006,816) Deferred compensation 52,468 shares of treasury stock - Issuance of common stock 1,697,600 Net loss (restated) (909,165) ------------ Balance at December 31, 2000 (restated) (14,218,381) Net loss (3,929,081) ------------ Balance at December 31, 2001 $(18,147,462) ------------ The accompanying notes are an integral part of these consolidated financial statements. SEMELE GROUP INC. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000 2001 2000 CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES (Restated) ------------- ------------- Net loss $ (3,929,081) $ (909,165) Adjustments to reconcile net loss to net cash provided by operating activities: Depreciation and amortization expense 10,991,750 10,889,061 Accretion of bond discount - (16,260) Provision for impaired assets 14,061,732 - Gain on sale of marketable securities - (175,238) Gain on sale of equipment, net (535,415) (4,028,354) Deferred income taxes 867,000 - Equity income in affiliated companies (2,155,675) - Equity loss in non-affiliated companies 628,463 2,866,789 Elimination of consolidated subsidiaries minority interests (12,268,930) 665,742 Changes in assets and liabilities: Decrease (increase) in: Rents and other receivables 1,787,948 542,566 Other assets 1,588,877 (1,064,374) Due from affiliates 920,810 5,616,245 Increase (decrease) in: Accounts payable and accrued expenses (9,068,402) 848,879 Distributions declared and payable -- (9,374,323) Deferred rental income 505,764 (614,701) Other liabilities 141,300 - ------------- ------------- Net cash provided by operating activities 3,536,141 5,246,867 ------------- ------------- CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES Proceeds from equipment sales 873,555 7,538,707 Purchase of ownership interests in non-affiliated companies - (3,168,344) Decrease in restricted cash 1,295,630 - Proceeds from assets held for sale 10,250,000 - Cash distribution from PLM investment programs 1,591,000 - Proceeds from sale of marketable securities - 1,226,520 Deposit on MILPI Acquisition - (1,200,000) Purchase of PLM, net of cash acquired (17,385,000) - Costs capitalized to real estate held for development or sale (2,417,120) (1,343,205) ------------- ------------- Net cash provided by (used in) investing activities (5,791,935) 3,053,678 ------------- ------------- CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES Redemption of PLM stock options (919,000) - Proceeds from indebtedness 1,884,140 6,141,738 Principal payments on indebtedness (9,384,293) (31,187,377) Indebtedness and other obligations to affiliates 2,798,481 (9,992,629) ------------- ------------- Net cash used in financing activities (5,620,672) (35,038,268) ------------- ------------- Net decrease in cash and cash equivalents (7,876,466) (26,737,723) Cash and cash equivalents at beginning of year 27,830,365 54,568,088 Cash and cash equivalents at end of year $ 19,953,899 $ 27,830,365 ------------- ------------- SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash paid during the year for interest (net of capitalized interest of $770,689 and $557,419 at December 31, 2001 and 2000, respectively $ 5,926,273 $ 8,058,479 ------------- ------------- Cash paid during the year for taxes $ 6,216,000 $ -- ------------- ------------- SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITY: See Note 14 to the consolidated financial statements The accompanying notes are an integral part of these consolidated financial statements. SEMELE GROUP INC. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS NOTE 1- RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS After Semele Group Inc. ("Semele" or the "Company") filed its Annual Report on Form 10-KSB (the "2000 10-KSB") for the year ended December 31, 2000 with the United States Securities and Exchange Commission ("SEC"), the Company determined that the amount recorded as its share of loss on its direct and indirect ownership interest in EFG Kirkwood LLC ("EFG Kirkwood"), a wholly-owned subsidiary which has an ownership interest in two winter resorts, required revision. The Company determined that the amount previously recorded as a loss on its interest in EFG Kirkwood was understated by approximately $2.1 million. Accordingly, the Company recorded an additional loss on its interest in EFG Kirkwood of approximately $2.1 million, resulting in a decrease in minority interest expense of $1.16 million and an increase in the Company's net loss for the year ended December 31, 2000 of $882,338 or $0.54 per share. As a result, the accompanying financial statements for the year ended December 31, 2000 have been restated from the amounts previously reported. NOTE 2 - ORGANIZATION AND NATURE OF OPERATIONS The Company is engaged in various real estate activities, including residential property development, and holds interests in other companies operating in niche financial markets, principally involving real estate and equipment leasing. Semele was organized as a Delaware corporation on April 14, 1987. The Company's common stock is listed on the OTC Bulletin Board, commonly referred to as the "over-the-counter market". The Company's trading symbol on that exchange is "VSLF.OB". On November 2, 2000, the Company issued 326,462 shares of common stock in partial payment for an installment debt obligation for the purchase of Equis II Corporation. The debt is owed to the Company's Chairman and Chief Executive Officer, Gary D. Engle, its President and Chief Operating Officer, James A. Coyne, and a family corporation controlled by Gary D. Engle. As a result of the termination of a voting trust in November 2000 and due to the control position of Mr. Engle over the Company and Equis II Corporation ("Equis II"), the Company obtained full ownership and control of Equis II and control of four Delaware business trusts (collectively referred to as the "AFG Trusts" or the "Trusts"). As such, the acquisition of Equis II has been accounted for as a combination of businesses under common control, similar to a pooling of interests. Accordingly, the Company's consolidated financial statements as of December 31, 2001 and 2000 and for the years then ended include the consolidated financial statements of Equis II. The purchase price of Equis II of approximately $21.9 million was treated as a deemed distribution that directly reduced the balance of stockholders' equity For accounting purposes, the Company considers affiliates to be persons and/or entities that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under the common control with, the Company. All other entities are considered to be non-affiliates. NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES --- Use of Estimates ----------------- The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures contained in the financial statements. Actual results could differ from those estimates and changes in such estimates could affect amounts reported in future periods and could be material. Principles of Consolidation ---------------------------- The consolidated financial statements include the accounts of all entities in which the Company has a controlling interest. All material intercompany transactions have been eliminated in consolidation. Investments in which the Company has the ability to exercise significant influence, but not control, are accounted for under the equity method of accounting. Under the equity method of accounting, the Company's investment is (i) increased or decreased to reflect the Company's share of income or loss of the investee and (ii) decreased to reflect any cash distributions or dividends paid by the investee to the Company. All other investments are accounted for using the cost method of accounting. Cash and Cash Equivalents and Restricted Cash -- The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. Generally, excess cash is invested in either (i) reverse repurchase agreements with overnight maturities at large institutional banks or (ii) domestic money market funds that invest in high-quality U.S. dollar denominated securities, including U.S. government securities. The composition of the Company's consolidated cash position at December 31, 2001 is summarized in the table below. 2001 2000 ----------- ----------- Semele Group Inc. and wholly-owned subsidiaries $ 479,224 $ 1,797,445 AFG Investment Trust A 587,819 2,764,972 AFG Investment Trust B 899,569 5,126,793 AFG Investment Trust C 1,716,588 8,848,816 AFG Investment Trust D 1,887,691 9,042,889 MILPI Holdings, LLC 14,037,000 -- AFG International Limited Partnership 346,008 249,450 ----------- ----------- Total $19,953,899 $27,830,365 =========== =========== The availability of cash held by the AFG Trusts, MILPI Holdings, LLC and AFG International Limited Partnership to Semele is subject to terms and conditions over the use and disbursement of cash and other matters contained in the agreements that govern the AFG Trusts, MILPI Holdings, LLC and AFG International. Moreover, the Company has voting control over most matters concerning these entities, including the declaration, authorization, and amount of cash distributions. Restricted cash of $452,370 at December 31, 2001 consists of bank accounts and short-term investments that are primarily subject to withdrawal restrictions per legally binding agreements. Development Costs and Capitalized Interest --- For financial statement purposes, expenditures for the development of real estate are capitalized as incurred. In addition, a portion of the Company's interest cost is capitalized in accordance with Statement of Financial Accounting Standards ("SFAS") No. 34, "Capitalization of Interest Cost." SFAS No. 34 requires the capitalization of interest costs in an amount equal to the amount of interest that could have been avoided if funds invested in assets held for development were otherwise used to repay existing borrowings on assets not held for development. Capitalized interest was $770,689 and $557,419 during the years ended December 31, 2001 and 2000, respectively. Buildings and Equipment for Lease ------------------------------------ Buildings and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the underlying assets, generally 40 years for buildings. Expenditures that extend the life of an asset and that are significant in amount are capitalized and depreciated over the remaining useful life of the asset. The Company's depreciation policy is intended to allocate the cost of equipment over the period during which it produces economic benefit. The principal period of economic benefit is considered to correspond to each asset's primary lease term, which term generally represents the period of greatest revenue potential for each asset. Accordingly, to the extent that an asset is held on primary lease term, the Company depreciates the difference between (i) the cost of the asset and (ii) the estimated residual value of the asset on a straight-line basis over such term. For purposes of this policy, estimated residual values represent estimates of equipment values at the date of the primary lease expiration. To the extent that an asset is held beyond its primary lease term, the Company continues to depreciate the remaining net book value of the asset on a straight-line basis over the asset's remaining economic life. The ultimate realization of residual value for any type of equipment is dependent upon many factors, including EFG's ability to sell and re-lease equipment. Changing market conditions, industry trends, technological advances, and many other events can converge to enhance or detract from asset values at any given time. EFG attempts to monitor these changes in order to identify opportunities which may be advantageous to the Company and which will maximize total cash returns for each asset. Depreciation expense for buildings and equipment was approximately $10.2 million and $10.8 million during the years ended December 31, 2001 and 2000, respectively. Goodwill -------- Goodwill is calculated as the excess of the aggregate purchase price over the fair market value of net identifiable assets acquired in accordance with Accounting Principles Board ("APB") No. 16, "Business Combinations" ("APB No. 16"). In accordance with APB No. 16, the Company allocates the total purchase price to the assets acquired and liabilities assumed based on the respective estimated fair market values at the date of acquisition. Goodwill of approximately $5.8 million was originally recorded in the first quarter of 2001 in conjunction with the acquisition of approximately 83% of the common stock of PLM International Inc. ("PLM"). (See Note 4). This goodwill included approximately $2.0 million of total costs estimated for severance of PLM employees and relocation costs in accordance with management's formal plan to involuntarily terminate employees, which plan was developed in conjunction with the acquisition. During the fourth quarter of 2001, the estimates for severance and relocation costs were reduced by $0.5 million based on actual costs incurred related to these activities and, therefore, total goodwill was reduced by $0.5 million. Goodwill is amortized using the straight-line method over the estimated life of PLM, 7 years. Amortization expense for fiscal 2001 was approximately $765,000. Impairment OF Long-Lived Assets --------------------------------- In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," the Company evaluates long-lived assets, including goodwill, for impairment whenever events or circumstances indicate that the carrying bases of such assets may not be recoverable. Losses for impairment are recognized when the undiscounted cash flows estimated to be realized from a long-lived asset are determined to be less than the carrying basis of the asset. The determination of net realizable value for a given investment requires several considerations, including but not limited to, income expected to be earned from the asset, estimated sales proceeds, and holding costs excluding interest. The Company recorded a write-down of approximately $13.5 million on its long-lived assets during the year ended December 31, 2001. The write-down was comprised of approximately $11.0 related to an impairment in the carrying value of a Boeing 767-300ER aircraft and approximately $2.5 million related to an impairment in the carrying value of real estate held for development and sale. The Company and its subsidiaries periodically review the carrying value of their investments accounted for under the equity method for recoverability. To the extent that declines in carrying value are determined to be other than temporary, the investment balance is written-down to its estimated fair value. During the period February 7, 2001 through December 31, 2001, the Company recorded an impairment of $511,000 on its equity interest in affiliated companies due to a change in market conditions, primarily in the airline industry, after the events of September 11, 2001. Minority Interests ------------------ Certain equity interests in the Company's consolidated subsidiaries are owned by third parties or by affiliates of the Company that are not included in the consolidated financial statements. Such interests are referred to as "minority interests" on the accompanying consolidated financial statements. The Company's minority interests consist primarily of the Class A Beneficiaries investment in the AFG Trusts. The AFG Trusts' income is allocated quarterly first, to eliminate any Participant's negative capital account balance and second, 1% to the managing trustee (a wholly-owned subsidiary), 8.25% to the Special Beneficiary (directly owned by the Company) and 90.75% collectively to the Class A and Class B Beneficiaries (the Company owns the majority of the Class B interests while the majority of the Class A interests are owned by non-affiliated beneficiaries). The latter is allocated proportionately between Class A and Class B Beneficiaries based upon the ratio of cash distributions declared and allocated to the Class A and Class B Beneficiaries during the period. Net losses are allocated quarterly first, to eliminate any positive capital account balance of the AFG Trusts' managing trustee, the Special Beneficiary and the Class B Beneficiaries; second, to eliminate any positive capital account balance of the Class A Beneficiaries; and third, any remainder to the AFG Trusts' managing trustee. In 2001, the remaining minority interests primarily relates to approximately 17% of the outstanding common stock of PLM. Distributions Declared and Payable ----------------------------------- Certain of the Company's consolidated subsidiaries are limited partnerships or business trusts that make periodic or special cash distributions in connection with their business operations. At December 31, 2001 and 2000, distributions declared and payable were $52,063. Generally, cash distributions are paid within 45 days of declaration. Valuation of Stock Options ---------------------------- Stock options are awarded in accordance with the Company's 1994 Executive and Director Stock Option Plan and are accounted for in accordance with APB No. 25, "Accounting for Stock Issued to Employees" and related interpretations. Earnings Per Share ------------------- The Company calculates earnings per share of common stock in accordance with SFAS No. 128, "Earnings Per Share". As a result of the Company's net loss for each of the years ended December 31, 2001 and 2000, the effect of stock options outstanding would be antidilutive and, therefore, excluded from the earnings per share calculation. The consolidated financial statements present basic per share measures of common stock based upon the weighted average number of common shares outstanding during each year. The weighted average number of shares of common stock issued and outstanding for 2001 and 2000 was 2,078,718 and 1,622,887, respectively. The weighted average number of shares of common stock issued and outstanding for 2000 includes 510,000 shares issued on April 20, 2000 for the purchase of Equis II Corporation. These shares are considered issued and outstanding for the entire year as a result of the restatement of the Company's consolidated financial statements to reflect the purchase of Equis II Corporation. On November 2, 2000, the Company obtained shareholder approval to issue 711,462 additional shares of common stock to repay a portion of its purchase price indebtedness for Equis II Corporation. On November 3, 2000, the Company issued such shares, but later rescinded the issuance of 385,000 of the shares effective on November 3, 2000. The number of shares of common stock issued and outstanding at December 31, 2000, therefore, includes 326,462 shares that were issued on November 3, 2000 and whose issuance was not rescinded. The 326,462 shares were considered outstanding from November 3, 2000. The rescinded shares are treated as never issued. Revenue Recognition ------------------- Effective January 1, 2000, the Company adopted the provisions of Securities and Exchange Commission Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"). SAB No. 101 provides guidance for the recognition, presentation and disclosure of revenue in financial statements. The adoption of SAB No. 101 had no impact on the Company's consolidated financial statements. The Company earns rental income from a diversified portfolio of equipment held for lease and from two special-purpose commercial buildings. Rents are due monthly, quarterly or semi-annually and no significant amounts are earned based on factors other than the passage of time. Substantially all of the Company's leases are triple net, non-cancelable leases and are accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases." Rents received prior to their due dates are deferred. Deferred rental income was $583,535 and $77,771 at December 31, 2001 and 2000, respectively. PLM earns revenues in connection with the management of limited partnerships and private placement programs. Equipment acquisition and lease negotiation fees are earned through the purchase and initial lease of equipment, and are recognized as revenue when PLM completes all of the services required to earn the fees, typically when binding commitment agreements are signed. Management fee income is earned by FSI for managing the equipment portfolios and administering investor programs as provided for in various agreements, and is recognized as revenue over time as it is earned. In 2001, Professional Lease Management Fund 1, LLC, PLM Equipment Growth Fund VI and PLM Equipment Growth and Income Fund VII, accounted for approximately 26% of Management Fee Income. Income Taxes ------------ The Company accounts for income taxes in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." Under SFAS No. 109, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using current tax rates, or if applicable, enacted rates for the year in which the differences are expected to reverse. Reclassification --------------- Certain amounts shown in the 2000 financial statements have been reclassified to confirm with 2001 presentation. These reclassifications did not have any effect on total assets, total liabilities, stockholders' equity or net income. New Accounting Pronouncements ------------------------------ Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS No. 141"), requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company believes the adoption of SFAS No. 141 will not have a material impact on its financial statements. Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), was issued in July 2001 and is effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. SFAS No. 142 also includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill, and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is currently evaluating the potential impact of SFAS No. 142 on its consolidated financial statements. Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), was issued in October 2001 and replaces Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of Accounting Principles Board Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business", for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of the carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. Early application is encouraged. The Company believes that the adoption of SFAS No. 144 effective January 1, 2002 will not have a material impact on its financial statements. NOTE 4 - ACQUISITIONS PLM International, Inc. ------------------------ On December 22, 2000, a subsidiary of the Company, MILPI Acquisition Corp. ("MILPI"), entered into a definitive agreement (the "Agreement") with PLM , a publicly traded equipment leasing and asset management company, for the purpose of acquiring up to 100% of the outstanding common stock of PLM for an approximate purchase price of up to $27 million. MILPI is a wholly-owned subsidiary of MILPI Holdings, LLC, which is engaged predominantly in the equipment leasing business. MILPI Holdings, LLC is collectively owned by the AFG Trusts. The AFG Trusts are consolidated subsidiaries of the Company. Pursuant to the cash tender offer, MILPI acquired approximately 83% of PLM's outstanding common stock in February 2001 for a total purchase price of approximately $21.8 million, including cash and cash equivalents of approximately $4.4 million. Under the terms of the Agreement, with the approval of the holders of 50.1% of the outstanding common stock of PLM, MILPI would merge into PLM, with PLM being the surviving entity. Subsequent to December 31, 2001, MILPI completed its acquisition of the remaining 17% of the outstanding PLM common stock, at a purchase price of approximately $4.4 million. After a special meeting of the PLM stockholders, the merger was consummated on February 6, 2002. Concurrent with the completion of the merger, PLM ceased to be publicly traded. The acquisition of the common stock of PLM was accounted for as a business combination in accordance with APB 16. In accordance with APB 16, MILPI allocated the total purchase price to the assets acquired and liabilities assumed based on the estimated fair market values at the date of acquisition. There are no known contingencies or other matters that could materially affect the allocation of the purchase price. The operating results of MILPI Holdings, LLC are included in the accompanying financial statements for the period from February 7, 2001 (date of inception) through December 31, 2001. MILPI Holdings, LLC's consolidated balance sheet, reflecting the above business combination, as of February 7, 2001 was as follows (in thousands of dollars): ASSETS Cash and cash equivalents $ 4,391 Restricted cash and cash equivalents 1,748 Receivables 1,222 Receivables from affiliates 1,344 Equity interest in affiliates 21,334 Assets held for sale 10,250 Other assets 3,406 Goodwill 5,840 ------- Total assets $49,535 ======= LIABILITIES Payables and other liabilities $16,275 Deferred income taxes 8,884 ------- Total liabilities 25,159 Minority interest 2,600 SHAREHOLDERS' EQUITY Common stock ($0.01 par value, 20 shares authorized and outstanding) - Paid-in capital, in excess of par 21,776 ------- Total liabilities, minority interest and shareholders' equity $49,535 ======= PLM's fiscal year end is December 31. The following unaudited pro forma consolidated results of operations for the year ended December 31, 2000 assumes the PLM acquisition occurred as of January 1, 2000. Because PLM was acquired in February of 2001 and consequently operating results were included from February 7, 2001 through December 31, 2001, pro forma information for 2001 was not considered necessary. 2000 ----------- Total revenues $33,979,907 =========== Loss before taxes and discontinued operations $ (366,781) =========== Discontinued operations $ 5,200,000 =========== Net income $ 3,285,760 =========== Earnings per share $ 2.02 =========== These amounts include PLM's actual results in 2000 adjusted for various purchase accounting adjustments including amortization of goodwill and other miscellaneous modifications. The amounts are based upon certain assumptions and estimates, and do not reflect any benefit from economies which might be achieved from combined operations. The pro forma results do not necessarily represent results which would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations. Equis II Corporation --------------------- During the fourth quarter of 1999, the Company issued $19.586 million of promissory notes to acquire an 85% equity interest in Equis II Corporation, a Massachusetts corporation having a controlling interest in the AFG Trusts. During the first quarter of 2000, the Company sought and obtained shareholder approval for the issuance of 510,000 shares of common stock to purchase the remaining 15% equity interest of Equis II. On April 20, 2000, the Company issued 510,000 shares of common stock to purchase the remaining 15% equity interest of Equis II. The market value of the shares issued was $2,358,750 ($4.625 per common share) based upon the closing price of the Company's common stock on April 20, 2000. (See Note 14- Related Party Transactions). Special Beneficiary Interests ------------------------------ In November 1999, the Company purchased from an affiliate certain equity interests, referred to as Special Beneficiary Interests, in the AFG Trusts controlled by Equis II. The Special Beneficiary Interests were purchased from EFG, an affiliate, and consist of an 8.25% non-voting interest in each of the trusts. The Company purchased the Special Beneficiary Interests for approximately $9.7 million through the issuance of a 7% fixed interest, non-recourse note, payable over 10 years. Amortization of principal and payment of interest are required only to the extent of cash distributions paid to the Company as owner of the Special Beneficiary Interests. At both December 31, 2001 and 2000, the note had an outstanding principal balance of approximately $6.63 million. Ariston Corporation -------------------- On August 31, 1998, the Company acquired Ariston Corporation for $12.45 million, consisting of cash of $2 million and a purchase-money note of $10.45 million. Ariston was purchased from Equis Financial Group Limited Partnership ("EFG") and owns equity interests in (i) a real estate limited partnership called AFG International Limited Partnership, which owns two commercial buildings leased to a major educational institution (see Note 5), and (ii) a 98% limited partner interest in Old North Capital Limited Partnership, which owns equity interests in each of the AFG Trusts and 11 other limited partnerships established by EFG's predecessor. The remaining 2% equity interests in Old North Capital, including those of the general partner, are owned by Mr. Engle, Mr. Coyne, and a third party and controlled by Mr. Engle. The acquisition of Ariston was accounted for under the purchase method of accounting and the balance sheets and statements of operations of Ariston were consolidated effective September 1, 1998. The purchase-money note bears interest at an annualized rate of 7%, but requires principal amortization and payment of interest only to the extent of cash distributions paid to the Company in connection with the partnership interests owned by Ariston. The note matures on August 31, 2003 and is recourse to the common stock of Ariston. In October 1998, Ariston declared and paid a cash distribution of $2,020,000 to the Company; however, future cash distributions by Ariston require the consent of EFG until such time that the Company's obligation to EFG under the note is repaid. On January 26, 2000, the Company made principal and interest payments of $2,031,504 and $50,798, respectively, in connection with this note. The outstanding principal balance of this obligation at December 31, 2001 and 2000 was approximately $8.4 million. Ariston's equity interests in the AFG Trusts are eliminated in consolidation. NOTE 5 - EQUIPMENT The following is a summary of all equipment in which the Company has an interest at December 31, 2001. Substantially all of the equipment is leased under triple net lease agreements meaning that the lessees are responsible for maintaining, insuring and operating the equipment in accordance with the terms of the respective lease agreements. Remaining lease term (months), as used below, represents the number of months remaining under contracted lease terms and is presented as a range when more than one lease agreement is contained in the stated equipment category. A remaining lease term equal to zero reflects equipment either held for sale or re-lease or equipment being leased on a month-to-month basis. Remaining Lease Term Equipment Equipment Type (Months) at Cost Location -------------------------------- ----------- ------------- ------------------------------ Aircraft 6-42 $ 79,628,529 Foreign Locomotives 0-27 12,886,831 NE/Warehouse Materials handling 0-29 6,756,546 AR/IA/FL/IL/IN/KY/MA/MI/OH/OR/ . . PA/SC/WI/WV/CA/CO/GA/NC/NJ/TN/ . . Foreign Manufacturing 0-20 9,095,342 IL Construction and mining 0-20 3,744,859 MI/PA/ MV/ FL/IL/NC/PA/Foreign 0-12 3,000,433 NV/CO/GA/IN/KY/MN/OH/PQ/WI/ Computers and peripherals . Foreign/Warehouse Other 19 764,255 WI/NJ ------------ Total equipment cost 115,876,795 Accumulated depreciation (62,491,363) ------------ Equipment, net of accumulated depreciation $ 53,385,432 ============= The equipment is owned by the Company's consolidated affiliates as follows: AFG Investment Trust A $ 2,407,523 AFG Investment Trust B 3,079,339 AFG Investment Trust C 51,726,752 AFG Investment Trust D 58,400,001 MILPI Holdings, LLC 263,180 ------------ Total $115,876,795 ============ The preceding summary of equipment includes leveraged equipment having an original cost of approximately $91.5 million and a net book value of approximately $50.3 million at December 31, 2001. Indebtedness associated with the equipment is summarized in Note 12. Generally, indebtedness on leveraged equipment will be amortized by the rental streams derived from the corresponding lease contracts, although certain aircraft have balloon debt obligations that will not be amortized by scheduled lease payments. Such obligations may result in future refinancings to extend the repayment periods or the sale of the associated assets to retire the indebtedness. Generally, the costs associated with maintaining, insuring and operating the equipment are incurred by the respective lessees pursuant to terms specified in their individual lease agreements. However, the Company has purchased supplemental insurance coverage for its aircraft to reduce the economic risk arising from certain losses. Specifically, the Company is insured under supplemental policies for "Aircraft Hull Total Loss Only" and "Aircraft Hull Total Loss Only War and Other Perils". As equipment is sold to third parties, or otherwise disposed of, the Company recognizes a gain or loss to the difference between the net book value of the equipment at the time of sale or disposition and the proceeds realized upon sale or disposition. The ultimate realization of estimated residual value in the equipment will be dependent upon, among other things, the Company's ability to maximize proceeds from selling or re-leasing the equipment upon the expiration of the primary lease terms. At December 31 , 2001, the cost and net book value of equipment held for sale or re-lease was approximately $11.2 million and $2.8 million, respectively. Equipment rental revenue from individual lessees which accounted for 10% or more of the lease revenue during the years ended December 31, 2001 and 2000 is as follows: 2001 2000 ---------- ---------- Scandinavian Airlines System $6,653,333 $7,154,272 Future minimum rental payments in connection with all equipment are due as follows: For the year ending December 31, 2002 $10,193,499 2003 7,423,011 2004 699,673 2005 230,360 ----------- Total $18,546,543 =========== During the year ended December 31, 2001, the Company recorded a write-down of equipment, representing an impairment to the carrying value of the Company's interest in a Boeing 767-300ER. The resulting charge of approximately $11.0 million was based on a comparison of estimated fair value and carrying value of the Company's interest in the aircraft. NOTE 6 - REAL ESTATE HELD FOR DEVELOPMENT AND SALE The Company owns approximately 270 acres of undeveloped land north of Malibu, California called "Rancho Malibu" or the "Malibu property". Prior to May 10, 2000, the Company had owned a 98.6% interest in the property, with the remaining 1.4% interest owned by an affiliate, Legend Properties, Inc. On May 10, 2000, the Company purchased Legend's ownership interest for nominal consideration and a mutual general release. Approximately 40 acres of the property are zoned for development of a 46-unit residential community. The remainder is divided as follows: (i) 167 acres are dedicated to a public agency, (ii) 47 acres are deed restricted within privately-owned lots, and (iii) 20 acres are preserved as private open space. At December 31, 2001 and 2000, the Company's basis in Rancho Malibu was approximately $11.3 million and $11.4 million, respectively. During the year ended December 31, 2001, the Company capitalized $2.4 million of costs, including $770,689 for interest. During the year ended December 31, 2000, the Company capitalized approximately $1.3 million of development costs, including $557,419 for interest. As of December 31, 2001, the Company has obtained all required transfer development credits and has began development of the property. During the fourth quarter of 2001, the Company recorded an impairment of approximately $2.5 million on the Malibu property. The amount of the write-down is equivalent to the difference between the estimated fair value of the property supported by an appraisal less cost to sell and its unadjusted carrying value. NOTE 7 - LAND AND BUILDINGS The Company has ownership interests in two commercial buildings that are leased to a major university. The buildings are used in connection with the university's international education programs and include both classroom and dormitory space. Buildings 2001 2000 -------------------------------------- ------------ ------------ Washington, D.C. $ 4,954,739 $ 4,954,739 Sydney, Australia 6,978,258 6,978,257 ------------ ------------ Total cost 11,932,997 11,932,996 Accumulated depreciation (1,884,896) (1,530,263) ------------ ------------ Buildings, net $10,048,101 $10,402,733 ============ ============ Land 2001 2000 --------------------------------------- ------------ ------------ Washington, D.C. $ 1,729,000 $ 1,729,000 Sydney, Australia 200,000 200,000 ------------ ------------ Land, total $ 1,929,000 $ 1,929,000 ============ ============ Indebtedness associated with the land and buildings is summarized in Note 12. Future minimum rental payments in connection with the leases for both buildings are due as follows: For the year ending December 31, 2002 $1,150,504 2003 786,504 2004 786,504 2005 786,504 2006 942,396 Thereafter 2,827,188 ---------- Total $7,279,600 ========== NOTE 8 - INTERESTS IN AFFILIATED COMPANIES The Company has equity interests in the following affiliates: 2001 2000 ----------- ---------- Equity Interests in Partnerships $ 3,373,933 $2,934,186 Equity Interest in Equipment Growth Funds 20,947,928 -- ----------- ---------- Total $24,321,861 $2,934,186 =========== ========== Equity Interests in Partnerships ---------------------------------- In 1998, the Company acquired Ariston Corporation which had an ownership interest in 11 limited partnerships engaged primarily in the equipment leasing business. In addition to the partnership investments, Ariston has an investment in each of the four AFG Trusts which is eliminated in consolidation. Ariston's percentage ownership for each investment varies from less than 1% to 16%. The partnerships are controlled by EFG, an affiliated entity controlled by Mr. Engle. Total equity income recognized was approximately $440,000 during 2001. Equity Interests in Equipment Growth Funds --- As compensation for organizing various partnership investment programs, PLM was granted an interest (between 1% and 5%) in the earnings and cash distributions of the individual programs, in which PLM Financial Services, Inc. ("FSI") a wholly-owned subsidiary of PLM, is the General Partner. PLM records as a partnership interest its equity interest in the earnings of the partnerships, after adjusting such earnings to reflect the effect of special allocations of the program's gross income allowed under the respective partnership agreements. FSI is the manager of 10 investment programs ("EGF Programs"). Distributions of the programs are allocated as follows: 99% to the limited partners and 1% to the General Partner in PLM Equipment Growth Fund (EGF) I and PLM Passive Income Investors 1988-II; 95% to the limited partners and 5% to the General Partner in EGF's II, III, IV, V, VI, and PLM Equipment Growth & Income Fund VII (EGF VII); and 85% to the members and 15% to the manager in Fund I. PLM's interest in the cash distributions of Fund I will increase to 25% after the investors have received distributions equal to their invested capital. Net income is allocated to the General Partner subject to certain allocation provisions. FSI also receives a management fee on a per railcar basis at a fixed rate each month, plus an incentive management fee equal to 15% of "Net Earnings" over $750 per car per quarter from Covered Hopper Program 1979-1. FSI is entitled to reimbursement from the equipment growth funds for providing certain administrative services. Most of the investment program agreements contain provisions for special allocations of the EGF Programs' gross income. The Company's total equity income in the EGF Programs for the period February 7, 2001 (date of purchase by MILPI) through December 31, 2001 was approximately $1.7 million. While none of the partners or members, including the General Partner and manager, are liable for program borrowings, and while the General Partner or manager maintains insurance against liability for bodily injury, death, and property damage for which an investment program may be liable, the General Partner or manager may be contingently liable for nondebt claims against the program that exceed asset values. Summarized Financial Information for Equity Interests in Partnerships and --- Equipment Growth Funds ----------------------- The summarized combined financial information for the Company's equity interests in Partnerships and EGF Programs as of and for the years ended December 31, 2001 and 2000 is as follows. The Company recorded equity interest in the EGF Programs for the period February 7, 2001 (date of inception) through December 31, 2001. 2001 2000 -------- ------- Total Assets $265,526 $40,312 -------- ------- Total Liabilities 77,449 9,973 -------- ------- Partners' Equity $188,077 $30,339 ======== ======= Total Revenues $ 96,712 $ 6,797 Total Expenses 80,376 6,416 -------- ------- Net Income $ 16,336 $ 381 ======== ======= The Company and its subsidiaries periodically review the carrying value of their investments accounted for under the equity method for recoverability. To the extent that declines in carrying value are determined to bed other than temporary, the investment balance is written-down to its fair value. During the year ended December 31, 2001, the Company recorded an impairment of $511,000 on its equity interest in EGF Programs due to a change in market conditions, primarily in the airline industry, after the events of September 11, 2001. NOTE 9 - INTERESTS IN NON-AFFILIATED COMPANIES The Company has equity interests in the following non-affiliated companies: 2001 2000 ----------- ----------- Interest in Mountain Resort Holdings LLC $ 7,327,997 $ 7,278,091 Advances to and Interest in Mountain Springs Resort LLC 777,005 1,008,477 Interest in EFG/Kettle Development LLC 7,740,101 8,527,543 Interest in other 626,387 603,164 ----------- ----------- Total $16,471,490 $17,417,275 =========== =========== Mountain Resort Holdings LLC and Mountain Springs Resort LLC - Winter Resorts -- On May 1, 1999, the Company and the AFG Trusts formed a joint venture, EFG Kirkwood LLC ("EFG Kirkwood") which is consolidated in the financial statements. The joint venture was formed to acquire preferred and common stock in Kirkwood Associates, Inc. ("KAI"). On April 30, 2000, KAI ownership interests in certain assets and substantially all of its liabilities were transferred to Mountain Resort Holdings LLC ("Mountain Resort"). On May 1, 2000, EFG Kirkwood exchanged its interests in KAI for membership interests in Mountain Resort, thereby obtaining approximately 38% of the membership interests in Mountain Resort. Mountain Resort, through four wholly-owned subsidiaries, owns and operates Kirkwood Mountain Resort, a ski resort located in northern California, a public utility that services the local community, and land that is held for residential and commercial development. On May 1, 2000, EFG Kirkwood acquired 50% of the membership interests in Mountain Springs Resorts LLC ("Mountain Springs"). Mountain Springs, through a wholly-owned subsidiary, owns 80% of the common member interests and 100% of the Class B Preferred members interest in an entity that owns Purgatory Ski Resort in Durango, Colorado. The Company's ownership interest in Mountain Resort and Mountain Springs had an original cost of approximately $7.3 million and $3.4 million, respectively, including acquisition fees of $64,865 and $34,000, respectively, paid to EFG by the AFG Trusts. The Company's ownership interest in Mountain Resort and Mountain Springs is accounted for using the equity method. The Company recorded income of $28,979 and a loss of approximately $2.5 million, net of amortization, from its interest in Mountain Resort and Mountain Springs for the years ended December 31, 2001 and 2000, respectively. The table below provides comparative summarized financial information for Mountain Resort and Mountain Springs for the years ended December 31, 2001 and 2000. Mountain Resort has an April 30th fiscal year end and the operating results shown below have been conformed to the twelve months ended December 31, 2001 and 2000, respectively. Mountain Springs has a May 31st fiscal year end. The operating results shown below have been conformed to the twelve months ended December 31, 2001. The Company purchased its interest in Mountain Springs on May 1, 2000 and as such the operating results below have been conformed to reflect the eight months ended December 31, 2000. 2001 2000 ------------ ------------ Mountain Resort Total assets $51,034,148 $49,378,374 Total liabilities 26,214,327 23,800,969 ------------ ------------ Total equity $24,819,821 $25,577,405 ============ ============ Total revenues $30,195,000 $28,338,000 Total expenses 30,034,000 26,914,000 ------------ ------------ Net income $ 161,000 $ 1,424,000 ============ ============ Mountain Springs Total assets $29,781,762 $28,767,966 Total liabilities and minority interests 28,227,749 28,789,517 ------------ ------------ Total equity (deficit) $ 1,554,013 $ (21,551) ============ ============ Total revenues $15,358,818 $ 5,343,275 Total expenses 16,025,764 10,129,689 ------------ ------------ Net loss $ (666,946) $(4,786,414) ============ ============ Interest in EFG/Kettle Development LLC- Residential Community --- On March 1, 1999, the Company and two of the AFG Trusts formed EFG/Kettle Development LLC ("Kettle Valley"), a Delaware limited liability company. Kettle Valley was formed for the purpose of acquiring a 49.9% indirect ownership interest in a real estate development project in Kelowna, British Columbia, Canada. The real estate development, which is being developed by Kettle Valley Development Limited Partnership, consists of approximately 270 acres of land under development. The development is zoned for 1,120 residential units in addition to commercial space. To date, 108 residential units have been constructed and sold and 10 additional units are under construction. A subsidiary of the Company is the sole general partner of Kettle Valley Development Limited Partnership. An unaffiliated third party has retained the remaining 50.1% indirect ownership in the development. The Company's interest in Kettle Valley had an original cost of $8.4 million which was funded with cash of $6.2 million and a non-recourse installment note of approximately $2.6 million. The Company has paid the note in full as of December 31, 2001. The cost of this ownership interest exceeded the Company's equity interest in the underlying net assets of Kettle Valley by approximately $1,300,000. This difference is being amortized on a straight-line basis over the estimated project development period of 10 years. Amortization expense was $130,000 for each of the years ended December 31, 2001 and 2000. This amount is included as a component of equity loss in non-affiliated companies on the accompanying consolidated statement of operations. The Company accounts for this ownership interest using the equity method of accounting. During the years ended December 31, 2001 and 2000, the Company decreased its interest in Kettle Valley by $657,442 and $189,146, respectively, to reflect its share of the development's net loss. The table below provides comparative summarized financial information for Kettle Valley. Kettle Valley has a January 31 fiscal year end and the Company Trust has a December 31 fiscal year end. The operating results of Kettle Valley shown below have been conformed to the year ended December 31, 2001 and 2000, respectively. 2001 2000 ------------ ------------ Total assets $14,873,992 $16,340,603 Total liabilities 2,726,159 2,577,650 ------------ ------------ Total equity $12,147,833 $13,762,954 ============ ============ Total revenues $ 4,596,837 $ 6,250,711 Total expenses 5,967,703 7,118,553 ------------ ------------ Net loss $(1,370,866) $ (867,842) ============ ============ NOTE 10 - OTHER ASSETS At December 31, other assets consisted of the following: 2001 2000 ---------- ---------- Deferred financing costs, net $1,065,447 $1,174,502 Cash surrender value of life insurance policy 2,343,000 -- Escrow deposit -- 1,200,000 Other 239,723 182,226 ---------- ---------- Total $3,648,170 $2,556,728 ========== ========== The Company has capitalized certain costs incurred in connection with long-term financings and lease contracts. These costs are amortized over the life of the respective agreement on a straight-line basis. Amortization expense resulting from deferred financing and leasing costs was approximately $24,000 and $61,000 for the years ended December 31, 2001 and 2000. In December 2000, the Company deposited approximately $1.2 million into an escrow account for the acquisition of PLM. On February 7, 2001, the Company acquired approximately 83% of PLM and the balance held in escrow was applied to the purchase price of PLM. PLM has life insurance policies on certain current and former employees which had a $2.3 million cash surrender value as of December 31, 2001. (See Note 4). NOTE 11 - OTHER LIABILITIES Other liabilities consists primarily of the $3.0 million received by two of the AFG Trusts in 1999 in connection with the Kettle Valley transaction described in Note 9. Pursuant to the terms of that transaction, the two trusts sold a non-recourse residual interest in a Boeing 767-300 aircraft leased by Scandinavian Airlines System ("SAS"). Future payments against the residual interest will be required to the extent that aggregate cash proceeds realized from the aircraft exceed certain preferred interests retained by the two trusts, but not more than approximately $3.0 million. Recognition of income from this transaction has been deferred until the aircraft is disposed of. The SAS lease agreement is scheduled to expire on December 29, 2003. NOTE 12 - NOTES PAYABLE TO THIRD PARTIES At December 31, 2001, the Company had aggregate indebtedness to third parties of approximately $52.9 million, including two note obligations totaling approximately $5.6 million associated with the Company's two commercial buildings. One loan, with a balance of approximately $5.2 million, matures on June 1, 2010 and carries a fixed annual interest rate of 7.86% and the other loan, with a balance of $427,460, matures on December 31, 2002 and carries a variable annual interest rate equal to prime plus 1.50% (6.25% at December 31, 2001). The remainder of the Company's indebtedness to third parties is non-recourse installment debt pertaining to equipment held on operating leases. Generally, this debt is secured by the equipment and will be fully amortized over the terms of the lease agreements corresponding to each asset. However, in certain instances involving aircraft, retirement of the debt obligations is partially dependent upon the residual value of the equipment. Interest rates on equipment debt obligations range from 6.76% to 9.176% at December 31, 2001. The carrying amount of the Company's notes payable to third parties approximates fair value at December 31, 2001. In April 2001, PLM entered into a $15.0 million warehouse facility, which is shared with PLM Equipment Growth Fund VI, PLM Equipment Growth & Income Fund

VII, and Fund I, LLC, that allows PLM to purchase equipment prior to its designation to a specific program. Borrowings under this facility by the other eligible borrowers reduce the amount available to be borrowed by PLM. All borrowings under this facility are guaranteed by PLM. This facility provides for financing up to 100% of the cost of the asset. Interest accrues at prime or LIBOR plus 200 basis points, at the option of PLM. Borrowings under this facility may be outstanding up to 270 days. This facility was amended in December 2001 to lower the amount available to be borrowed to $10.0 million. The expiration of this facility, which was scheduled to expire in April 2002, has been extended to July 2002. All borrowings must be repaid upon the expiration of this facility. PLM believes it will be able to extend the facility with similar terms upon the facility's extended expiration. As of December 31, 2001, PLM had no borrowings outstanding under this facility and there were no borrowings outstanding under this facility by any other eligible borrower. The annual maturities of the Company's indebtedness to third parties is summarized below: BUILDINGS EQUIPMENT TOTAL ---------- ----------- ----------- For the year ending December 31, 2002 $ 790,432 $10,216,447 $11,006,879 2003 423,815 36,180,955 36,604,770 2004 458,352 660,165 1,118,517 2005 495,707 235,565 731,272 2006 664,151 -- 664,151 Thereafter 2,792,707 -- 2,792,707 --------- ---------- ----------- Total $5,625,164 $47,293,132 $52,918,296 ========== ========== =========== The Company's indebtedness to third parties is divided among the Company's consolidated affiliates as follows: AFG Investment Trust A $ 420,027 AFG Investment Trust B 420,027 AFG Investment Trust C 22,382,964 AFG Investment Trust D 24,070,114 Old North Capital Limited Partnership 5,197,703 AFG International Limited Partnership 427,461 ----------- Total $52,918,296 =========== NOTE 13 - CONTINGENT LIABILITIES On March 8, 2000, the AFG Trusts entered into a guarantee agreement whereby the AFG Trusts, jointly and severally, guaranteed the payment obligations under a master lease agreement between Echelon Commercial LLC, a newly-formed Delaware company that is controlled by Gary D. Engle, President and Chief Executive Officer of EFG, as lessee, and Heller Affordable Housing of Florida, Inc., and two other entities, as lessor ("Heller"). The lease payments of Echelon Commercial LLC to Heller are supported by lease payments to Echelon Commercial LLC from various sub-lessees who are parties to commercial and residential lease agreements under the master lease agreement. The guarantee of lease payments by the AFG Trusts was capped at a maximum of $34,500,000, excluding expenses that could result in the event that Echelon Commercial LLC experienced a default under the terms of the master lease agreement. As a result of principal reductions on the average guarantee amount, an amended and restated agreement was entered into in December 2000 that reduced the guaranteed amount among the AFG Trusts. During the year ended December 31, 2001, the requirements of the guarantee agreement were met and the AFG Trusts received payment for all outstanding amounts totaling $640,000, including $249,620 of income related to the guarantee agreement recognized during the year ended December 31, 2001. During the year ended December 31, 2000, the AFG Trusts received an upfront cash fee of $500,000 and recognized a total of $859,180 in income related to this guarantee fee. The guarantee fee is reflected as Other Income on the accompanying Statement of Operations. The AFG Trusts have no further obligations under the guarantee agreement. As of December 31, 2001, PLM had guaranteed certain obligations up to $0.4 million of a Canadian railcar repair facility, in which PLM has a 10% ownership interest. PLM entered into employment agreements with five individuals due to the PLM's acquisition by the AFG Trusts which require PLM to pay severance to these individuals up to two years of their base salaries and benefits if their employment is terminated after a change in control as defined in the employment agreement. As of December 31, 2001, the total future contingent liability for these payments was $0.2 million. In March 2001, the Internal Revenue Service notified PLM that it would conduct an audit of certain Forms 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons. The audit relates to payments to unrelated foreign entities made by two partnerships in which PLM formerly held interests as the 100% direct and indirect owner. One partnership's audit relates to Forms 1042 for the years 1997, 1998 and 1999, while the other partnership's audit relates to Forms 1042 for the years 1998 and 1999. The audits remain pending, with the Internal Revenue Service presently reviewing documents and information provided to it by PLM. The Internal Revenue Service has not proposed any adjustments to the Forms 1042, and management believes that the withholding tax returns will be accepted as filed. If the withholding tax returns are not accepted as filed by the Internal Revenue Service, the recipient foreign entities are legally obligated to indemnify PLM for any losses. If the withholding tax returns are not accepted as filed by the Internal Revenue Service, and the recipient foreign entities do not honor the indemnification, the Company's financial condition, results of operations, and liquidity would be materially impacted. NOTE 14 - RELATED PARTY TRANSACTIONS Administrative Services ----------------------- A number of the Company's administrative functions are performed by EFG, pursuant to the terms of a services agreement dated May

7, 1997. EFG is controlled by Gary D. Engle, the Company's Chairman and Chief Executive Officer. Administrative expenses consist primarily of professional and clerical salaries and certain rental expenses for which EFG is reimbursed at actual cost. The Company incurred total administrative costs of $167,614 and $153,474 during the years ended December 31, 2001 and 2000, respectively. EFG also provides asset management and other services to the AFG Trusts and is compensated for those services based upon the nature of the underlying transactions. For equipment reinvestment acquisition services, EFG is paid an acquisition fee equal to 1% of base purchase price. For management services, EFG is paid a management fee equal to 5% of lease revenues earned from operating leases and 2% of lease revenues earned from full-payout leases. Operating expenses incurred by the Company and its subsidiaries that were paid to EFG during the years ended December 31, 2001 and 2000 are as follows: 2001 2000 ---------- ---------- Acquisition fees $ -- $ 39,210 Equipment management fees 992,318 800,172 Administrative charges 582,401 662,087 Reimbursable operating expenses due to third parties 2,845,853 1,436,349 ---------- ---------- Total $4,420,572 $2,937,818 ========== ========== Acquisition fees are capitalized to the cost of the equipment acquired. The AFG Trusts are limited-life entities having the following scheduled dissolution dates: AFG Investment Trust A - December 31, 2003 (*) AFG Investment Trust B - December 31, 2003 (*) AFG Investment Trust C - December 31, 2004 AFG Investment Trust D - December 21, 2006 (*) In December 2001, each of the Trusts filed a Current Report on Form 8-K with the SEC, stating that the managing trustee of the Trusts had resolved to cause the Trust to dispose of its assets prior to December 31, 2003. Upon consummation of the sale of its assets, the Trusts will be dissolved and the proceeds thereof will be applied and distributed in accordance with the terms of the Trusts' operating agreements. Acquisition of Equis II Corporation and Related Financing --- During the fourth quarter of 1999, the Company issued $19.586 million of promissory notes to acquire an 85% equity interest in Equis II Corporation, a Massachusetts corporation having a controlling interest in the AFG Trusts. The trusts were organized between 1992 and 1995 by the predecessor of EFG. During the first quarter of 2000, the Company obtained shareholder approval for the issuance of 510,000 shares of common stock to purchase the remaining 15% equity interest of Equis II. On April 20, 2000, the Company issued 510,000 shares of common stock to purchase the remaining 15% equity interest in Equis II. The market value of the shares issued was approximately $2.4 million ($4.625 per common share) based upon the closing price of the Company's common stock on April 20, 2000. Prior to the Company's acquisition of Equis II Corporation, Equis II was owned by Mr. Engle, certain trusts established for the benefit of Mr. Engle's children, and by James A. Coyne, the Company's President and Chief Operating Officer. Equis II commenced operations on July 17, 1997. The Company, through its ownership of Equis II, owns Class B interests in each of the AFG Trust: AFG Investment Trust A (822,863 interests), AFG Investment Trust B (997,373 interests), AFG Investment Trust C (3,019,220 interests), and AFG Investment Trust D (3,140,683 interests). Through its ownership of the Class B interests, Equis II controls approximately 62% of the voting interests in each of the trusts. However, on certain voting matters, principally those involving transactions with related parties, Equis II is obligated to vote its Class B interests consistent with the majority of unaffiliated investors. In addition to the Class B interests, Equis II owns AFG ASIT Corporation, the managing trustee of the AFG Trusts. AFG ASIT Corporation has a 1% interest in the AFG Trusts and, as managing trustee, has significant influence over their operations. The $19.586 million of promissory notes issued by the Company to acquire Equis II Corporation is divided into two groups of notes. The first group totals $14.6 million and matures on October 31, 2005. These notes bear interest at a face rate of 7% annually, but provide for quarterly interest payments based upon a pay-rate of 3%. The remaining portion, or 4%, is deferred until the maturity date. The Company paid principal and interest of approximately $1.59 million and $99,600, respectively, by issuing 326,462 shares of common stock on November 3, 2000, as permitted by authorization of the Company's shareholders obtained on November 2, 2000. The next installment on the notes was scheduled for January 2002. In December 2001, the notes were amended. As of December 31, 2001, the annual maturities of the notes are scheduled to be paid as follows: 2002 $ 4,000,000 2003 6,002,000 2004 -- 2005 3,000,000 ----------- Total $13,002,000 =========== The second group of promissory notes issued by the Company to acquire Equis II total $4.986 million and have payment terms identical to certain debt obligations of Mr. Engle and Mr. Coyne to the Company by virtue of the acquisition of Equis II and Ariston Corporation. At the time of the Company's initial 85% investment in Equis II, Mr. Engle and Mr. Coyne had debt obligations to (i) Equis II Corporation totaling approximately $1.9 million and (ii) a subsidiary of Ariston, ONC totaling approximately $3.1 million. As a result of the Equis II transaction, the Company became the beneficiary on notes due from Mr. Engle and Mr. Coyne and the obligor on new notes, having identical terms and for equal amounts, due to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, and to Mr. Coyne. On January 26, 2000, Mr. Engle and Mr. Coyne made principal and interest payments of approximately $2.1 million to ONC in partial repayment of their respective obligations. On the same date, the Company made principal and interest payments to Mr. Engle (and certain family trusts/corporation) and to Mr. Coyne totaling approximately $2.1 million in partial repayment of the Company's obligations to them. The Company intends to make future payments with respect to these notes using the proceeds from payments made by Mr. Engle and Mr. Coyne to Equis II and ONC. The terms of the notes provide that the Company will be relieved of its obligations to make payments during the period of any default by either Mr. Engle or Mr. Coyne in remitting payments with respect to their obligations to Equis II or ONC. In connection with the Equis II transaction, Mr. Engle and Mr. Coyne forfeited, and the Company canceled, the stock options awarded to each of them to purchase 40,000 shares of common stock at an exercise price of $9.25 per share that were granted on December 30, 1997. In addition, Mr. Engle retained voting control of the Class B interests and the common stock of AFG ASIT Corporation through a voting trust agreement, until the earlier of the Company's repayment of the $19.586 million of promissory notes issued to acquire Equis II or Mr. Engle's express written agreement to terminate the voting trust. As a result of the termination of the voting trust in November 2000 and due to the control position of Mr. Engle over the Company and Equis II Corporation, the Company obtained full ownership and control of Equis II and control of four Delaware business trusts. As such, the acquisition of Equis II has been accounted for as a combination of businesses under common control, similar to a pooling of interests. Accordingly, the Company's consolidated financial statements as of December 31, 2001 and 2000 and for the years then ended include the consolidated financial statements of Equis II Corporation. Special Beneficiary Interests ------------------------------ In November 1999, the Company purchased from an affiliate certain equity interests in the AFG Trusts, referred to as Special Beneficiary Interests. The Special Beneficiary Interests were purchased from EFG, an affiliate, and consist of an 8.25% non-voting interest in each of the trusts. The Company purchased the interests for approximately $9.7 million under the terms of a non-recourse note, payable over 10 years and bearing interest at 7% per year. Amortization of principal and payment of interest are required only to the extent of cash distributions paid to the Company as owner of the Special Beneficiary Interests. To date, the Company has received cash distributions of approximately $3.2 million from the Special Beneficiary Interests and has paid EFG, an affiliate, an equal amount consisting of principal and accrued interest. At December 31, 2001 and 2000, the non-recourse note payable had an outstanding principal balance of approximately $6.63 million. The Special Beneficiary Interests have been eliminated in consolidation. Due From Affiliates -------------------- Amounts due from affiliates are summarized below: 2001 2000 ---------- ---------- Loan obligations due from Mr. Engle and Mr. Coyne $2,937,205 $2,937,205 Interest receivable on loan obligations due from Mr. Engle and Mr. Coyne 518,766 257,029 Rents receivable from EFG escrow (1) 217,527 1,007,073 Management fees receivable from PLM Equipment Growth Funds 951,000 -- ---------- ---------- Total $4,624,498 $4,201,307 ========== ========== (1) All rents and proceeds from the sale of equipment by the AFG Trusts are paid directly to either EFG or to a lender. EFG temporarily deposits collected funds in a separate interest-bearing escrow account and remits such amounts to the Company or its affiliates on a monthly basis. Indebtedness and Other Obligations to Affiliates -- A summary of the Company's indebtedness and other obligations to affiliates appears below. 2001 2000 ----------- ----------- Principal balance of indebtedness to affiliates $34,949,392 $34,949,392 Accrued interest due to affiliates 3,789,586 1,457,597 Other (1) 669,071 202,579 ----------- ----------- Total $39,408,049 $36,609,568 =========== =========== (1) Consists primarily of amounts due to EFG for administrative services and operating expenses. Principal Balance of Indebtedness to Affiliates --- The principal balance of the Company's indebtedness to affiliates at December DUE WITHIN ONE YEAR OR BALANCE AT ON DEMAND AS OF BALANCE AT DECEMBER 31, DECEMBER 31, DECEMBER 31, 2001 2001 2000 ------------- --------------- ------------- Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from the purchase of Equis II Corporation, 7% annual interest; maturing in 2005. (1) (3) $ 8,624,660 $ 2,653,334 $ 8,624,660 Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7% annual interest; maturing in 2005. (1) (3) 4,377,340 1,346,666 4,377,340 ------------- --------------- ------------- Sub-total $ 13,002,000 $ 4,000,000 $ 13,002,000 ------------- --------------- ------------- Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from the purchase of Equis II Corporation; 11.5% annual interest; due on demand. (1) (2) 687,349 687,349 687,349 Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 11.5% annual interest; due on demand. (1) (2) 348,856 348,856 348,856 ------------- --------------- ------------- Sub-total $ 1,036,205

$ 1,036,205 $ 1,036,205 -------------- ---------------- -------------- Notes payable to Mr. Engle, or family trusts/corporation controlled by Mr. Engle, resulting from purchase of Equis II Corporation, 7.5% annual interest; maturing on Aug. 8, 2007. (1) (2) 1,260,997 -- 1,260,997 Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7.5% annual interest; maturing on Aug. 8, 2007. (1) (2) 640,003 -- 640,003 -------------- ---------------- -------------- Sub-total $ 1,901,000 $ -- $ 1,901,000 -------------- ---------------- -------------- Note payable to EFG for purchase of Ariston Corporation; 7% annual interest; maturing on Aug. 31, 2003. $ 8,418,496 -- $ 8,418,496 Non-recourse note payable to EFG for purchase of Special Beneficiary Interests; 7% annual interest; maturing on Nov. 18, 2009. $ 6,634,544 -- $ 6,634,544 Notes payable to affiliates for 1997 asset purchase; 10% annual interest; maturing on Apr. 1, 2003. (4) $ 3,957,147 -- $ 3,957,147 -------------- ---------------- -------------- Total $ 34,949,392 $ 5,036,205 $ 34,949,392 ============== ================ ============== 31, 2001 and 2000 consists of the obligations listed below. (1) The promissory notes issued to the former Equis II stockholders are general obligations of the Company secured by a pledge to the former Equis II stockholders of the shares of Equis II owned by the Company. (2) These amounts are equal in aggregate to debt obligations of Mr. Engle and Mr. Coyne to Equis II Corporation and ONC included in amounts due from affiliates on the accompanying consolidated balance sheets. (3) The notes to Mr. Engle (and related family trusts/corporation) become immediately due and payable if Mr. Engle ceases to be the Chief Executive Officer and a Director of the Company, except if he resigns voluntarily or is terminated for cause. Similarly, the notes to Mr. Coyne become immediately due and payable if Mr. Coyne ceases to be the President and a Director of the Company, except if he resigns voluntarily or is terminated for cause. (4) In 1997, the Company borrowed $4,419,500 from certain affiliates controlled by Mr. Engle, including $462,354 from AFG Investment Trust A, a subsidiary. During each of the years ended December 31, 2001 and 2000, the Company incurred total interest expense of $441,950 in connection with this indebtedness. The obligation to AFG Investment Trust A of $462,354 and related annual interest expense of $46,235 has been eliminated in consolidation as of December 31, 2001 and 2000. Common Stock Owned by Affiliates ---------------------------------- In connection with a transaction in 1997, the Company issued 198,700 shares of common stock to certain affiliates controlled by Mr. Engle, including 20,969 shares that are owned indirectly by AFG Investment Trust A. The shares so owned by AFG Investment Trust A have been eliminated in consolidation. Guarantee of Affiliate's Lease Obligations -- On March 8, 2000, the AFG Trusts became guarantors of the lease payment obligations of Echelon Commercial LLC under a certain master lease agreement. Echelon Commercial LLC is an affiliate of the Company and the AFG Trusts and is controlled by Gary D. Engle. As of December 31, 2001, the AFG Trusts have no further obligations under the guarantee agreement. (See Note 13). NOTE 15 - DEFERRED STOCK COMPENSATION In 1997, the Company established a deferred compensation plan (the "Plan") for Mr. Engle and Mr. Coyne. Pursuant to terms of the plan, both Mr. Engle and Mr. Coyne receive shares of the Company's common stock instead of cash compensation. The number of shares allocated to them is determined at the end of each month by dividing the average closing price of the Company's stock for the last ten trading days of the month into the dollar amount that otherwise would have been paid to them as cash compensation for the month. The shares are fully vested and are held in a rabbi trust established for the benefit of Mr. Engle and Mr. Coyne, but are not expected to be transferred to them until termination of their employment. The Company treats the issuance of shares under the plan as compensation and, therefore, recognizes an expense equal to the amount of cash compensation that would have been paid to each individual. Total compensation expense related to the Plan of $240,000 was recorded in each of the years ended December 31 2001 and 2000. These expenses are included in general and administrative expenses on the accompanying consolidated statements of operations. During fiscal 2000, the Company issued 52,468 shares under the Plan. Mr. Engle and Mr. Coyne waived the Company's requirement to fund the Plan for the year ended December 31, 2001 and as such, no shares were issued in fiscal 2001. NOTE 16 - STOCK OPTION PLANS The Company has three stock option plans: 1. The Semele Grant Option Program- This stock option plan consists of an --------------------------------- Executive Option Grant Program and a Director Option Grant Program. Under the plan, the Company's Board of Directors has the authority to issue stock options up to 100,000 shares of Semele's common stock. In addition, the Company's Board has the authority to establish the terms and conditions of stock options awarded under the executive program, including, but not limited to, selecting the recipients, the number of shares awarded, and the exercise price. Directors are not eligible to receive stock options under the executive option program and executives are not eligible to receive stock options under the director option program. At December 31, 2001 and 2000, there were no stock options outstanding under the executive option program and 15,000 stock options were outstanding under the director option program, all of which were fully vested. No stock options were granted during fiscal 2001 and 2000. 2. The PLM Non-Qualified Director and Employee Option Programs- These -- Programs have reserved up to 780,000 shares of PLM common stock for key employees and directors. Under these Programs, the price of the shares issued under an option must be at least 85% of the fair market value of the PLM common stock at the date of grant. Vesting of the options granted under these plans occurs in three equal installments of 33.3% per year, initiating from the date of grant. As of December 31, 2000, grants can no longer be made under either program.** 3. The 2000 Management Stock Compensation Plan-The Plan reserved 70,000 -- shares for which options may be granted under the 2000 Director's Plan, In February 2000, each non-employee director of PLM was granted an option to purchase 8,000 shares of common stock under this Plan. As of December 31, 2001, the 2000 Management Stock Compensation Plan continued to be in effect. There were no outstanding options under either of these plans at December 31, 2001.** 4. The 1998 Management Stock Compensation Plan,- PLM's Board of Directors --- adopted the 1998 Management Stock Compensation Plan, which reserved 800,000 shares (in addition to the 780,000 shares above) of PLM's common stock for the issuance to certain management and key employees of PLM upon exercise of stock options. At December 31, 2001, there were no options outstanding under the plan, although the plan continued to be in effect. ** **Prior to the completion of the Tender Offer by MILPI, all options outstanding were immediately vested by either a vote from PLM's Board of Directors or from the terms of the option plan agreement. Concurrent with the completion of the Tender Offer in February 2001, PLM redeemed all vested options currently outstanding. PLM paid the difference between the exercise price of the option and $3.46 (the amount offered for PLM shares in the Tender Offer). Total cash paid to redeem all outstanding options was approximately $900,000. A summary of the options outstanding to directors under the Semele Grant Option Program as of December 31, 2001 is summarized below: AUCH BARTLETT UNDERLEIDER ------------- ----------------- ------------- Options granted 5,000 5,000 5,000 Date of grant July 15, 1994 December 31, 1997 July 15, 1994 Date of expiration (on or before) July 16, 2004 January 1, 2008 July 16, 2004 Exercise price per share $ 9.25 $ 9.25 $ 9.25 The Company accounts for stock-based compensation using the intrinsic method prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." Under this method, no compensation expense is recognized for stock options that have an option price that is equal to or in excess of fair market value at the date of grant. SFAS No. 123, "Accounting for Stock-Based Compensation," which became effective for fiscal years beginning after December 15, 1995, established accounting and disclosure requirements for stock options using a fair value method of accounting and encourages application of that methodology. As permitted under SFAS No. 123, the Company has elected to provide pro-forma disclosures of net income and earnings per share as if the fair-value method prescribed by SFAS No. 123 had been used in accounting for stock options. A Black-Scholes option-pricing model was used to estimate the fair value of the Company's stock options at the date of grant. The pricing model for 2001 assumed a risk-free interest rate of 5.75%, no dividend yields, and volatility in the expected market price of the Company's common stock of .444. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Like other models, it utilizes a number of subjective assumptions that can materially affect the analysis and resulting estimation of compensation cost for stock options. Accordingly, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options. For purposes of the pro-forma disclosures, the estimated fair value of newly issued options is amortized to expense over the vesting periods and no expense is recognized for forfeited options. There was no impact on the Company's reported results of operations in 2001, as all outstanding stock options had fully vested by December 31, 2001 and 2000. NOTE 17 - PROFIT SHARING AND STOCK OPTION PLANS PLM has a Profit Sharing and 401(k) Plan which was acquired in conjunction with the Tender Offer by MILPI. The PLM Profit Sharing and 401(k) Plan provides for deferred compensation as described in Section 401(k) of the Internal Revenue Code. The Plan is a contributory plan available to essentially all full-time employees of PLM in the United States. In 2001, PLM employees who participated in the Plan could elect to defer and contribute to the trust established under the Plan up to 9% of pretax salary or wages up to $10,500. PLM matched up to a maximum of $4,000 of PLM employees' 401(k) contributions of 2001 to vest in four equal installments over four-year period. The Company's total 401(k) contributions, net of forfeitures, was approximately $100,000 for the period February 7, 2001 (date of inception) through December 31, 2001. Profit-sharing contributions are allocated equally among the number of eligible Plan participants. There were no profit-sharing contributions accrued as of December 31, 2001. NOTE 18 - INCOME

TAXES The Company files a consolidated Federal Tax Return. The AFG Trusts and MILPI are not included as part of the Company's consolidated Federal Tax Return. These subsidiaries are flow through entities for tax purposes and file separate returns. Deferred income taxes are provided on a liability method whereby deferred tax assets are established to reflect temporary differences between the financial reporting and income tax bases of assets and liabilities as well as operating loss carryforwards; therefore, the Company has recorded a valuation allowance against these potential benefits. Significant components of the Company's deferred tax assets and liabilities at December 31, 2001 and 2000 are summarized below: 2001 2000 ------------ ------------ Deferred tax assets: Deferred compensation $ 278,000 $ -- Real estate held for development 6,729,000 3,522,000 Tax effect of net operating loss carryforwards 30,414,000 30,800,000 Partnership organization and syndication costs 8,300,000 -- Federal benefit of state income taxes 735,000 -- Other 329,000 -- ------------ ------------ Sub-total 46,785,000 34,322,000 Less valuation allowance for deferred tax assets (46,015,000) (33,049,000) ------------ ------------ Total deferred tax assets 770,000 1,273,000 Deferred tax liabilities Partnership interests 10,520,000 1,273,000 Other 1,000 -- ------------ ------------ Total deferred tax liabilities 10,521,000 1,273,000 ------------ ------------ Net deferred tax liability $ 9,751,000 $ -- ============ ============ The provision for income taxes attributable to income from operations consists of the following (in thousands of dollars): Federal State Total -------- ------ ------ Current $ 551 $ 193 $ 744 Deferred 705 162 867 -------- ------ ------ Total $ 1,256 $ 355 $1,611 -------- ------ ------ The difference between the tax expense and the expected federal tax expense is reconciled below: 2001 2000 ------------ ----------- Federal statutory tax expense ($4,960,000) ($83,000) State income tax (729,000) (12,000) Valuation allowance for NOL 12,966,000 1,397,000 Loss reportable at the partnership and trust level (5,666,000) (1,302,000) ------------ ----------- Tax expense $ 1,611,000 $ -- ------------ ----------- The tax effect of net operating loss carryforwards is determined using current statutory rates or enacted rates for the year in which the differences are expected to reverse. At December 31, 2001, the Company had operating loss carryforwards of approximately $105,081,000 that expire as follows: $28,507,000 in 2010; $47,337,000 in 2011; $8,005,000 in 2012; $5,499,000 in 2016; $11,031,000 in 2017; $1,603,000 in 2020; $3,099,000 in 2021. NOTE 19 - LITIGATION The Company or its consolidated affiliates have been involved in certain legal and administrative claims as either plaintiffs or defendants in connection with matters that generally are considered incidental to its business. Management does not believe that any of these actions will be material to the financial condition or results of operations of the Company. Two class action lawsuits which were filed against PLM and various of its wholly-owned subsidiaries in January 1997 in the United States District Court for the Southern District of Alabama, Southern Division (the court), Civil Action No. 97-0177-BH-C (the Koch action), and June 1997 in the San Francisco Superior Court, San Francisco, California, Case No. 987062 (the Romei action), were fully resolved during the fourth quarter 2001 as summarized below. The named plaintiffs were individuals who invested in PLM Equipment Growth Fund IV, PLM Equipment Growth Fund V ("Fund V"), PLM Equipment Growth Fund VI("Fund VI"), and PLM Equipment Growth & Income Fund VII ("Fund VII"), (collectively the "Partnerships"), each a California limited partnership for which FSI acts as the General Partner. The complaints asserted causes of action against all defendants for fraud and deceit, suppression, negligent misrepresentation, negligent and intentional breaches of fiduciary duty, unjust enrichment, conversion, conspiracy, unfair and deceptive practices and violations of state securities law. Plaintiffs alleged that each defendant owed plaintiffs and the class certain duties due to their status as fiduciaries, financial advisors, agents, and control persons. Based on these duties, plaintiffs asserted liability against defendants for improper sales and marketing practices, mismanagement of the Partnerships, and concealing such mismanagement from investors in the Partnerships. Plaintiffs sought unspecified compensatory damages, as well as punitive damages. In February 1999, the parties to the Koch and Romei actions agreed to monetary and equitable settlements of the lawsuits, with no admission of liability by any defendant, and filed a Stipulation of Settlement with the court. The court preliminarily approved the settlement in August 2000, and information regarding the settlement was sent to class members in September 2000. A final fairness hearing was held on November 29, 2000, and on April 25, 2001, the federal magistrate judge assigned to the case entered a Report and Recommendation recommending final approval of the monetary and equitable settlements to the federal district court judge. On July 24, 2001, the federal district court judge adopted the Report and Recommendation, and entered a final judgment approving the settlements. No appeal has been filed and the time for filing an appeal has run. The monetary settlement provides for a settlement and release of all claims against defendants in exchange for payment for the benefit of the class of up to $6.6 million, consisting of $0.3 million deposited by PLM and the remainder funded by an insurance policy. The final settlement amount of $4.9 million (of which PLM's share was approximately $0.3 million) was paid out in the fourth quarter of

2001 and was determined based upon the number of claims filed by class members, the amount of attorneys' fees awarded by the court to plaintiffs' attorneys, and the amount of the administrative costs incurred in connection with the settlement. The equitable settlement provides, among other things, for: (a) the extension (until January 1, 2007) of the date by which FSI must complete liquidation of the Funds' equipment, except for Fund IV, (b) the extension (until December 31, 2004) of the period during which FSI can reinvest the Funds' funds in additional equipment, except for Fund IV, (c) an increase of up to 20% in the amount of front-end fees (including acquisition and lease negotiation fees) that FSI is entitled to earn in excess of the compensatory limitations set forth in the North American Securities Administrator's Association's Statement of Policy; except for Fund IV, (d) a one-time purchase by each of Funds V, VI and VII of up to 10% of that partnership's outstanding units for 80% of net asset value per unit at September 30, 2000; and (e) the deferral of a portion of the management fees paid to an affiliate of FSI until, if ever, certain performance thresholds have been met by the Funds. The equitable settlement also provides for payment of additional attorneys' fees to the plaintiffs' attorneys from Fund funds in the event, if ever, that certain performance thresholds have been met by the Funds. Following a vote of limited partners resulting in less than 50% of the limited partners of each of Funds V, VI and VII voting against such amendments and after final approval of the settlement, each of such Fund's limited partnership agreement was amended to reflect these changes. During the fourth quarter of 2001, the respective Funds repurchased limited partnership units from those equitable class members who submitted timely requests for repurchase. NOTE 20 - SEGMENT REPORTING At December 31, 2001, the Company was actively engaged in two industry segments: i) real estate ownership, development and management and ii) equipment leasing and management. The real estate segment includes the ownership, management and development of commercial properties and land. In addition, the Company owns equity interests in non-affiliated companies that are engaged in real estate leasing or development activities, as well as winter resorts (See Note 9). The equipment leasing and management segment consists of an ownership interest in several limited partnerships, companies and trusts that are engaged primarily in the business of equipment leasing and management. The Company's largest equity interest consists of Class B Beneficiary Interests, representing approximately 62% of the voting interest, in the AFG Trusts, which were established by an affiliate between 1992 and 1995. The AFG Trusts are limited life entities that have scheduled dissolution dates ranging from December 31, 2003 to December 31, 2006. Revenues from equipment leasing segments consist of lease revenues from a portfolio of assets and management fees associated with managing several affiliated investment programs. Substantially all revenues are domiciled within the US. Segment information for the years ended December 31, 2001 and 2000 is summarized below: 2001 2000 ------------- ------------- Restated (1) Total Revenues: (2) Equipment leasing $ 24,052,971 $ 24,430,686 Real estate 1,173,284 1,165,010 ------------- ------------- Total $ 25,226,255 $ 25,595,696 ------------- ------------- Equity Interests: Equipment leasing-income $ 2,155,675 $ - Real estate-loss (628,463) (2,866,789) ------------- ------------- Total $ 1,527,212 $ (2,866,789) ------------- ------------- Operating Expenses and Management Fees: Equipment leasing $ 9,371,946 $ 3,889,090 Real estate 169,422 188,924 ------------- ------------- Total $ 9,541,368 $ 4,078,014 ------------- ------------- Interest Expense: Equipment leasing $ 6,283,443 $ 7,489,549 Real estate 462,185 515,706 ------------- ------------- Total $ 6,745,628 $ 8,005,255 ------------- ------------- Depreciation, Write-down of Impaired Assets and Amortization: (3) Equipment leasing $ 22,149,328 $ 10,352,168 Real estate 2,904,154 536,893 ------------- ------------- Total $ 25,053,482 $ 10,889,061 ------------- ------------- Provision for income taxes $ 1,611,000 $ - Elimination of minority interests $ 12,268,930 $ (665,742) ------------- ------------- Net Loss $ (3,929,081) $ (909,165) ------------- ------------- Capital Expenditures: Equipment Leasing $ 17,385,000 $ - Real Estate 2,417,120 1,343,205 ------------- ------------- Total $ 19,802,120 $ 1,343,205 ------------- ------------- Assets: Equipment Leasing $106,150,058 $107,704,604 Real Estate 45,738,045 46,282,457 ------------- ------------- Total $151,888,103 $153,987,061 ------------- ------------- (1) See Note 1, regarding restatement of the Company's 2000 financial statements. (2) Includes management fee revenue earned from affiliates of approximately $7.2 million for the year ended December 31, 2001. (See Note 8 for discussion of management fees). Balances exclude equity income (loss) in affiliated and non-affiliated companies. (3) Balance includes a write-down of assets approximately $11.5 million related to the equipment leasing segment and approximately $2.5 million related to the real estate segment during 2001.(See Note 3).