SEMELE GROUP INC
Form 10QSB
November 14, 2003

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

Form 10-QSB

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number 0-16886

Semele Group Inc.

(Name of Small Business Issuer in its charter)

Delaware	36-3465422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

200 Nyala Farms, Westport, Connecticut	06880
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code : (203) 341-0555

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES _X __. NO .

Shares of common stock outstanding as of November 14, 2003: 2,099,687

Transitional Small Business Disclosure Format: YES . NO X .

SEMELE GROUP INC.
Form 10-QSB
For the Quarter Ended June 30, 2003

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SEMELE GROUP INC. AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands of dollars, except per share and share amounts)
(unaudited)

	June 30, 2003	December 31, 2002
Assets		
Cash and cash equivalents	$ 11,389	$ 11,997
Restricted cash	443	436
Rents and other receivables	1,338	880
Equipment held for lease, net of accumulated depreciation of $60,035 and $60,239 at June 30, 2003 and December 31, 2002, respectively	36,480	39,948
Equipment held for sale	11,988	6,227
Real estate held for development	-	13,020
Land	1,929	1,929
Buildings, net of accumulated depreciation of $2,417 and $2,240 at June 30, 2003 and December 31, 2002, respectively	9,516	9,693
Interests in affiliated companies	17,709	19,683
Interests in non-affiliated companies	27,681	13,305
Other assets	4,678	4,212
Due from affiliates	4,943	4,507
Goodwill	9,511	9,511
Total assets	$ 137,605	$ 135,348
Liabilities		
Accounts payable and accrued expenses	$ 20,901	$ 8,948
Deferred rental income	548	575
Other liabilities	3,155	3,155
Indebtedness	48,600	46,651
Indebtedness and other obligations to affiliates	28,160	33,007
Deferred income taxes	11,922	12,541
Total liabilities	113,286	104,877

Minority interests	36,952	42,272
Commitments and contingencies		
Stockholders' deficit		
Common stock, $0.10 par value per share; 5,000,000 shares authorized;		
2,916,647 shares issued	292	292
Additional paid in capital	172,354	172,354
Accumulated deficit	(170,953)	(170,255)
Deferred compensation, 164,279 shares	(817)	(817)
Accumulated other comprehensive income	(134)	--
Treasury stock at cost, 816,960 shares	(13,375)	(13,375)
Total stockholders' deficit	(12,633)	(11,801)
Total liabilities, minority interests and stockholders' deficit	$ 137,605	$ 135,348

The accompanying notes are an integral part of these consolidated financial statements.

SEMELE GROUP INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Three and Six Months ended June 30,
(in thousands of dollars, except per share and share amounts)
(unaudited)

.	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues		(Restated)		(Restated)
Lease revenue	$ 3,313	$ 3,027	$ 6,364	$ 6,311
Management and acquisition fee income affiliates	989	1,255	2,732	2,521
Interest and investment income	108	69	210	201
Interest income affiliates	66	91	132	142
Gain on disposition of equipment	251	630	263	693
Other income	41	94	325	430

Total revenues	4,768	5,166	10,026	10,298
Expenses				
Depreciation and amortization	1,890	2,349	3,611	4,857
Impairment of equipment held for lease and interests in affiliated companies	277	1,935	277	1,935
Interest on indebtedness	875	1,105	1,793	2,357
Interest on indebtedness and other obligations - Affiliates	397	421	713	777
General and administrative	1,731	1,741	3,341	2,855
Fees and expenses affiliates	185	214	351	682
Total expenses	5,355	7,765	10,086	13,463
Loss before equity income (loss) income, income taxes and minority interests	(587)	(2,599)	(60)	(3,165)
Equity (loss) income in affiliated companies	(43)	(150)	514	(119)
Equity (loss) income in non-affiliated companies	(928)	(1,771)	1,873	1,699
Provision for income taxes	(116)	(265)	(598)	(529)
Elimination of consolidated subsidiaries minority interests	308	3,800	(2,427)	1,866
Net loss	$ (1,366)	$ (985)	$ (698)	$ (248)
Net loss per common share basic and diluted	$ (0.65)	$ (0.47)	$ (0.33)	$ (0.12)
Basic and diluted weighted average number of Common shares outstanding	2,099,697	2,078,718	2,099,687	2,078,718

The accompanying notes are an integral part of these consolidated financial statements.

SEMELE GROUP INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Deficit
For the Six Months ended June 30, 2003
(in thousands of dollars except share amounts)
(unaudited)

	Shares Outstanding	Common Stock	Additional Paid in Capital	Accumulated Deficit	Deferred Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2002	2,099,687	$ 292	$ 172,354	$ (170,255)	$ (817)	$ -	$(13,375)	$(11,801)
Net loss	-	-	-	(698)	-	-	-	(698)
Decrease in capital related to issuance of partnership interest of equity investment	-	-	-	-	-	(1,029)	-	(1,029)
Foreign currency translation adjustment	-	-	-	-	-	895	-	895
Balance at June 30, 2003	2,099,687	$ 292	$ 172,354	$ (170,953)	$ (817)	$ (134)	$(13,375)	$(12,633)

The accompanying notes are an integral part of these consolidated financial statements.

SEMELE GROUP INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30,
(in thousands of dollars)
(unaudited)

	2003	2002
		(Restated)
Cash flows provided by (used in) operating activities		
Net loss	$ (698)	$ (248)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,611	4,857
Provision for impaired assets	277	1,935
Gain on disposition of equipment	(263)	(693)
Elimination of consolidated subsidiaries minority interests	2,427	(1,866)
Changes in assets and liabilities:		
Rents and other receivables	(458)	(498)
Other assets	(514)	(306)
Due from affiliates	(436)	112
Accounts payable and accrued expenses	11,773	186
Deferred rental income	(27)	-
Deferred income taxes	(619)	-
Net cash provided by operating activities	15,073	3,479
Cash flows provided by (used in) investing activities		
Proceeds from equipment dispositions	368	2,775
Restricted cash	7	-
Proceeds from assets held for sale	6,335	-
Purchase of assets held for sale	(12,096)	-
Cash distributions from affiliated companies	811	903
Decrease in cash due to loss of control of consolidated subsidiary	(15)	-
Investment in non-affiliated company	(54)	-
Cash distributions from non-affiliated companies	-	640
Purchase of PLM, net of cash acquired	-	(4,363)
Change in equity investments in affiliated and non-affiliated companies	(3,282)	(1,580)
Costs capitalized to real estate held for development	-	(1,315)
Net cash used in investing activities	(7,926)	(2,940)
Cash flows provided by (used in) financing activities		
Purchase of minority interest	(5,434)	-
Proceeds from indebtedness	4,756	-
Proceeds from indebtedness and other obligations to affiliates	767	617
Principal payments on indebtedness	(2,807)	-
Distributions to minority shareholders	(318)	-
Principal payments on indebtedness and other obligations to affiliates	(5,614)	(3,810)

Net cash used in financing activities	(8,650)	(3,193)
Net decrease in cash and cash equivalents	(1,503)	(2,654)
Effect of foreign exchange rate changes	895	-
Cash and cash equivalents at beginning of period	11,997	19,954
Cash and cash equivalents at end of period	$ 11,389	$ 17,300

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1- BASIS OF PRESENTATION

The financial statements presented herein are prepared in conformity with generally accepted accounting principles in the United States of America and the instructions for preparing Form 10-QSB under Rule 310 of Regulation S-B of the Securities and Exchange Commission ("SEC") and are unaudited. Rule 310 provides that disclosures that would substantially duplicate those contained in the most recent annual report to shareholders may be omitted from interim financial statements. The accompanying unaudited condensed consolidated financial statements have been prepared on that basis and, therefore, should be read in conjunction with the financial statements and notes presented in the 2002 Annual Report (Form 10-KSB) of Semele Group Inc. and subsidiaries ("Semele" or the "Company") on file with the United States Securities and Exchange Commission. Except as disclosed herein, there have been no material changes to the information presented in the notes to the 2002 Annual Report in Form 10-KSB.

In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary to present fairly the Company s financial position at June 30, 2003 and December 31, 2002, results of operations for the three and six month periods ended June 30, 2003 and 2002, changes in stockholders deficit for the six months ended June 30, 2003 and statement of cash flows for the six months ended June 30, 2003 and 2002 have been made and are reflected.

Certain amounts previously reported have been reclassified to conform to the June 30, 2003 financial statement presentation. These reclassifications did not have any effect on total assets, total liabilities, stockholders deficit, or net loss.

NOTE 2- RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In 1999 and 2000, the Company acquired Equis II Corporation ("Equis II") and the Special Beneficiary Interests ("SB Interests") in four Delaware trusts (AFG Investment Trust A, AFG Investment Trust B, AFG Investment Trust C and AFG Investment Trust D), (collectively the "Trusts"). These acquisitions were originally accounted for as a combination of entities under common control in a manner similar to a pooling of interests, which the Company believed appropriate at the time. In 2003, the Company determined the companies were not under common control and therefore these acquisitions should have been accounted for using the purchase method of accounting and that their financial statements should be restated. The principal effects of this accounting were to increase net loss for the associated amortization of tangible assets and goodwill.

In addition to the accounting for the acquisitions of Equis II and the SB Interests, the Company has restated these financial statements for its interest in Mountain Springs and Mountain Resort (See Note 7). The Company determined that the amounts recorded as its share of equity income (loss) on its interest in Mountain Springs and Mountain Resort (classified as "Equity Income (Loss) in Non-Affiliated Companies" in the accompanying consolidated statements of operations) for the six months ended June 30, 2002 were incorrect. The Company should have recorded additional equity income on these investments. The consolidated financial information for the six months ended June 30, 2002 has been restated to include the additional equity income for these investments.

A summary of the effects of the restatement on the Company s 2002 stockholder s deficit and statement of operations for the three and six months ended June 30, 2002 is summarized as follows (in thousands of dollars, except per share amounts):

	As of and for the Three Months Ended June 30, 2002		
	(Restated)	(As previously reported)	Difference
Stockholders' deficit	$ (7,172)	$ (18,800)	$ 11,628
Net loss	$ (985)	$ (1,534)	$ (549)
Loss per share	$ (0.47)	$ (0.74)	$ (0.27)
Depreciation and amortization	$ 2,349	$ 2,162	$ 187
Gain on the disposition of equipment	630	94	(536)
Interest on indebtedness and other obligations - affiliates	421	581	(160)
Elimination of consolidated subsidiaries minority interests	3,800	3,760	(40)
Total adjustment to 2002 net loss			$ (549)

	As of and for the Six Months Ended June 30, 2002		
	(Restated)	(As previously reported)	Difference
Stockholders' deficit	$ (7,172)	$ (18,800)	$ 11,628
Net loss	$ (248)	$ (653)	$ (405)
Loss per share	$ (0.12)	$ (0.31)	$ (0.19)
Depreciation and amortization	$ 4,857	$ 4,482	$ 375
Gain on the disposition of equipment	693	138	(555)
Interest on indebtedness and other obligations - affiliates	777	1,053	(276)
Equity income in non-affiliated companies	1,699	1,019	(680)
Elimination of consolidated subsidiaries minority interests	(1,866)	(2,597)	731
Total adjustment to 2002 net loss			$ (405)

NOTE 3- ACQUISITION

In May of 2003, the Company, through MILPI Holdings LLC ("MILPI"), purchased the existing minority interest in MILPI owned by AFG Investment Trust A Liquidating Trust and AFG Investment Trust B Liquidating Trust for $5.4 million, which is now held by MILPI in treasury stock. As of the acquisition date, the existing minority interest had a carrying value of $7.4 million. The Company accounted for the acquisition in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations". The acquisition was financed through MILPI s existing cash reserves and cash flows generated from the sale of railcars. Prior to the acquisition, MILPI was owned as follows: AFG Investment Trust A Liquidating Trust 8%; AFG Investment Trust B Liquidating Trust 17%; AFG Investment Trust C 37.5% and AFG Investment Trust D 37.5%. Subsequent to the acquisition, AFG Investment Trust C and AFG Investment Trust D, which are consolidated into the Company s financial statements, collectively own 100% of MILPI, with each trust owning 50%.

In connection with the acquisition, the Company obtained a fairness opinion from an independent valuation company on the purchase price of the minority interests. The acquisition resulted in a $2.0 million "excess over cost". In accordance with SFAS No. 141, the "excess over cost" is to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets. The "excess over cost" has been allocated to reduce the Company s equity investments as follows (in thousands of dollars):

Interest in EGF Programs	$	(1,400)

Interest in Rancho Malibu	(637)
	$ (2,037)

The following unaudited pro forma consolidated results of operations for the three and six months ended June 30, 2003 and 2002 assumes the Company acquired the minority interest in MILPI on January 1, 2002. The unaudited pro forma consolidated statement of operations for the three and six months ended June 30, 2003 and 2002 are as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Revenue	$ 4,768	$ 5,166	$ 10,026	$ 10,298
Net Income	$ (1,184)	$ (845)	$ (516)	$ 5
Earnings per share	$ (0.56)	$ (0.41)	$ (0.25)	$ 0.00

These amounts have been adjusted to reflect the portion of MILPI s net income previously reported to minority interest expense. 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.

NOTE 4- EQUIPMENT HELD FOR SALE

MILPI arranged for the lease or purchase of up to 1,050 pressurized tank railcars with a delivery date between 2002 and 2004. MILPI anticipates that 735 of these railcars will be leased by Rail I Investors. The remaining 315 railcars, at a cost of approximately $23.0 million, will be purchased by MILPI or one of the EGF Programs. As of September 30, 2003, approximately 66% of these railcars have been purchased by PLM Financial Services Inc. ("FSI"), a wholly-owned subsidiary of MILPI, or one of the EGF Programs for approximately $15.0 million The remaining 34% of these railcars will be purchased by FSI or the EGF Programs in 2004. As of December 31, 2002, MILPI owned $6.2 million in railcar equipment purchased under this commitment which was sold to an affiliated entity in the first quarter of 2003. As of June 30, 2003, MILPI had $12.0 million of railcars held for sale, some of which were purchased under the transaction described above.

NOTE 5- REAL ESTATE HELD FOR DEVELOPMENT

The Company has an investment in a partnership which owns 274 acres of undeveloped land north of Malibu, California in a development company called "Rancho Malibu" or the "Malibu property". Forty 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.

In the first quarter of 2003, Semele transferred its interest in Rancho Malibu to RMLP, Inc., a wholly-owned subsidiary of MILPI, for $5.5 million in cash, a $2.5 million promissory note and 182 shares (15.4%) interest in RMLP, Inc., which resulted in a loss of approximately $2.0 million. Because the property was transferred to a wholly-owned subsidiary of MILPI, the $2.5 million promissory note, related accrued interest and loss on the transfer of property to RMLP, Inc. have been eliminated in consolidation.

On June 23, 2003, Rancho Malibu amended its partnership agreement to include an additional unrelated investor for the purpose of completing the development of the property. The third party investor contributed $2.0 million to Rancho Malibu and is the development general partner. In accordance with the amended partnership agreement, decisions require a unanimous consent by both partners and each owner has the ability to veto a proposal by the other partner. Therefore, the Company s interest in Rancho Malibu was accounted for under the equity method of accounting beginning June 23, 2003. Prior to June 23, 2003, the Company consolidated Rancho Malibu s balance sheet and statement of operations. Through June 30, 2003, Rancho Malibu remains under development and all costs have been capitalized to the development.

In accordance with the provisions of SEC Staff Accounting Bulletin No. 51 and 84 ("SAB 51 and 84"), the Company evaluated its investment in Rancho Malibu. In order to reflect the issuance of partnership interest to the additional partner, the Company recorded a loss of $1.0 million on the transaction which is reflected as an equity transaction in the accompanying Statement of Changes in Stockholders Deficit as " Decrease in capital related to issuance of partnership interest of equity investment."

NOTE 6- INTERESTS IN AFFILIATED COMPANIES

The Company has interests in the following affiliates as of June 30, 2003 and December 31, 2002, respectively (in thousands of dollars):

	June 30, 2003	December 31, 2002
Interests in liquidating partnerships	$ 295	$ 322
Interest in liquidating trusts	-	-
Interest in EGF Programs	17,414	19,361
Total	$ 17,709	$ 19,683

The Company has recorded equity income (loss) in its interest in affiliated companies for the three and six months ended June 30, 2003 and 2002, respectively (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Liquidating partnerships	$ (5)	$ (438)	$ (27)	$ (462)
Liquidating trusts	(271)	-	-	-
EGF Programs	233	288	541	343
Total	$ (43)	$ (150)	$ 514	$ (119)

Equity Interests in Liquidating Partnerships

Through its wholly-owned subsidiary Ariston Corporation ("Ariston"), the Company had an ownership interest in eleven limited partnerships engaged primarily in the equipment leasing business. Ariston s percentage ownership for each investment varies from less than 1% to 16%. The partnerships were controlled by Equis Financial Group LP ("EFG"), a non-consolidated affiliated entity controlled by Mr. Engle, the Company s Chairman and Chief Executive Officer.

The Company s ownership interest in three of the eleven partnerships enabled the Company to influence but not control operating financial decisions of the investee. Accordingly, the Company accounted for these investments under the equity method of accounting. The remaining investments were accounted for under the cost method of accounting.

On July 18, 2002, the eleven partnerships adopted formal plans of liquidation and transferred their assets and liabilities to eleven respective liquidating partnership trusts ("Liquidating Partnerships"). The summarized combined financial results the Company s equity investments in the Liquidating Partnerships accounted for under the equity method, for the three and six months ended June 30, 2002 is summarized below (in thousands of dollars):

	Three Months Ended June 30, 2002		Six Months Ended June 30, 2002	
Total revenues	$	1,376	$	2,178
Total expenses		(3,525)		(4,609)
Net (loss) income	$	(2,149	$	2,431

The summarized combined financial information for the Company s equity investments in the Liquidating Partnerships as of and for the three and six months ended June 30, 2003 is summarized below, which is accounted for under the liquidation basis of accounting, which approximates fair value (in thousands of dollars):

Net assets in liquidation at March 31, 2003	$	2,757
Net loss		(85)
Net assets in liquidation at June 30, 2003	$	2,672

Net assets in liquidation at December 31, 2002	$	3,527
Net loss		(855)
Net assets in liquidation at June 30, 2003	$	2,672

Through June 30, 2003, the Company has received a total of $2.2 million in distributions from the Liquidating Partnerships. The Company did not receive any cash distributions in the Liquidating Partnerships during the six

months ended June 30, 2003 or 2002.

Equity Interests in Liquidating Trusts

In the fourth quarter of 2002, AFG Investment Trust A and AFG Investment Trust B each adopted a formal plan of liquidation and transferred their respective net assets to separate liquidating trusts, AFG Investment Trust A Liquidating Trust and AFG Investment Trust B Liquidating Trust ("Liquidating Trusts"). The Company owns a pro rata beneficial interest in the Liquidating Trusts associated with its Class B Interest, SB Interest and Managing Trustee interest in each of the two trusts. The Company accounts for its investments in the Liquidating Trusts under the equity method of accounting. Through June 30, 2003, no distributions have been received from the Liquidating Trusts.

Prior to adopting the plans of liquidation, the Company consolidated the two trusts balance sheets and statements of operations. The statement of operations for AFG Investment Trust A and B is consolidated into the Company s June 30, 2002 financial statements since the entities were controlled throughout fiscal 2002.

The combined financial information for the Liquidating Trusts as of and for the three and six months ended June 30, 2003 is summarized below, which is accounted for under the liquidation basis of accounting, which approximates fair value (in thousands of dollars):

	For the Three Months Ended June 30, 2003
Net assets in liquidation at March 31, 2003	$ 11,293
Net loss	(2,602)
Net assets in liquidation at June 30, 2003	$ 8,691

	For the Six Months Ended June 30, 2003
Net assets in liquidation at December 31, 2002	$ 10,486
Net loss	(1,795)
Net assets in liquidation at June 30, 2003	$ 8,691

The loss from operations during the three months ended June 30, 2003 is primarily the result of the Company s acquisition of the Liquidating Trusts interest in MILPI (See Note 3).

Equity Interests in Equipment Growth Funds

MILPI has an equity interest ranging from 1% to 15% in several equipment leasing programs (PLM Equipment Growth Fund V and VI, PLM Equipment Growth & Income Fund VII, Professional Lease Management Income Fund I LLC and PLM Equipment Growth Fund I, II, III and IV Liquidating Trusts) called the Equipment Growth Funds ("EGF Programs"). The Company recognizes income from these interests as equity income in affiliated companies and is recognized as earned by the programs. FSI is the general partner or manager in the EGF Programs. The Company received $0.8 million and $0.9 million in cash distributions from the EGF Programs during the six months

ended June 30, 2003 and 2002.

The summarized combined financial data for the EGF Programs, excluding PLM Equipment Growth Fund III in 2003 which is discussed below, for the three and six months ended June 30, 2003 and 2002 is as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Total revenues	$ 14,376	$ 21,001	$ 31,604	$ 41,596
Total expenses	(13,671)	(13,000)	(27,031)	(28,555)
Net income	$ 705	$ 8,001	$ 4,573	$ 13,041

On December 31, 2002, PLM Equipment Growth Fund III Liquidating Trust was established and all of the assets and liabilities of PLM Equipment Growth Fund III were transferred to the PLM Equipment Growth Fund III Liquidating Trust. The summarized financial information for PLM Equipment Growth Fund III Liquidating Trust as of and for the three and six months ended June 30, 2003 is summarized below. The entity is accounted for under the liquidation basis of accounting which approximates fair value (in thousands of dollars):

	For the Three Months Ended June 30, 2003
Net assets at March 31, 2003	$ 2,919
Distributions	(5,611)
Net increase in liquidation value	5,792
Net assets in liquidation at June 30, 2003	$ 3,100

	For the Six Months Ended June 30, 2003
Net assets at December 31, 2002	$ 2,784
Distributions	(5,611)
Net increase in liquidation value	5,927
Net assets in liquidation at June 30, 2003	$ 3,100

The Company reviews the carrying value of its investments for recoverability whenever there is an indicator of impairment that is considered other than temporary. To the extent that declines in the carrying value are determined to

be other than temporary, the asset balance is written-down to its fair value. Based on liquidation analyses during the six months ended June 30, 2003, the Company recorded an impairment of $0.2 million on its equity investment in the Growth Fund III Liquidating Trust and $0.1 million on another of the EGF Programs which entered liquidation on September 30, 2003. The impairments were the result of a decline in the fair market value of the underlying equipment.

On September 30, 2003, three of the EGF Programs adopted formal plans of liquidation and transferred their assets to three separate liquidating trusts. As of September 30, 2003, a total of four EGF Programs were in their active liquidation phase.

As discussed in Note 3, the Company purchased the existing minority interest in MILPI in the second quarter of 2003. In connection with the acquisition, the Company obtained a fairness opinion from an independent valuation company on the purchase price of the minority interests. The acquisition resulted in a $2.0 million "excess over cost". In accordance with SFAS No. 141, the "excess over cost" is to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets. Approximately $1.4 million of the "excess over cost" was allocated to the carrying value of the Company s interest in the EGF Programs.

NOTE 7- INTERESTS IN NON-AFFILIATED COMPANIES

The Company has equity interests in the following non-affiliated companies (in thousands of dollars):

	June 30, 2003	December 31, 2002
Interest in Mountain Resort Holdings LLC and Mountain Springs Resort LLC	$ 7,502	$ 5,576
Interest in EFG/Kettle Development LLC	8,105	7,263
Interest in Rancho Malibu	11,611	-
Other	463	466
Total	$ 27,681	$ 13,305

The Company recorded equity income (loss) in its interest in non-affiliated companies for the three and six months ended June 30, 2003 and 2002, respectively (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Mountain Resort Holdings, LLC and Mountain Springs Resort, LLC	$ (951)	$ (1,785)	$ 1,926	$ 1,887
EFG/Kettle Development, LLC	23	14	(53)	(188)
Rancho Malibu	-	-	-	-
Net (loss) income	$ (928)	$ (1,771)	$ 1,873	$ 1,699

Mountain Resort Holdings, LLC and Mountain Springs Resort, LLC

Semele owns 100% of the Class B membership interests in EFG Kirkwood LLC ("EFG Kirkwood"), a wholly-owned subsidiary of the Company. The AFG Investment Trusts C and D and the Liquidating Trusts collectively own 100% of the Class A membership interests of EFG Kirkwood. EFG Kirkwood is a member in two joint ventures: a 38% interest in Mountain Resort Holdings LLC ("Mountain Resort") and a 33%-50% interest in Mountain Springs Resorts LLC ("Mountain Springs").

Mountain Resort is primarily a ski and mountain recreation resort located in California. Mountain Springs has majority ownership in DCS/Purgatory LLC ("Purgatory"), a ski resort located in Colorado. The Company s ownership interests in Mountain Resort and Mountain Springs are accounted for using the equity method of accounting. No distributions were received from these investments during the six months ended June 30, 2003 and 2002.

On August 1, 2001, EFG Kirkwood entered into a guarantee agreement whereby EFG Kirkwood guarantees the payment obligations under a revolving line of credit between Mountain Springs and a third party lender. Another investor in the ski resort also separately guarantees the payment obligation under the line of credit. The amount of the guarantee is equal to the outstanding balance of the line of credit which cannot exceed the principal balance of $3.5 million. The revolving line of credit is scheduled to mature in October 2004. The Company s guarantee would require payment only in the event of default on the line of credit by Purgatory in an amount equal to amounts advanced less any amounts recovered by the other guarantor on the line. As of June 30, 2003, there was $3.1 million outstanding on the line of credit.

The table below provides comparative summarized statement of operations data for Mountain Resort and Mountain Springs for the three and six months ended June 30, 2003 and 2002. The operating companies have a fiscal year end of April 30 th , which is different from the Company s fiscal year (in thousands dollars).

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Mountain Resorts				
Total revenues	$ 5,003	$ 4,071	$ 21,686	$ 20,476
Total expenses	(5,821)	(5,360)	(17,052)	(16,571)
Net (loss) income	$ (818)	$ (1,289)	$ 4,634	$ 3,905
Mountain Springs				
Total revenues	$ 870	$ 480	$ 9,711	$ 9,882
Total expenses	(2,979)	(3,176)	(9,376)	(9,284)
Net (loss) income	$ (2,109)	$ (2,696)	$ 335	$ 598

Interest in EFG/Kettle Development LLC- Residential Community

The Company has an indirect ownership interest in EFG/Kettle Development LLC, which is owned 100% by AFG Investment Trusts C and D, collectively. EFG/Kettle Development LLC s subsidiaries have a 49.9% limited partner ownership interest in an entity named Kettle Valley Development Limited Partnership ("KVD LP"). An unaffiliated third party owns the remaining 50.1% of KVD LP. The Company also has a 100% controlling and ownership interest in Kelowna Projects, Inc., which is the sole general partner, with a .01% ownership interest, of KVD LP.

KVD LP owns a real estate development in Kelowna, British Columbia Canada, called Kettle Valley. Kettle Valley is comprised of approximately 270 acres of land zoned for 1,120 residential units in addition to commercial space.

In accordance with the ownership agreements, decisions require unanimous consent by both the limited partners and the general partner and each owner has the ability to veto a proposal by the other partner. The Company accounts for its ownership interest in KVD LP using the equity method of accounting. The Company received no distributions during either of the six months ended June 30, 2003 or 2002. At June 30, 2003, the Company recorded a foreign currency translation adjustment of $0.9 million, included in accumulated other comprehensive income and reported as a component of the Statement of Changes in Stockholders Deficit, reflecting a strengthening of the Canadian dollar against the U.S. dollar at the end of the second quarter of 2003. Translation adjustments for prior periods have been immaterial.

The table below provides KVD LP s summarized consolidated statement of operations data for the three and six months ended June 30, 2003 and 2002 (in thousands of dollars):

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Total revenues	$ 1,959	$ 1,029	$ 2,489	$ 1,277
Total expenses	(1,925)	(1,103)	(2,609)	(1,487)
Net income (loss)	$ 34	$ (74)	$ (120)	$ (210)

Interest in Rancho Malibu

As discussed in Note 5, Rancho Malibu amended its partnership agreement to include an additional unrelated investor for the purpose of completing the development of the property. In accordance with the amended partnership agreement, decisions require a unanimous consent by both partners and each owner has the ability to veto a proposal by the other partner. Accordingly, the Company no longer has a controlling interest in the assets but has the ability to exercise significant influence over the daily operations. Therefore, the Company s interest in Rancho Malibu was accounted for under the equity method of accounting beginning June 23, 2003. Prior to June 23, 2003, the Company consolidated Rancho Malibu s balance sheet and statement of operations.

As discussed in Note 3, the Company purchased the existing minority interest in MILPI in the second quarter of 2003. In connection with the acquisition, the Company obtained a fairness opinion from an independent valuation company on the purchase price of the minority interests. The acquisition resulted in a $2.0 million "excess over cost". In

accordance with SFAS No. 141, the "excess over cost" is to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired assets. Approximately $0.6 million of the "excess over cost" was allocated to the carrying value of the Company s interest in Rancho Malibu.

Through June 30, 2003, Rancho Malibu remains under development and all costs have been capitalized to the development. No distributions were received from Rancho Malibu during 2003.

NOTE 8- CONTINGENT LIABILITIES

Investment Company Act of 1940

The SEC staff informed the Company that it believes the Trusts may be unregistered investment companies within the meaning of the Act. The Company, after consulting with counsel, does not believe that they are unregistered investment companies. However, it is possible that one or more of the Trusts may have unintentionally engaged in an activity or activities that may be construed to fall within the scope of the Act. two of the Trusts agreed to liquidate their assets in order to resolve the matter with the SEC staff. Accordingly, in December 2002, AFG Investment Trust A and AFG Investment Trust B adopted respective Plans of Liquidation and Dissolution. The assets of each of the trusts were transferred to respective Liquidating Trusts with an independent third party as the trustee. Upon consummation of the sale of their assets, these trusts will be dissolved and the proceeds thereof will be applied and distributed in accordance with the terms of their Trust Agreements. If necessary, AFG Investment Trust C and AFG Investment Trust D intend to avoid being deemed investment companies by means that may include disposing assets that they might not otherwise dispose of.

Guaranteed Obligations

As of June 30, 2003 and 2002, MILPI had guaranteed certain obligations up to $0.4 million of a Canadian railcar repair facility, in which PLM had a 10% ownership interest. This obligation was accrued at June 30, 2003 and 2002 and is recorded in accounts payable and accrued expenses in the accompanying consolidated balance sheets.

Commitment to Purchase and Lease Railcars

As further discussed in Note 4, MILPI arranged for the lease or purchase of pressurized tank railcars with a value of approximately $76.0 million. As of September 30, 2003, the remaining balance of railcars required to be purchased and leased under the agreement are $7.4 million and 415 railcars with a value of $29.5 million, respectively. The Company estimates that these remaining railcars will be purchased and leased during the remainder of fiscal 2003 and 2004.

Lease Agreements

PLM has entered into operating leases for office space. PLM s total net rent expense was $72,000 and $0.1 million for the three and six months ended June 30, 2003 and $0.1 million and $0.6 million for the three and six months ended June 30, 2002, respectively. Rent expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

Future payments under lease agreements are $0.2 million for the remainder of 2003, $0.2 million in 2004, $0.1 million in 2005 and $0 thereafter.

Future receipts under a non-cancelable sublease are as follows: $29,000 for the remainder of 2003 and $24,000 in 2004.

Other Matters

The SEC commenced an informal inquiry in June 2003 to determine if there have been violations of the federal securities laws. The SEC, among other things, asked the Company to voluntarily provide information and documents relating to any possible or proposed restatements of the Company s financial statements. The Company has provided the information and documents requested. The Company is cooperating fully with the SEC informal inquiry. In prior comment letters, the SEC requested information and support for its historical position related to the Company s accounting treatment associated with the acquisition of Equis II and the SB Interests in the Trusts. In fiscal 2000, the Company treated these acquisitions as a combination of entities under common control accounted for in a manner similar to a pooling of interests. The Company responded to the SEC staff s comments by providing additional information and support for its accounting treatment. After further investigation, the Company determined that that its original accounting treatment was incorrect. Accordingly, the Company has restated its 2001 financial statements in its 2002 Form 10-KSB.

NOTE 9- RELATED PARTY TRANSACTIONS

proposed equity transaction with affiliates

In May 2003, the Company received a proposal from Mr. Engle and Mr. Coyne, respectively Semele s CEO and President, who together with their affiliates were the beneficial owners of approximately 58% of the outstanding Semele common stock at the date of the proposal, for the acquisition of substantially all of the outstanding shares of common stock of Semele not already owned by the Company s management for $1.20 per share. See the revised offer received from Mr. Engle and Mr. Coyne in November 2003 included in Note 12.

Fees and expenses paid to affiliates

Fees and other costs incurred during the three and six months ended June 30, 2003 and 2002, which were paid to affiliates or accrued by the Company to be paid to affiliates, are as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Equipment management fees	$ 116	$ 96	$ 206	$ 232
Administrative charges	69	118	145	450
Total	$ 185	$ 214	$ 351	$ 682

EFG is compensated for its services to the Trusts. Such services include all aspects of acquisition, management and disposition of equipment. Administrative charges represent amounts charged by EFG to the Trusts, pursuant to Section 10.4(c) of the Trust Agreements, for persons employed by EFG who are engaged in providing administrative services to the Trusts.

Due From Affiliates

Amounts due from affiliates are summarized below (in thousands of dollars):

	June 30, 2003		December 31, 2002	
Loan obligations due from Mr. Engle and Mr. Coyne	$	2,937	$	2,937
Interest receivable on loan obligations due from Mr. Engle and Mr. Coyne		912		780
Management fees receivable from PLM Equipment Growth Funds		638		670
Rents receivable from EFG escrow (1)		456		120
Total	$	4,943	$	4,507

(1) All rents and proceeds from the disposition of equipment by the Company 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. These amounts were paid to the Company in July 2003 and January 2003, respectively.

Indebtedness and Other Obligations to Affiliates

A summary of the Company s indebtedness and other obligations to affiliates appears below (in thousands of dollars):

	June 30, 2003		December 31, 2002	
Principal balance of indebtedness to affiliates	$	24,358	$	28,774
Accrued interest due to affiliates		3,660		4,055
Other (1)		142		178
Total	$	28,160	$	33,007

(1) Consists primarily of amounts due to EFG for management fees and administrative services. Administrative charges represent amounts owed to EFG, pursuant to Section 10.4(c) of the Trust Agreements, for persons employed by EFG who are engaged in providing administrative services to the Trusts.

Principal Balance of Indebtedness to Affiliates

The principal balance of the Company s indebtedness to affiliates at June 30, 2003 and December 31, 2002 consists of the obligations listed below (in thousands of dollars):

.		Due within
.	.	one year, adjusted
.	.	for amendments to

. . .	Balance at June 30, 2003	extend payments, or on demand after June 30, 2003	Balance at December 31, 2002 .
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 Jan. 2005. (1) (3)	$ 8,625	$ --	$ 8,625
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7% annual interest; maturing in Jan. 2005. (1) (3)	4,377	--	4,377
Sub-total	$ 13,002	$ --	$ 13,002
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	687	687
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 11.5% annual interest; due on demand. (1) (2)	349	349	349
Sub-total	$ 1,036	$ 1,036	$ 1,036
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)	1,261	--	1,261
Note payable to Mr. Coyne resulting from purchase of Equis II Corporation; 7.5% annual interest; maturing on Aug. 8, 2007. (1) (2)	640	--	640
Sub-total	$ 1,901	$ --	$ 1,901

Note payable to EFG for purchase of Ariston Corporation; 7% annual interest; maturing in Jan. 2005. (4)	$ 8,419	--	$ 8,419
Non-recourse note payable to EFG for purchase of Special Beneficiary Interests; 7% annual interest; maturing on Nov. 18, 2009. (6)	$ --	--	$ --
Notes payable to affiliates for 1997 asset purchase; 10% annual interest; maturing on Apr. 1, 2003. (5)	$ -- .	--	$ 4,416
Total	$ 24,358	$ 1,036	$ 28,774

(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. As of June 30, 2003, approximately $6.0 million of the outstanding principal balance was due in October 2002 and January 2003. In addition, approximately $4.0 million of the outstanding principal was due in May 2003. Subsequent to June 30, 2003, the Company amended these debt agreements such that the principal payments were due in January 2005 (See Note 12).
(4) In 1998, the Company issued a $10.5 million non-recourse purchase-money promissory note to EFG in conjunction with the acquisition of Ariston. The purchase-money note bears interest at an annualized rate of 7%, but requires principal amortization and payment of interest prior to the maturity date only to the extent of cash distributions paid to the Company in connection with the partnership interests owned by Ariston. As of June 30, 2003, the note was due to mature August 31, 2003 with recourse to the common stock of Ariston. Subsequent to June 30, 2003, the Company amended the note s repayment schedule with the principal balance due in January 2005 (See Note 12). The table above has been adjusted to reflect this amendment. Cash distributions by Ariston require the consent of EFG until such time that the Company s obligation to EFG under the note is paid.
(5) In 1997, the Company borrowed $4.4 million from certain affiliates controlled by Mr. Engle, including $0.5 million from AFG Investment Trust A, a subsidiary. The notes were secured by the Company s interest in Rancho Malibu. As discussed in note 5, Semele Group, Inc. transferred its interest in Rancho Malibu to a wholly-owned subsidiary of MILPI, RMLP, Inc. Semele Group, Inc. s ownership interest was transferred in consideration for a $2.5 million promissory note, 182 shares (15.4% interest) in RMLP, Inc. and $5.5 million cash. Cash received from the transfer was used to pay the outstanding principal and interest due on the note.
(6) The Company purchased the SB Interests in the Trusts for $9.7 million. The purchase was financed through a non-recourse note issued by the Company. The note is payable only to the extent that the Company receives dividends on its SB Interests from the Trusts. The note is accounted for as a contingent purchase price in accordance with Accounting Principles Board ("APB") No. 16. To date, $3.1 million of dividends have been made by the Trusts to the Company as the holder of the SB Interests. Therefore, $3.1 million of the $9.7 million has been recorded and paid leaving $6.6 million of contingent payments remaining on the note.

As of June 30, 2003, as adjusted for the amended note agreement discussed in Note 12, the annual maturities of the notes are scheduled to be paid as follows (in thousands of dollars):

June 30, 2004	$	1,036
2005		21,421
2006		-
2007		-
2008		1,901
Total	$	24,358

NOTE 10- SEGMENT REPORTING

At June 30, 2003, the Company was engaged in three operating segments: 1) equipment leasing 2) equipment management and 3) real estate ownership, development and management. The equipment leasing segment includes acquiring and leasing to third parties a portfolio of capital equipment. The equipment management segment includes the Company s interest in MILPI s EGF Programs and a portfolio of railcars. The real estate operating segment includes the Company s ownership interest in Rancho Malibu, AFG International, Mountain Springs, Mountain Resorts, Kettle Valley and other miscellaneous minority interest investments.

The Company s reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise. There are no material intersegment sales or transfers.

During the fourth quarter of 2002, the Company increased its number of reportable segments to include the equipment management segment. Previously, the Company reported on two operating segments: Equipment leasing and real estate. Equipment management was previously included in the equipment leasing segment. Segment information for the three and six months ended June 30, 2002 has been revised to reflect the additional operating segment.

Segment information for the three and six months ended June 30, 2003 and 2002 is summarized below (in thousands of dollars):

<TABLE><CAPTION><BTB><S>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
.		(Restated)		(Restated)
Revenues:				
Equipment leasing	$ 3,234	$ 3,470	$ 6,110	$ 6,565
Equipment management	1,244	1,388	3,357	3,074
Real estate	290	308	559	659
Total	4,768	5,166	10,026	10,298
Operating Expenses and Fees and Expenses				

Affiliate:				
Equipment leasing	1,018	1,470	1,932	2,173
Equipment management	888	451	1,720	1,267
Real estate	10	34	40	97
Total	1,916	1,955	3,692	3,537
Interest Expense and Interest Expense Affiliate:				
Equipment leasing	1,080	1,280	2,122	2,640
Equipment management	-	-	-	-
Real estate	192	246	384	494
Total	1,272	1,526	2,506	3,134
Depreciation and Amortization:				
Equipment leasing	1,552	2,225	3,173	4,569
Equipment management	248	29	258	99
Real estate	90	95	180	189
Total	1,890	2,349	3,611	4,857
Impairment of Equipment Held for Lease and Interest in Affiliated Companies:				
Equipment leasing	-	1,935	-	1,935
Equipment management	277	-	277	-
Real estate	-	-	-	-
Total	277	1,935	277	1,935
Total Expenses	5,355	7,765	10,086	13,463
Loss before Equity Income (Loss), Income Taxes and Minority Interest:				
Equipment leasing	(416)	(3,440)	(1,117)	(4,752)
Equipment management	(169)	908	1,102	1,708
Real estate	(2)	(67)	(45)	(121)
Total	(587)	(2,599)	(60)	(3,165)
Equity Interests Income (Loss):				
Equipment leasing	(5)	(438)	(27)	(462)
Equipment management	233	288	541	343
Real estate	(1,199)	(1,771)	1,873	1,699
Total	(971)	(1,921)	2,387	1,580
Provision for Income Taxes:				
Equipment Management	(116)	(265)	(598)	(529)
Elimination of Consolidated Subsidiaries	308	3,800	(2,427)	1,866

Minority Interests				
Net Loss	$ (1,366)	$ (985)	$ (698)	$ (248)

The table below sets forth total assets organized by operating segment as of June 30, 2003 and December 31, 2002 (in thousands of dollars):

	June 30, 2003	December 31, 2002
Equipment Leasing	$ 46,970	$ 50,036
Equipment Management	48,708	44,400
Real Estate	41,927	40,912
Total assets	$ 137,605	$ 135,348

NOTE 11- RECENT ACCOUNTING PRONOUNCEMENTS

In September 2001, the rule making body of the American Institute of Certified Public Accountants ("AICPA") issued an Exposure Draft on a Statement of Position, "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" (the, Proposed Statement"). This group, referred to as AICPA Accounting Standards Executive Committee ("AcSEC"), recently decided that it will no longer issue accounting guidance and planned to transition the majority of its projects to the Financial Accounting Standards Board ("FASB"). However, the FASB subsequently requested that AcSEC address certain portions of the Proposed Statement in smaller scope projects. The FASB expressed their concern that the project would not be completed timely by AcSEC or the FASB, if the scope of the project was not reduced. On September 9, 2003, AcSEC voted to approve the proposed statement and is expected to present it to the FASB for clearance in the first quarter of 2004.

If the existing Proposed Statement is issued, it would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related maintenance and repairs; rather, the Proposed Statement requires these costs to be capitalized and amortized over their estimated useful life. The Company has not yet quantified the impact of adopting the Proposed Statement on its financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 is not expected to have a material impact on the Company s financial position or results of operations.

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("FIN 46"). This interpretation clarifies existing accounting principles related to the preparation of consolidated financial statements when the equity investors in an entity do not have the characteristics of a controlling financial interest or when the equity at risk is not sufficient for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a company to evaluate all existing arrangements to identify situations where a company has a "variable interest," commonly evidenced by a guarantee arrangement or other commitment to provide financial support, in a "variable interest entity," commonly a thinly capitalized entity, and further determine when such variable interest requires a company to consolidate the variable interest entities financial statement with its own. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. In October 2003, the FASB issued a Final FASB Staff Position deferring the effective date of FIN 46 for all public entities until the first interim or annual period ending after December 15, 2003. As such, FIN 46 will be effective for the Company as of December 31, 2003. Based on the recent release of this interpretation, the Company has not completed its assessment as to whether or not the adoption of this interpretation will have a material impact on its financial statements.

The Company is currently evaluating several companies to determine if they meet the definition of a variable interest entity as defined in FIN 46. Such companies include the Liquidating Trusts, AFG Investment Trusts C and D, EGF Programs, EFG Kirkwood, Rancho Malibu, Mountain Springs and Mountain Resorts, Kettle Valley and the Liquidating Partnerships. As of June 30, 2003, the Company s maximum exposure of equity investments which could be effected by FIN 46 is $45.5 million, which represents the carrying value of the Company s investments.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In addition, SFAS No. 150 requires an issuer to classify certain instruments with specific characteristics described in it as liabilities (or as assets in some circumstances). Specially, SFAS No. 150 requires that financial instruments issued in the form of shares that are mandatorily redeemable; financial instruments that embody an obligation to repurchase the issuer s equity shares or are indexed to such an obligation; or financial instruments that embody an unconditional obligation or a conditional obligation that can be settled in certain ways be classified as liabilities.

In October 2003, the FASB deferred for an indefinite period the application of the guidance in SFAS No. 150 to noncontrolling interests that are classified as equity in the financial statements of the subsidiary but would be classified as a liability in the parent's financial statements under SFAS No. 150 (e.g., noncontrolling interests in limited-life subsidiaries). The FASB decided to defer the application of SFAS No. 150 to these noncontrolling interests until it could consider some of the resulting implementation issues associated with the measurement and recognition guidance for these noncontrolling interests.

NOTE 12- SUBSEQUENT EVENTS

The Company is a participant in a $10.0 million warehouse facility. Subsequent to June 30, 2003, the Company amended the warehouse facility to extend the expiration date to December 31, 2003.

At June 30, 2003, the Company had approximately $10.0 million of related party indebtedness outstanding, which was due in October 2002 through May 2003 (See Note 9). In addition, as of June 30, 2003, approximately $8.4 million in related party indebtedness was due before December 31, 2003. Subsequent to June 30, 2003, the Company amended these debt agreements to defer maturity of these principal payments until 2005.

On August 29, 2003, Mr. Engle and Mr. Coyne purchased a total of 198,700 shares of the Company s outstanding common stock for $1.20 per share. The 198,700 shares of common stock were owned by the Liquidating Partnerships and AFG Investment Trust A Liquidating Trust. Subsequent to this transaction, Mr. Engle and Mr. Coyne together

with their affiliates are the beneficial owners of approximately 67% of the outstanding common stock.

On September 30, 2003, three of the EGF Programs adopted formal plans of liquidation and transferred their assets to three respective liquidating trusts. As of September 30, 2003, a total of four EGF Programs are currently in their active liquidation phase.

In October 2003, the Company offered to the trustee of the Liquidating Trusts to accept the EFG Kirkwood interests owned by the Liquidating Trusts, valued at a liquidation value of $1.3 million, as a distribution-in-kind, in lieu of cash distributions. The trustee has indicated to the Company that it will accept the offer contingent upon the receipt of the appropriate documentation. The Company anticipates that the distribution-in-kind will be received prior to December 31, 2003.

In November 2003, Semele received a revised proposal from Mr. Gary Engle and Mr. James Coyne, respectively Semele s CEO and President ("Management") for the acquisition of substantially all of the outstanding shares of common stock of Semele not already owned by Management. The revised proposal supercedes their previous offer made on May 5, 2003 as discussed in Note 9. The revised proposal is an offer from Management to make a voluntary tender offer at $1.20 per share for the acquisition of substantially all of the outstanding shares of common stock of Semele not already owned by Management after the Company has completed a 1 for 1000 reverse stock split in which stockholders owning fewer than 1,000 shares will receive $1.20 per pre-split share for their shares.

Item 2. Management s Discussion of Analysis of Financial Condition and Results of Operations

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

In 1999 and 2000, the Semele Group, Inc. ("Semele" or the "Company") acquired Equis II Corporation ("Equis II") and the Special Beneficiary Interests ("SB Interests") in four Delaware trusts (AFG Investment Trust A, AFG Investment Trust B, AFG Investment Trust C and AFG Investment Trust D), (collectively the "Trusts"). These acquisitions were originally accounted for as a combination of entities under common control in a manner similar to a pooling of interests, which the Company believed appropriate at the time. In 2003, the Company determined the companies were not under common control and therefore these acquisitions should have been accounted for using the purchase method of accounting and that their financial statements should be restated. The principal effects of this accounting were to increase net loss for the associated amortization of tangible assets and goodwill.

In addition to the accounting for the acquisitions of Equis II and the SB Interests, the Company has restated these financial statements for its interest in Mountain Springs and Mountain Resort. The Company determined that the amounts recorded as its share of equity income (loss) on its interest in Mountain Springs and Mountain Resort (classified as "Equity Income (Loss) in Non-Affiliated Companies" in the accompanying consolidated statements of operations) for the three and six months ended June 30, 2002 were incorrect. The Company should have recorded additional equity income on these investments. The consolidated financial information for the three and six months ended June 30, 2002 has been restated to include the additional equity income for these investments.

A summary of the effects of the restatement on the Company s 2002 stockholder s deficit and statement of operations for the three and six months ended June 30, 2002 is summarized as follows (in thousands of dollars, except per share amounts):

	As of and for the Three Months Ended June 30, 2002

	(Restated)	(As previously reported)	Difference
Stockholders' deficit	$ (7,172)	$ (18,800)	$ 11,628
Net loss	$ (985)	$ (1,534)	$ (549)
Loss per share	$ (0.47)	$ (0.74)	$ (0.27)
Depreciation and amortization	$ 2,349	$ 2,162	$ 187
Gain on the disposition of equipment	630	94	(536)
Interest on indebtedness and other obligations - affiliates	421	581	(160)
Elimination of consolidated subsidiaries minority interests	3,800	3,760	(40)
Total adjustment to 2002 net loss			$ (549)

	As of and for the Six Months Ended June 30, 2002		
	(Restated)	(As previously reported)	Difference
Stockholders' deficit	$ (7,172)	$ (18,800)	$ 11,628
Net loss	$ (248)	$ (653)	$ (405)
Loss per share	$ (0.12)	$ (0.31)	$ (0.19)
Depreciation and amortization	$ 4,857	$ 4,482	$ 375
Gain on the disposition of equipment	693	178	(515)
Other revenue	430	390	(40)
Interest on indebtedness and other obligations - affiliates	777	1,053	(276)
Equity income in non-affiliated companies	1,699	1,019	(680)
Elimination of consolidated subsidiaries minority interests	(1,866)	(2,597)	731
Total adjustment to 2002 net loss			$ (405)

FORWARD-LOOKING INFORMATION

Certain statements in this annual report of the Company that are not historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are subject to a variety of

risks and uncertainties. There are a number of important factors that could cause actual results to differ materially from those expressed in any forward-looking statements made herein. These factors include, but are not limited to, the collection of the Company's contracted rents, the realization of residual proceeds for the Company's equipment, the performance of the Company's non-equipment assets, and future economic conditions.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements. On a regular basis, the Company reviews these estimates and assumptions including those related to revenue recognition, asset lives and depreciation and impairment of long-lived assets. These estimates are based on the Company s historical experience and on various other assumptions believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The Company believes, however, that the estimates, including those for the above-listed items, are reasonable.

The Company believes the following critical accounting policies involve the most complex, difficult and subjective judgments and estimates used in the preparation of these financial statements:

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled subsidiaries, all entities in which the Company has a direct or indirect controlling interest. The Company defines control as the ability of an entity or person to direct the policies and management that guide the ongoing activities of another entity so as to increase its benefits and limit its losses from that other entity s activities without the assistance of others in accordance with Statement of Financial Accounting Standards ("SFAS") No. 94, "Consolidation of All Majority Owned Subsidiaries".

The Company s subsidiaries managerial, operational and financial agreements are highly diverse and complex which is critical in the consolidation of its assets and liabilities. The presentation of the financial statements herein would be significantly different if management accounted for its subsidiaries under the equity or cost method of accounting. 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. All other investments are accounted for using the cost method of accounting.

Equity Investments

The Company s equity investments include an interest in the Liquidating Partnerships, AFG Investment Trusts A and B Liquidating Trusts ("Liquidating Trusts"), EGF Programs, Mountain Springs Resort LLC ("Mountain Springs") and Mountain Resort Holdings, LLC ("Mountain Resort"), EFG/Kettle Development LLC ("Kettle Valley") and other miscellaneous investments. The Liquidating Partnerships are defined as the ownership interests that Ariston Corporation, a wholly owned subsidiary of the Company, had in eleven limited partnerships engaged primarily in the equipment leasing business. On July 18, 2002, the eleven partnerships adopted formal plans of liquidation and transferred their assets and liabilities to eleven respective liquidating partnership trusts. The EGF programs are defined as PLM Equipment Growth Funds V and VI, PLM Equipment Growth & Income Fund VII, Professional Lease Management Income Fund I, LLC and PLM Equipment Growth Fund I, II, III and IV Liquidating Trusts.

For accounting purposes, the Company considers affiliates to be person(s) and/or entities that directly, or indirectly through one or more intermediaries, manage or are managed by, or are under common management of or with, the Company. All other entities are considered to be non-affiliates.

Minority ownership equity securities that are not publicly traded are accounted for in accordance with Accounting Principles Board ("APB") No. 18, "The Equity Method of Accounting for Investments in Common Stock." If the Company s ownership interest in the investment enables the Company to influence but not control the operating financial decisions of the investee, the investment is accounted for under the equity method of accounting. Otherwise, the investment is accounted for under the cost method of accounting. The equity method of accounting is discontinued when the investment is reduced to zero and does not provide for additional losses unless the Company has guaranteed obligations of the investee or is otherwise committed to provide further financial support to the investment.

Whenever circumstances indicate that a possible impairment of an equity investment exists and is other than temporary, the Company evaluates the fair value of the asset compared to the asset s carrying value. The loss recorded is equal to the difference between the carrying amount and the fair value of the asset. The fair value of the asset is determined based on a valuation model which includes the present value of the expected cash flows of the asset, current market prices and management s industry knowledge.

Accounting policies of equity investments held by MILPI: MILPI Holdings LLC s ("MILPI") assets are comprised primarily of equity investments in equipment leasing programs, cash and cash equivalents and equipment held for sale. MILPI s primary business is the management of equipment leasing programs.

MILPI has an equity interest ranging from 1% to 15% in several equipment leasing programs (PLM Equipment Growth Funds V and VI, PLM Equipment Growth & Income Fund VII, Professional Lease Management Income Fund I LLC and Equipment Growth Fund I, II, III and IV Liquidating Trusts) called the Equipment Growth Funds ("EGF Programs"). The Company recognizes income from these interests as equity income in affiliated companies and is recognized as earned by the programs.

The EGF Programs are accounted for under the equity method of accounting. The EGF Programs accrue for legally required repairs to equipment if it is the responsibility of the program, such as dry-docking for marine vessels and engine overhauls to aircraft engines over the period prior to the required repairs. The amount that is reserved is based on the Company s expertise in each equipment segment, the past history of such costs for that specific piece of equipment and discussions with independent, third party equipment brokers. If the amount reserved is not adequate to cover the cost of such repairs or if the repairs must be performed earlier than the EGF Programs estimated, the EGF Programs would incur additional repair and maintenance on equipment operating expenses. This would also impact the Company s equity income (loss) in affiliated companies reported on its consolidated statements of operations.

The Company has chosen asset lives for the equipment in its equity investments that it believes correspond to the economic life of the related asset. The Company has chosen a depreciation method that it believes matches the benefit to the managed programs from the asset with the associated costs. These judgments have been made based on the Company s expertise in each equipment segment that the managed programs operate. If the asset life and depreciation method chosen does not reduce the book value of the asset to at least the potential future cash flows from the asset to the managed programs, the managed programs would be required to record a loss on revaluation. Likewise, if the net book value of the asset was reduced by an amount greater than the economic value has deteriorated, the managed programs may record a gain on disposition upon final disposition of the asset. In either instance, this would impact the amount of the Company s equity income in affiliated companies reported on its consolidated statement of operations.

MILPI s managed programs maintain allowances for doubtful accounts and other receivables for estimated losses resulting from the inability of the customers to make the required payments. These estimates are primarily based on the amount of time that has lapsed since the related payments were due as well as specific knowledge related to the ability of the lessees to make the required payments. If the financial condition of the managed programs were to change, this would impact the amount of the management fee revenue and equity interests earned by the Company.

Goodwill

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. The discontinuance of goodwill amortization was effective upon adoption of SFAS No. 142. In accordance with SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer be amortized but instead will be measured for impairment at least annually, or when events indicated that an impairment is necessary. Goodwill is calculated as the excess of the aggregate purchase price over the fair market value of identifiable net assets acquired. 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 as of the date of adoption. The Company completed the goodwill impairment analysis as of January 1, 2002. There was no impact on the Company s consolidated financial statements as a result of the transitional analysis.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". SAB No. 101 provides guidance for the recognition, presentation and disclosure of revenue in financial statements.

The Company earns rental income from a portfolio of equipment held for lease and from two leased buildings. Rents are due monthly or quarterly and are earned based on 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 $0.5 million and $0.6 million at both June 30, 2003 and December 31, 2002, respectively.

MILPI earns equipment acquisition and lease negotiation fees through the purchase and initial lease of equipment for investment programs and they are recognized as revenue when the Company completes all of the services required to earn the fees, typically when binding commitment agreements are signed. It also earns management fees for managing equipment portfolios and administering investor programs. The fees are generally based on the type and amount of lease revenue earned by the programs and are recognized over time as the fees are earned.

Depreciation

Buildings: Depreciation is computed using the straight-line method over the estimated useful life of the underlying assets, generally 40 years for buildings, with an estimated residual value of zero. Expenditures that improve or extend an asset s life and that are significant in amount are capitalized and depreciated over the remaining useful life of the asset.

Equipment held for lease: The Company s depreciation policy on equipment is intended to allocate the cost 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 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 at the end of the primary lease term 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 to its residual on a straight-line basis over the asset's remaining economic life.

The Company periodically reviews its assets depreciation method, estimated useful life and estimated salvage value for reasonableness. If current estimates are significantly different from previous estimates, the assets depreciation method, estimated useful life and estimated salvage value are changed. The estimated residual value of leased assets is determined based on third party appraisals and valuations, as well as market information, offers for similar types of

assets and overall industry expertise.

Impairment Of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which the Company adopted on January 1, 2002. In accordance with SFAS No. 144, the Company evaluates long-lived assets for impairment whenever events or circumstances indicate that the carrying values of such assets may not be recoverable and exceed their fair value. Whenever circumstances indicate that an impairment may exist, the Company evaluates future cash flows of the asset to the carrying value. If projected undiscounted future cash flows are less than the carrying value of the asset, a loss is recorded in the accompanying consolidated statements of operations as impairment of assets. The loss recorded is equal to the difference between the carrying amount and the fair value of the asset. The fair value of the asset requires several considerations, including but not limited to: an independent appraisal or valuation model which includes the present value of expected future cash flows of the asset, current market prices and management s market knowledge.

The Company evaluates the fair value of significant equipment assets, such as aircraft, individually. All other assets are evaluated collectively by equipment type unless the Company learns of specific circumstances, such as a lessee default, technological obsolescence, or other market developments, which could affect the fair value of particular assets.

The evaluation of long-lived assets secured by non-recourse debt is determined based on a valuation model which includes the present value of expected future cash flows and the recoverable value. If the Company expects to return the asset to the lender, the recoverable value will not be less than the balance of the non-recourse debt.

New Accounting Pronouncements

In September 2001, the rule making body of the American Institute of Certified Public Accountants ("AICPA") issued an Exposure Draft on a Statement of Position, "Accounting for Certain Costs and Activities Related to Property, Plant and Equipment" (the, Proposed Statement"). This group, referred to as AICPA Accounting Standards Executive Committee ("AcSEC"), recently decided that it will no longer issue accounting guidance and planned to transition the majority of its projects to the Financial Accounting Standards Board ("FASB"). However, the FASB subsequently requested that AcSEC address certain portions of the Proposed Statement in smaller scope projects. The FASB expressed their concern that the project would not be completed timely by AcSEC or the FASB, if the scope of the project was not reduced. On September 9, 2003, AcSEC voted to approve the proposed statement and is expected to present it to the FASB for clearance in the first quarter of 2004.

If the existing Proposed Statement is issued, it would require the Company to modify its accounting policy for maintenance and repairs. Such costs would no longer be accrued in advance of performing the related maintenance and repairs; rather, the Proposed Statement requires these costs to be capitalized and amortized over their estimated useful life. The Company has not yet quantified the impact of adopting the Proposed Statement on its financial statements.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN 45 is not expected to have a material impact on the Company s financial position or results of operations.

In January 2003, Financial Accounting Standards Board ("FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities ("FIN 46"). This interpretation clarifies existing accounting principles related to the preparation of consolidated financial statements when the equity investors in an entity do not have the characteristics of a controlling financial interest or when the equity at risk is not sufficient for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 requires a company to evaluate all existing arrangements to identify situations where a company has a "variable interest," commonly evidenced by a guarantee arrangement or other commitment to provide financial support, in a "variable interest entity," commonly a thinly capitalized entity, and further determine when such variable interest requires a company to consolidate the variable interest entities financial statement with its own. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. In October 2003, the FASB issued a Final FASB Staff Position deferring the effective date of FIN 46 for all public entities until the first interim or annual period ending after December 15, 2003. As such, FIN 46 will be effective for the Company as of December 31, 2003. Based on the recent release of this interpretation, we have not completed our assessment as to whether or not the adoption of this interpretation will have a material impact on our financial statements.

The Company is currently evaluating several companies to determine if they meet the definition of a variable interest entity as defined in FIN 46. Such companies include the Liquidating Trusts, AFG Investment Trust C and D, EGF Programs, EFG Kirkwood LLC, Rancho Malibu, Mountain Springs and Mountain Resort, Kettle Valley and the Company s investments in Liquidating Partnerships. As of June 30, 2003, the Company s maximum exposure of equity investments which could be effected by FIN 46 is $45.5 million, which represents the carrying value of the Company s investments.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. In addition, SFAS No. 150 requires an issuer to classify certain instruments with specific characteristics described in it as liabilities (or as assets in some circumstances). Specially, SFAS No. 150 requires that financial instruments issued in the form of shares that are mandatorily redeemable; financial instruments that embody an obligation to repurchase the issuer s equity shares or are indexed to such an obligation; or financial instruments that embody an unconditional obligation or a conditional obligation that can be settled in certain ways be classified as liabilities.

In October 2003, the FASB deferred for an indefinite period the application of the guidance in SFAS No. 150 to noncontrolling interests that are classified as equity in the financial statements of the subsidiary but would be classified as a liability in the parent's financial statements under SFAS No. 150 (e.g., noncontrolling interests in limited-life subsidiaries). The FASB decided to defer the application of SFAS No. 150 to these noncontrolling interests until it could consider some of the resulting implementation issues associated with the measurement and recognition guidance for these noncontrolling interests.

RESULTS OF OPERATIONS

At June 30, 2003, the Company was engaged in three operating segments: 1) equipment leasing 2) equipment management and 3) real estate ownership, development and management. The equipment leasing segment includes acquiring and leasing to third parties a portfolio of capital equipment. The equipment management segment includes the Company s interest in MILPI s EGF Programs. The real estate operating segment includes the Company s ownership interest in Rancho Malibu, AFG International, Mountain Springs, Mountain Resorts, Kettle Valley and other miscellaneous minority interest investments.

The Company s reportable segments offer different products or services and are managed separately because each requires different operating strategies and management expertise. There are no material intersegment sales or

transfers.

During the fourth quarter of 2002, the Company increased its number of reportable segments to include the equipment management segment. Previously, the Company reported on two operating segments: Equipment Leasing and Real Estate. Equipment management was previously included in the equipment leasing segment. Segment information for the three and six months ended June 30, 2002 has been revised to reflect the additional operating segment. (See Note 10 to the unaudited consolidated condensed financial statements).

Equipment Leasing operations

A summary of the equipment leasing segment revenues for the three and six months ended June 30, 2003 and 2002 is summarized as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Lease revenue	$ 2,977	$ 2,717	$ 5,731	$ 5,641
Management and acquisition fee income- affiliates	24	-	24	-
Interest and investment income	74	19	116	40
Interest income- affiliates	65	84	131	142
Gain on disposition of equipment, net	94	638	106	671
Other revenue	-	12	2	71
Total revenues	$ 3,234	$ 3,470	$ 6,110	$ 6,565

Lease revenue: During the three and six months ended June 30, 2003 and 2002, the Company recognized lease revenue of $3.0 million and $5.7 million, respectively compared to $2.7 million and $5.6 million during the same periods of 2002. Lease revenue represents rental revenue recognized from the leasing of the equipment owned by the Trusts and Rail I Investors I, LLC ("Rail I Investors"). Rail I Investors was formed in the fourth quarter of fiscal 2002 formed for the sole purpose of leasing equipment under an operating lease and re-leasing the equipment to unrelated third parties. The increase in equipment leasing revenues is attributable to a $0.4 million and $0.8 million increase in lease revenue from Rail I Investors for the three and six months ended June 30, 2003. This increase was due to an increase in the number of railcars being leased by Rail I Investors. The increases in revenues from Rail I Investors were partially offset by a decrease of $0.1 million and $0.7 million in the Trusts lease revenues during the three and six months ended June 20, 2003 compared to the same periods of 2002. The Trusts decrease in lease revenues is the result of lease terminations and the ongoing sale of equipment.

Gain on the disposition of equipment, net: During the three and six months ended June 30, 2003, the Company had net gains on the disposition of equipment of $0.1 million and $0.1 million, respectively, compared to $0.6 million and $0.7 million for the same periods of 2002. The Company received cash of $0.4 million and $2.8 million associated with the disposition of equipment during the six months ended June 30, 2003 and 2002, respectively. The decrease in the gain on the sale of equipment is attributable to the Company selling less equipment during the six months ended June 30, 2003 compared to the same periods of in 2002.

Management and acquisition fee income- affiliates: Management fees earned from affiliates were $24,000 for both the three and six months ended June 30, 2003. Management fees earned during 2003 were attributable to lease revenue

earned by the Liquidating Trusts. In fiscal 2002, the Liquidating Trusts were consolidated in the Company s financial statements and management and acquisition fee income- affiliates earned from the Liquidating Trusts were eliminated in consolidation.

Operating expenses and fees and expenses- affiliate: Operating expenses and fees and expenses- affiliate were $1.0 million and $1.9 million for the three and six months ended June 30, 2003 compared to $1.5 million and $2.2 million, respectively for the same periods of 2002. The decrease in operating costs and management fees- affiliate of $0.5 and $0.3 million for the three and six months ended June 30, 2003 compared to the same periods of the prior year is primarily due to a decrease in the operating expenses of the Trusts of $0.8 million and $1.0, respectively, offset by $0.3 million and $0.7 million of operating expenses incurred by Rail I Investors in the three and six months ended June 30, 2003. The decrease in the Trusts operating expenses is primarily due to lease terminations and the ongoing sale of equipment. Rail I Investors operating expenses primarily consisted of lease expenses. The increase in Rail I Investors expense is due to the growth in its railcar portfolio.

Fees and other costs paid to affiliates during the three and six months ended June 30, 2003 and 2002, which are included as operating expenses and fees and expenses - affiliate in the segment table above, are as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Equipment management fees	$ 116	$ 96	$ 206	$ 232
Administrative charges	69	118	145	450
Total	$ 185	$ 214	$ 351	$ 682

Equipment management fees and administrative charges paid to affiliates decreased due to the sale of assets during fiscal 2002 which reduced the management fees and administrative charges incurred.

Interest expense- affiliated and non-affiliated: Interest expense on affiliated and non-affiliated debt was $1.1 million and $2.1 million for the three and six months ended June 30, 2003 compared to $1.3 million and $2.6 million for the same periods of 2002. Interest expense associated with equipment leasing consists of interest associated with corporate debt, equipment leasing debt and indebtedness to affiliates. Total interest expense decreased by $0.2 million and $0.5 million for the three and six months ended June 30, 2003 compared to the same periods of 2002. The decrease is the result of principal payments made during fiscal 2002 and 2003 which reduced the outstanding loan balances.

Depreciation and amortization: Depreciation and amortization expense was $1.6 million and $3.2 million for the three and six months ended June 30, 2003 compared to $2.2 million and $4.6 million for the same periods in 2002. Depreciation and amortization is primarily comprised of depreciation of equipment on lease. Depreciation and amortization decreased by $0.7 million and $1.4 million, respectively, in the three and six months ended June 30, 2003 compared to the same periods in 2002. The decrease is attributable to the disposition of equipment during 2002 and throughout the six months ended June 30, 2003. Depreciation and amortization in this segment is expected to continue to decline in the future as the Company s equipment portfolio is sold and not replaced.

Impairment of equipment held for lease: During the three months ended June 2002, the Company recorded an impairment in the carrying value of the Company s 35% interest in a McDonnell Douglas MD-87 aircraft due to an offer letter received from a third party. The offer was the indicator that an impairment may exist. The Company compared the estimated undiscounted cash flows to the carrying value which indicated that an impairment existed. The resulting charge of $1.9 million was based on a comparison of the estimated fair value and carrying value of the Company s interest in the aircraft. The estimate of the fair value was based on an offer to purchase the aircraft from an unrelated party and management s assessment of prevailing market conditions for similar aircraft. Aircraft condition, age, passenger capacity, distance capability, fuel efficiency, and other factors influence market demand and market values for passenger jet aircraft.

During 2002, the Company also evaluated its aircraft secured by non-recourse debt, in accordance with the Company s policy for recording an impairment on long-lived assets. The recoverable value of the aircraft was determined based on management s assumption that the asset would not be sold or re-leased. If the Company anticipated selling or re-leasing the asset, the recoverable value would have been significantly lower which would have resulted in an impairment.

The decrease in the fair market value of the above aircraft was due to the effects in the airline industry following the events of September 11, 2001, along with a recession in the United States, which have continued to adversely affect the market demand for both new and used commercial aircraft. Management believes there is a significant oversupply of commercial aircraft available and that this oversupply will continue for some time. If the aircraft market continues to deteriorate from its current condition, the Company may have additional impairment changes. No impairment to equipment was recorded for the three and six months ended June 30, 2003.

Equity (loss) income in affiliated companies: Equity loss for the equipment leasing segment consists of the Company s minority ownership interests in eleven liquidating partnerships. The Company recognized a loss on its investment of $5,000 and $27,000 during the six months ended June 30, 2003 compared to $0.4 million and $0.5 million losses during the same periods of 2002.

Equipment Management

A summary of the equipment management segment revenues for the three and six months ended June 30, 2003 and 2002 is summarized as follows (in thousands of dollars):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
		(Restated)		(Restated)
Lease revenue	$			