**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2011**

**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 333-84730**

# LEASE EQUITY APPRECIATION FUND I, L.P.

**(Exact Name of Registrant as Specified in Its Charter)**

| **Delaware** | **68-0492247** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**110 South Poplar Street, Suite 101, Wilmington Delaware 19801**
**(Address of principal executive offices)**

**(800) 819-5556**
**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller Reporting Company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

There is no public market for the Registrant's securities.





**LEASE EQUITY APPRECIATION FUND I, L.P.**
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**PART 1. FINANCIAL INFORMATION**

**ITEM I – FINANCIAL STATEMENTS**

**LEASE EQUITY APPRECIATION FUND I, L.P. AND SUBSIDIARY**
**Consolidated Balance Sheets**

**Consolidated Balance Sheets**
**(In thousands)**
**(Unaudited)**

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 2 | $ 37 |
| Restricted cash | 1,812 | 1,853 |
| Accounts receivable | 19 | 21 |
| Investment in leases and loans, net | 21,716 | 27,139 |
| Deferred financing costs, net | 115 | 150 |
| Other assets | 87 | 83 |
| Total assets | $ 23,751 | $ 29,283 |
| | | |
| **LIABILITIES AND PARTNERS' DEFICIT** | | |
| **Liabilities:** | | |
| Bank debt | $ 21,107 | $ 25,665 |
| Accounts payable and accrued expenses | 245 | 76 |
| Other liabilities | — | 141 |
| Derivative liabilities at fair value | 821 | 1,066 |
| Due to affiliate | 7,688 | 7,723 |
| Total liabilities | 29,861 | 34,671 |
| | | |
| Commitments and contingencies | | |
| | | |
| **Partners' Deficit:** | | |
| General partner | (196) | (188) |
| Limited partners | (4,749) | (3,922) |
| Accumulated other comprehensive loss | (1,165) | (1,278) |
| Total partners' deficit | (6,110) | (5,388) |
| Total liabilities and partners' deficit | $ 23,751 | $ 29,283 |

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



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**LEASE EQUITY APPRECIATION FUND I, L.P. AND SUBSIDIARY**
**Consolidated Statements of Operations**
**(In thousands, except unit and per unit data)**
**(Unaudited)**

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| **Revenues:** | | |
| Interest on equipment financings | $ 505 | $ 1,077 |
| Rental income | 81 | 105 |
| (Losses) gains on sales of equipment and lease dispositions, net | (23) | 228 |
| Other | 92 | 167 |

| | | |
|---|---|---|
| | 655 | 1,577 |
| **Expenses:** | | |
| Interest expense | 106 | 711 |
| Loss on derivative activities | 124 | — |
| Depreciation on operating leases | 69 | 86 |
| Provision for credit losses | 983 | 1,641 |
| General and administrative expenses | 58 | 334 |
| Administrative expenses reimbursed to affiliate | 64 | 210 |
| | 1,404 | 2,982 |
| Net loss | $ (749) | $ (1,405) |
| Net loss allocated to limited partners | $ (742) | $ (1,391) |
| | | |
| Weighted average number of limited partner units outstanding during the period | 171,696 | 171,696 |
| Net loss per weighted average limited partner unit | $ (4.32) | $ (8.10) |

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



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**LEASE EQUITY APPRECIATION FUND I, L.P. AND SUBSIDIARY**
**Consolidated Statement of Changes in Partners' (Deficit) Capital**
**(In thousands, except unit data)**
**(Unaudited)**

| | General Partner | Limited Partners | | Accumulated Other Comprehensive | Total Partners' (Deficit) | Comprehensive |
|---|---|---|---|---|---|---|
| | Amount | Units | Amount | (Loss) Income | Capital | (Loss) Income |
| Balance at January 1, 2011 | $ (188) | 171,696 | $ (3,922) | $ (1,278) | $ (5,388) | |
| Cash distributions paid | (1) | | (85) | — | (86) | |
| Net loss | (7) | | (742) | — | (749) | $ (749) |
| Unrealized loss on hedging derivatives | — | | — | 113 | 113 | 113 |
| Balance, March 31, 2011 | $ (196) | 171,696 | $ (4,749) | $ (1,165) | $ (6,110) | $ (636) |

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



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**LEASE EQUITY APPRECIATION FUND I, L.P. AND SUBSIDIARY**
**Consolidated Statements of Cash Flows**
**(In thousands)**

(in thousands)
(Unaudited)

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net loss | $ (749) | $ (1,405) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Losses (gains) on sales of equipment and lease dispositions, net | 23 | (228) |
| Depreciation on operating leases | 69 | 86 |
| Provision for credit losses | 983 | 1,641 |
| Amortization of deferred financing costs | 35 | 67 |
| Unrealized gains on derivative hedging activities | (132) | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2 | 5 |
| Other assets | (4) | 54 |
| Accounts payable and accrued expenses and other liabilities | 28 | (51) |
| Due to affiliate | (35) | 89 |
| Net cash provided by operating activities | 220 | 258 |
| **Cash flows from investing activities:** | | |
| Proceeds from leases and loans | 4,381 | 7,400 |
| Security deposits (returned) collected | (33) | (66) |
| Net cash provided by investing activities | 4,348 | 7,334 |
| **Cash flows from financing activities:** | | |
| Repayment of debt | (4,558) | (8,474) |
| Decrease in restricted cash | 41 | 902 |
| Cash distributions to partners | (86) | (171) |
| Net cash used in financing activities | (4,603) | (7,743) |
| Decrease in cash | (35) | (151) |
| Cash, beginning of period | 37 | 162 |
| Cash, end of period | $ 2 | $ 11 |
| **Supplemental cash flow disclosure:** | | |
| Cash paid for interest | $ 74 | $ 153 |

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



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**LEASE EQUITY APPRECIATION FUND I, L.P. AND SUBSIDIARY**
**Notes To Consolidated Financial Statements**
**March 31, 2011**
**(Unaudited)**

## NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Lease Equity Appreciation Fund I, L.P. (the "Fund") is a Delaware limited partnership formed on January 31, 2002 by its General Partner, LEAF Financial Corporation (the "General Partner"). The General Partner manages the Fund. The General Partner is a subsidiary of Resource America, Inc. ("RAI"). RAI is a publicly-traded company (NASDAQ: REXI) that uses industry specific expertise, to evaluate, originate, service and manage investment opportunities through its commercial finance, real estate and financial fund management segments. Through its offering termination date of August 15, 2004, the Fund raised $17.1 million by selling 171,746 of its limited partner units. The Fund commenced operations in March 2003.

The Fund is expected to have a nine-year life, consisting of an offering period of up to two years, a five-year reinvestment period and a subsequent maturity period of two years, during which the Fund's leases and secured loans will either mature or be sold. The Fund's five-year reinvestment period has ended and the Fund entered the maturity period in August 2009. In the event the Fund is unable to sell its leases and loans during the maturity period, the Fund expects to continue to return capital to its partners as those leases and loans mature. Substantially all of the Fund's leases and loans mature by the end of 2013. Contractually, the Fund will terminate on December 31, 2027, unless sooner dissolved or terminated as provided in the Limited Partnership Agreement.

The Fund acquired diversified portfolios of equipment to finance to end users throughout the United States as well as the District of Columbia and Puerto Rico. The Fund also acquired existing portfolios of equipment subject to existing financings from other equipment finance companies, primarily an affiliate of its General Partner. The primary objective of the Fund is to generate regular cash distributions to its partners from its equipment finance portfolio over the life of the Fund.

As of March 31, 2011 and 2010 in addition to its 1% general partnership interest, the General Partner also had invested $0.8 million for a 6% limited partnership interest in the Fund.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, LEAF Fund I, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited financial statements reflect all adjustments that are, in the opinion of management, of a normal and recurring nature and necessary for a fair statement of the Fund's financial position as of March 31, 2011, and the results of its operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of results of the Fund's operations for the 2011 fiscal year. The Fund has evaluated subsequent events through the date the financial statements were issued. The financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations. These interim financial statements should be read in conjunction with the Fund's financial statements and notes thereto presented in the Fund's Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 31, 2011.

### Use of Estimates

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the allowance for credit losses, the estimated unguaranteed residual values of leased equipment, impairment of long-lived assets and the fair value and effectiveness of interest rate swaps. The Fund bases its estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**Reclassification**

A reclassification has been made to the 2010 consolidated financial statements to conform to the 2011 presentation. In the statement of operations, renewal income of approximately $11,000 for the three months ended March 31, 2010 that was previously included in “Interest on equipment financings” has been reclassified to “Other income”.

**Investments in Leases and Loans**

The Fund’s investments in leases and loans consist of direct financing leases, operating leases and loans.

*Direct Financing Leases.* Certain of the Fund’s lease transactions are accounted for as direct financing leases (as distinguished from operating leases). Such leases transfer substantially all benefits and risks of equipment ownership to the customer. The Fund’s investment in direct financing leases consists of the sum of the total future minimum lease payments receivable plus the estimated unguaranteed residual value of leased equipment, less unearned finance income. Unearned finance income, which is recognized as revenue over the term of the financing by the effective interest method, represents the excess of the total future minimum contracted payments plus the estimated unguaranteed residual value over the cost of the related equipment.

Unguaranteed residual value represents the estimated amount to be received at lease termination from lease extensions or ultimate disposition of the leased equipment. The estimates of residual values are based upon the Fund’s history with regard to the realization of residuals, available industry data and the General Partner’s senior management’s experience with respect to comparable equipment. The estimated residual values are recorded as a component of investments in leases. Residual values are reviewed periodically to determine if the current estimate of the equipment’s fair market value appears to be below its recorded estimate. If required, residual values are adjusted downward to reflect adjusted estimates of fair market values. Upward adjustments to residual values are not permitted.

*Operating Leases.* Leases not meeting any of the criteria to be classified as direct financing leases are deemed to be operating leases. Under the accounting for operating leases, the cost of the leased equipment, including acquisition fees associated with lease placements, is recorded as an asset and depreciated on a straight-line basis over the equipment’s estimated useful life, generally up to seven years. Rental income consists primarily of monthly periodic rental payments due under the terms of the leases. The Fund recognizes rental income on a straight line basis.

Generally, during the lease terms of existing operating leases, the Fund will not recover all of the cost and related expenses of its rental equipment and, therefore, it is prepared to remarket the equipment in future years. The Fund’s policy is to review, on a quarterly basis, the expected economic life of its rental equipment in order to determine the recoverability of its undepreciated cost. The Fund writes down its rental equipment to its estimated net realizable value when it is probable that its carrying amount exceeds such value and the excess can be reasonably estimated; gains are only recognized upon actual sale of the rental equipment. There were no write-downs of equipment for the three months ended March 31, 2011.

*Loans.* For term loans, the investment in loans consists of the sum of the total future minimum loan payments receivable less unearned finance income. Unearned finance income, which is recognized as revenue over the term of the financing by the effective interest method, represents the excess of the total future minimum contracted loan payments over the cost of the related equipment. For all other loans, interest income is recorded at the stated rate on the accrual basis to the extent that such amounts are expected to be collected.

*Allowance for Credit Losses.* The Fund evaluates the adequacy of the allowance for credit losses (including investments in leases and loans) based upon, among other factors, management’s historical experience on the portfolios it manages, an analysis of contractual delinquencies, economic conditions and trends and equipment finance portfolio characteristics, adjusted for expected recoveries. In evaluating historic performance, the Fund performs a migration analysis, which estimates the likelihood that an account progresses through delinquency stages to ultimate charge-off. After an account becomes 180 or more days past due, any remaining balance is fully-reserved less an estimated recovery amount. Generally, the account is then charged-off and referred to our internal recovery group consisting of a team of collectors. The Fund’s policy is to charge off to the allowance those financings which are in default and for which management has determined the probability of collection to be remote. Income is not recognized on leases and loans when a default on monthly payment exists for a period of 90 days or more. Income recognition resumes when a lease or loan becomes less than 90 days delinquent. Fees from delinquent payments are recognized when received and are included in other income.

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**Derivative Instruments**

The Fund recognizes all derivatives at fair value as either assets or liabilities in the Consolidated Balance Sheets. The accounting for subsequent changes in the fair value of these derivatives depended on whether the derivative had been designated and qualified for hedge accounting treatment pursuant to US GAAP.

Prior to October 1, 2010, the Fund entered into derivative contracts, including interest rate swaps, substantially all of which were accounted for as cash flow hedges. Under hedge accounting, the effective portion of the overall gain or loss on a derivative designated as a cash flow hedge was reported in accumulated other comprehensive income on the Consolidated Balance Sheets and then was then reclassified into earnings as an adjustment to interest expense over the term of the related borrowing.

Effective October 1, 2010, the Fund discontinued the use of hedge accounting. Therefore, any subsequent changes in the fair value of derivative instruments, including those that had previously been accounted for under hedge accounting and periodic settlements of contracts, are recognized immediately in loss on derivatives. While the Fund will continue to use derivative financial instruments to reduce exposure to changing interest rates, this accounting change may create volatility in Fund's results of operations, as the fair value of Fund's derivative financial instruments change.

For the forecasted transactions that are probable of occurring, the derivative gain or loss remaining in accumulated other comprehensive income as of March 31, 2011 is being reclassified into earnings as an adjustment to interest expense over the terms of the related forecasted borrowings, consistent with hedge accounting treatment. In the event that the related forecasted borrowing is no longer probable of occurring, the related gain or loss in accumulated other comprehensive income will be recognized in earnings immediately.

**Recent Accounting Standards**

Accounting Standards Issued But Not Yet Effective

The Financial Accounting Standards Board ("FASB") has issued the following guidance that is not yet effective for the Fund as of March 31, 2011:

*Troubled Debt Restructurings* - In 2010, the FASB issued guidance that required the disclosure of more detailed information on the nature and extent of troubled debt restructurings and their effect on the allowance for loan and lease losses. In January 2011, the FASB deferred the effective date of these disclosures. In April 2011, the FASB issued additional guidance related to determining whether a creditor has granted a concession, including factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibits creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and adds factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in the April issuance also ends the FASB's deferral of the additional disclosures about troubled debt restructurings. This guidance is not expected to have a material impact on the Fund's consolidated financial statements, results of operations or cash flows. For public companies, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption.

**NOTE 3 – INVESTMENT IN LEASES AND LOANS**

The Fund's investment in leases and loans, net, consists of the following (in thousands):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Direct financing leases (a) | $ 18,362 | $ 22,944 |
| [illegible] | [illegible] | [illegible] |

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Loans (b) | 4,972 | 5,480 |
| Operating leases | 303 | 395 |
| | 23,637 | 28,819 |
| Allowance for credit losses | (1,921) | (1,680) |
| | $ 21,716 | $ 27,139 |

(a) The Fund’s direct financing leases are for initial lease terms generally ranging from 24 to 84 months.
(b) The interest rates on loans generally range from 6% to 14%.





The components of direct financing leases and loans, net are as follows (in thousands):

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Leases | Loans | Leases | Loans |
| Total future minimum lease payments | $ 19,603 | $ 5,761 | $ 24,587 | $ 6,311 |
| Unearned income | (1,752) | (685) | (2,217) | (713) |
| Residuals, net of unearned residual income (a) | 772 | — | 860 | — |
| Security deposits | (261) | (104) | (286) | (118) |
| | $ 18,362 | $ 4,972 | $ 22,944 | $ 5,480 |

(a) Unguaranteed residuals for direct financing leases represent the estimated amounts recoverable at lease termination from lease extensions or disposition of the equipment.

The Fund’s investment in operating leases, net, consists of the following (in thousands):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Equipment | $ 1,218 | $ 1,287 |
| Accumulated depreciation | (913) | (890) |
| Security deposits | (2) | (2) |
| | $ 303 | $ 395 |

**NOTE 4 – ALLOWANCE FOR CREDIT LOSSES AND CREDIT QUALITY**

The disclosures in this footnote follow new guidance issued by the FASB that requires companies to provide more information about the credit quality of their financing receivables including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators.

The following table is an age analysis of the Fund’s receivables from leases and loans (presented gross of allowance for credit losses of $1.9 million) as of March 31, 2011 (in thousands):

| Age of receivable | Investment in leases and loans | % |
|---|---|---|
| Current | $ 19,366 | 81.9% |
| Delinquent: | | |
| 31 to 91 days past due | 1,813 | 7.7% |
| Greater than 91 days (a) | 2,458 | 10.4% |

| | | |
|---|---|---|
| Greater than 91 days (a) | 2,458 | 10.4% |
| | $ 23,637 | 100.0% |

(a) Balances in this age category are collectivelly evaluated for impairment.

The Fund had $2.5 million and $2.1 million of leases and loans on nonaccrual status as of March 31, 2011 and December 31, 2010, respectively. The credit quality of the Fund's investment in leases and loans as of March 31, 2011 is as follows (in thousands):

| | |
|---|---|
| Performing | $ 21,179 |
| Nonperforming | 2,458 |
| | $ 23,637 |





The following table summarizes the annual activity in the allowance for credit losses (in thousands):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Allowance for credit losses, beginning of year | $ 1,680 | $ 4,410 |
| Provision for credit losses | 983 | 4,018 |
| Charge-offs | (864) | (7,158) |
| Recoveries | 122 | 410 |
| Allowance for credit losses, end of period (a) | $ 1,921 | $ 1,680 |

(a) End of period balances are collectively evaluated for impairment.

**NOTE 5 – DEFERRED FINANCING COSTS**

As of March 31, 2011 and December 31, 2010, deferred financing costs include $115,000 and $150,000, respectively, of unamortized deferred financing costs which are being amortized over the estimated useful life of the related debt. Accumulated amortization as of March 31, 2011 and December 31, 2010 was $1.0 million and $1.0 million, respectively. Estimated amortization expense of the Fund's existing deferred financing costs for the years ending December 31 is as follows (in thousands):

| | |
|---|---|
| 2011 | $ 85 |
| 2012 | 27 |
| 2013 | 3 |
| | $ 115 |

**NOTE 6 – BANK DEBT**

The Fund has a secured term loan agreement with WestLB AG, New York Branch which is collateralized by specific lease receivables and related equipment.

As of March 31, 2011 and December 31, 2010, the outstanding balance under this financing arrangement was $21.1 million and $25.7 million, respectively. Interest and principal are due as payments are received on the underlying leases and loans pledged as collateral, with any remaining balance due in March, 2014. Interest on this facility is calculated at London Interbank Offered Rate ("LIBOR") plus 0.95% per annum. To mitigate fluctuations in interest rates, the Fund has entered into interest rate swap agreements which fix the interest rate on this facility at 5.3%. The interest rate swap agreements terminate at various dates ranging from July 2011 to June 2015. Recourse under this facility is limited to the

amount of collateral pledged. As of March 31, 2011, $22.9 million of leases and loans and $1.5 million of restricted cash were pledged as collateral under this facility. As of March 31, 2011, the Fund is in compliance with all covenants under this agreement.

*Debt repayments.* Estimated annual principal payments on the Fund's aggregate borrowings ending December 31 are as follows (in thousands):

| | |
|---|---|
| 2011 | $ 10,929 |
| 2012 | 6,431 |
| 2013 | 2,028 |
| 2014 | 1,719 |
| | $ 21,107 |

**NOTE 7 – DERIVATIVE INSTRUMENTS**

Since the Fund's assets are structured on a fixed-rate basis, and funds borrowed through bank debt are obtained on a floating-rate basis, the Fund is exposed to interest rate risk if rates rise because it will increase the Fund's borrowing costs. In addition, when the Fund acquires assets, it bases its pricing in part on the spread it expects to achieve between the interest rate it charges its customers and the effective interest cost the Fund will pay when it funds those loans. Increases in interest rates that increase the Fund's permanent funding costs between the time the assets are originated and the time they are funded could narrow, eliminate or even reverse this spread.



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To manage interest rate risk, the Fund employs a hedging strategy using derivative financial instruments such as interest rate swaps. As discussed previously, effective October 1, 2010, the Fund has elected not to use hedge accounting. The Fund does not use derivative financial instruments for trading or speculative purposes. The Fund manages the credit risk of possible counterparty default in these derivative transactions by dealing primarily with counterparties with investment grade ratings. The Fund has agreements with certain of its derivative counterparties that contain a provision where if the Fund defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Fund could also be declared in default on its derivative obligations. The Fund has agreements with certain of its derivative counterparties that incorporate the loan covenant provisions of the Fund's indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Fund being in default on any derivative instrument obligations covered by the agreement. As of March 31, 2011, the Fund has not posted any collateral related to these agreements. If the Fund had breached any of these provisions at March 31, 2011, it could be required to settle its obligations under the agreements at their termination value of $866,000.

At March 31, 2011, the Fund had 37 interest rate swap contracts that terminate on various dates ranging from July 2011 to June 2015 which generally coincide with the maturity period of our portfolio of leases and loans which collateralize the credit facility.

The following tables present the fair value of the Fund's derivative financial instruments as well as their classification on the consolidated balance sheets and consolidated statements of operations as of March 31, 2011 and 2010. There were no derivative financial instruments which were not designated as hedging instruments as of March 31, 2011 (in thousands):

| **At March 31, 2011:**<br>**Derivatives not designated as hedging instruments** | **Notional Amount** | **Balance Sheet Location** | **Fair Value** |
|---|---|---|---|
| Interest rate swap contracts | $ 23,087 | Derivative liabilities, at fair value | $ (821) |

| | **Amount of Loss Recognized in OCI on Derivatives** | **Location and Amount of Loss Reclassified from Accumulated OCI into Income** |
|---|---|---|
| | **Three Months Ended March 31** | **Three Months Ended March 31** |

| Derivatives not designated as hedging instruments | 2011 | 2010 | | 2011 | 2010 |
| --- | --- | --- | --- | --- | --- |
| Interest rate swap contracts | $ — | $ 278 | Interest expense | $ (113) | $ (495) |

In the fourth quarter of 2010, the Fund made an election to discontinue the use of hedge accounting for its derivative financial instruments resulting in an unrealized loss which is being amortized into earnings over the remaining term of the Fund's debt. As of March 31, 2011, $1.2 million of the unrealized loss remains in accumulated other comprehensive loss and approximately $446,000 is expected to be charged to earnings over the next 12 months. While this change may create future volatility in the Fund's reported income statement results it is not expected to have any impact on the Fund's future cash flows.

**NOTE 8 – FAIR VALUE MEASUREMENT**

For cash, receivables and payables, the carrying amounts approximate fair values because of the short term maturity of these instruments. The carrying value of debt approximates fair market value since interest rates approximate current market rates.

It is not practicable for the Fund to estimate the fair value of the Fund's leases and loans. They are comprised of a large number of transactions with commercial customers in different businesses, and may be secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. Any difference between the carrying value and fair value of each transaction would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale of a transaction would be based on the terms of the sale, the Fund's and the buyer's views of economic and industry conditions, the Fund's and the buyer's tax considerations, and other factors.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability at the measurement date (exit price). U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

- *Level 1* – Quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2* – Observable inputs other than quoted prices included within Level 1, such as quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.





- *Level 3* – Unobservable inputs that reflect the entity's own assumptions about the assumptions that market participants would use in the pricing of the asset or liability and are consequently not based on market activity, but rather through particular valuation techniques.

The Fund employs a hedging strategy to manage exposure to the effects of changes in market interest rates. All derivatives are recorded on the consolidated balance sheets at their fair value as either assets or liabilities. Because the Fund's derivatives are not listed on an exchange, these instruments are valued by a third-party pricing agent using an income approach and utilizing models that use as their primary basis readily observable market parameters. This valuation process considers factors including interest rate yield curves, time value, credit factors and volatility factors. Although the Fund has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, the Fund has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Fund has determined that its derivative valuations in their entirety are

classified in Level 2 of the fair value hierarchy.

Liabilities measured at fair value on a recurring basis included the following (in thousands):

| | Fair Value Measurements Using | | | Liabilities |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | At Fair Value |
| Interest Rate Swaps at March 31, 2011 | $ — | $ (821) | $ — | $ (821) |
| Interest Rate Swaps at December 31, 2010 | $ — | $ (1,066) | $ — | $ (1,066) |

**NOTE 9 – CERTAIN RELATIONSHIPS AND TRANSACTIONS WITH AFFILIATES**

The Fund relies on the General Partner and its affiliates to manage the Fund's operations and pays the General Partner or its affiliates fees to manage the Fund. The following is a summary of fees and costs of services and materials charged by the General Partner or its affiliates (in thousands):

| | Three Months Ended March | |
|---|---|---|
| | 2011 | 2010 |
| Management fees | — | — |
| Administrative expenses | 64 | 210 |

*Management Fees.* The General Partner is paid a subordinated annual asset management fee equal to 3% or 2% of gross rental payments for operating leases or full payout leases, respectively, or a competitive fee, whichever is less. During the reinvestment period, management fees are subordinated to the payment of distributions to the Funds limited partners of a cumulative annual return of 8% on their capital contributions, as adjusted by distributions deemed to be a return of capital. Effective January 1, 2011, the General Partner has waived all future management fees.

*Administrative Expenses.* The General Partner and its affiliates are reimbursed by the Fund for administrative services reasonably necessary to operate which don't exceed the General Partner's cost of those fees or services.

*Due to Affiliate.* Due to affiliates includes amounts due to the General Partner related to acquiring and managing portfolios of equipment from its General Partner, management fees and reimbursed expenses.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Fund is party to various routine legal proceedings arising in the ordinary course of its business. Management believes that none of these actions, individually or in the aggregate, will have a material adverse effect on the Fund's financial condition or results of operations.

In connection with a sale of leases and loans to a third-party in July of 2008, the Fund contractually agreed to repurchase delinquent leases up to a maximum of $120,000 calculated as 7.5% of total proceeds received from the sale ("Repurchase Commitment"). As of March 31, 2011 the Fund has $71,000 remaining Repurchase Commitment.



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**ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**When used in this Form 10-Q, the words "believes" "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties more particularly described in other documents filed with Securities and Exchange Commission. These risks and uncertainties could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release the results of any revisions to forward-looking statements which we may make to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of**

**unanticipated events.**

The following discussion provides an analysis of our operating results, an overview of our liquidity and capital resources and other items related to us. The following discussion and analysis should be read in conjunction with (i) the accompanying interim financial statements and related notes and (ii) our consolidated financial statements, related notes, and management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2010.

As used herein, the terms "we," "us," or "our" refer to Lease Equity Appreciation Fund I, L.P. and subsidiary.

**Business**

We are a Delaware limited partnership formed on January 31, 2002 by our General Partner, LEAF Financial Corporation (the "General Partner"), which manages us. Our General Partner is a subsidiary of Resource America, Inc. ("RAI"). RAI is a publicly-traded company (NASDAQ: REXI) that uses industry specific expertise, to evaluate, originate, service and manage investment opportunities through its commercial finance, real estate and financial fund management segments. Through our offering termination date of August 15, 2004, we raised $17.1 million by selling 171,746 of our limited partner units. We commenced operations in March 2003.

We are expected to have a nine-year life, consisting of an offering period of up to two years, a five year reinvestment period and a subsequent maturity period of two years, during which our leases and secured loans will either mature or be sold. Our five year reinvestment period has ended and we entered the maturity period in August 2009. In the event we are unable to sell our remaining leases and secured loans during the maturity period, to the extent that there is excess cash, we expect to continue to return capital to our partners as those leases and loans mature. Substantially all of our leases and loans mature by the end of 2013. We will terminate on December 31, 2027, unless sooner dissolved or terminated as provided in the Limited Partnership Agreement.

We acquired a diversified portfolio of new, used or reconditioned equipment that we lease to third-parties. We also acquired portfolios of equipment subject to existing leases from other equipment lessors. Our financings were typically acquired from our General Partner. In addition, we made secured loans to end users to finance their purchase of equipment. We attempted to structure our secured loans so that, in an economic sense, there was no difference to us between a secured loan and a full payout equipment lease. We financed business-essential equipment including, but not limited to, computers, copiers, office furniture, water filtration systems, machinery used in manufacturing and construction, medical equipment and telecommunications equipment. We focused on the small to mid-size business market, which generally includes businesses with:

- 500 or fewer employees;
- $1 billion or less in total assets; or
- $100 million or less in total annual sales.

Our principal objective was to generate regular cash distributions to our limited partners.

**Fund Summary**

When we commenced operations in 2003, the United States economy was experiencing strong growth, an abundance of liquidity in the debt markets and historically low credit losses. It is widely believed that the United States economy over the past few years, has suffered through the worst economic recession in over 75 years. The recession has been severe and its consequences broadly felt. Many well-known major financial institutions failed and others had to be bailed out. Unemployment soared to generational highs and has remained at such levels. Bank lending was severely reduced and became more expensive. In recent years, banks became much more reluctant to lend, and when they did, it became more expensive to borrow. If existing loans came up for renewal and were extended, they were written for reduced amounts and at higher interest rates. Also, lenders insisted on ever-tighter covenants around delinquencies and write-offs that made it more difficult to remain in compliance. In March of 2009, we faced such a renewal negotiation with our lender. Although we were able to convince our lender to leave the interest rate the same, it would not permit any more borrowings and required that all the excess cash above a 4% distribution to our limited partners be applied to principal - paying down the loan more rapidly and forgoing the last six months of reinvestment opportunity for us. The recession caused increased delinquencies and losses greater than we had projected requiring us to repay our lender the amounts borrowed against delinquent leases in addition to anticipated principal pay down.

delinquent leases in addition to anticipated principal pay down.





We negotiated with our lender to prevent them from foreclosing on any collateral, or requiring a distressed sale of leases that would have badly impaired capital. Additionally, our General Partner has deferred payment of fees and reimbursement of expenses totaling approximately $7.7 million from inception through December 31, 2010 in order to preserve our cash. The General Partner has also waived future management fees. We entered our maturity phase in August 2009, and are prohibited under the Partnership Agreement from acquiring new leases.

To date, limited partners have received total distributions ranging from approximately 46% to 60% of their original amount invested, depending upon when the investment was made. Our General Partner is working to maximize the amount that can be distributed to our limited partners in the future. The July 2010 distribution was made at the 4.0% rate that has been in effect since 2009. However, beginning in August 2010, distributions were lowered to 2.0% in order to pay down our bank loan faster in order to reduce cash payments for interest as we liquidate the lease and loan portfolio over the next few years.

**General Economic Overview**

The overall U.S. economic outlook remains unsettled. In particular the small to medium sized business community has not fared as well as the larger businesses with respect to the economic recovery. This is significant as our portfolio is composed primarily of equipment leases and loans to the small to medium size business community, and as stated the small to medium size business community is trailing behind other business segments in the economic recovery. In fact, as reported by the U.S. Chamber of Commerce in its Small business Outlook Survey – April 2011, "The small business climate has deteriorated. Small business owners almost universally agree – by a 73% to 17% margin – that the climate of the last two years has hindered their growth."

This decline in business performance and expectations is also seen in several other widely followed indicators of economic performance.

- The U.S. housing market, historically a significant contributor to economic growth and wealth, continues to be depressed. On April 26, 2011 the S&P/Case-Shiller Home Price Report for February 2011 was released and reported that single family home prices fell for an eighth consecutive month. The report went on to state "Recent data on existing-home sales, housing starts, foreclosure activity and employment confirm we are still in a slow recovery."

- The National Association of Credit Managers reported that the manufacturing and Services Index Levels for March 2011 declined. "There were sharp declines in sales, new credit applications, dollar collections and the amount of credit extended. . ."

- The Institute of Supply Management reports that its non-manufacturing index declined in March 2011 as compared to February 2011. Similarly the Institute of Supply Management's manufacturing index declined in March 2011 as compared to February 2011. Significantly both indices reported declines in new orders.

- The MLFI-25 Monthly Leasing and Finance Index published by the Equipment Lease and Finance Association reported increases in both delinquencies and charge-offs in March 2011 as compared to February 2011.

These various national economic trends have an impact on the businesses that have financings with us, and while the economy remains in an unsettled state, periodic swings in our portfolio performance may be expected.





**Finance Receivables and Asset Quality**

Information about our portfolio of leases and loans is as follows (dollars in thousands):

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Investment in leases and loans, net | $ 21,716 | $ 27,139 |
| | | |
| Number of contracts | 6,400 | 6,900 |
| Number of individual end users (a) | 5,800 | 6,300 |
| Average original equipment cost | $ 16.0 | $ 15.8 |
| Average initial lease term (in months) | 57 | 58 |
| Average remaining lease term (in months) | 20 | 23 |
| States accounting for more than 10% of lease and loan portfolio: | | |
| California | 12% | 9% |
| | | |
| Types of equipment accounting for more than 10% of lease and loan portfolio: | | |
| Medical Equipment | 25% | 23% |
| Industrial Equipment | 21% | 22% |
| Office Equipment | 16% | 16% |
| Water Purification | 14% | 13% |
| | | |
| Types of businesses accounting for more than 10% of lease and loan portfolio: | | |
| Services | 52% | 50% |
| Retail Trade | 11% | 11% |
| Manufacturing | 11% | 11% |

(a) Located in the 50 states as well as the District of Columbia and Puerto Rico. No individual end user or single piece of equipment accounted for more than 4% of our portfolio based on original cost of the equipment.

We have primarily utilized debt facilities to fund the acquisitions of lease portfolios. As of March 31, 2011 and December 31, 2010, our outstanding debt was $21.1 million and $25.7 million, respectively.

**Portfolio Performance**

The table below provides information about our finance receivables including non-performing assets, which are those assets that are not accruing income due to non-performance or impairment (dollars in thousands):

| | As of and for the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | | | Change | |
| | 2011 | 2010 | $ | % |
| Investment in leases and loans before allowance for credit losses | $ 23,637 | $ 50,595 | $ (26,958) | (53)% |
| Less: allowance for credit losses | 1,921 | 2,510 | (589) | (23)% |
| Investment in leases and loans, net | $ 21,716 | $ 48,085 | $ (26,369) | (55)% |
| | | | | |
| Weighted average investment in direct financing leases and loans | $ 26,212 | $ 56,979 | $ (30,767) | (54)% |
| Non-performing assets | $ 2,458 | $ 3,597 | $ (1,139) | (32)% |
| Charge-offs, net of recoveries | $ 742 | $ 3,541 | $ (2,799) | (79)% |
| As a percentage of finance receivables: | | | | |
| Allowance for credit losses | 8.13% | 4.96% | | |
| Non-performing assets | 10.40% | 7.11% | | |
| As a percentage of weighted average finance receivables: | | | | |
| Charge-offs, net of recoveries | 2.83% | 6.21% | | |

Our allowance for credit losses is our estimate of losses inherent in our commercial finance receivables. The allowance is based on factors

which include our historical loss experience on equipment finance portfolios we manage, an analysis of contractual delinquencies, current economic conditions and trends and equipment finance portfolio characteristics, adjusted for recoveries. In evaluating historic performance, we perform a migration analysis, which estimates the likelihood that an account progresses through delinquency stages to ultimate charge-off. Our policy is to charge-off to the allowance those financings which are in default and for which management has determined the probability of collection to be remote. Substantially all of our assets are collateral for our debt and, therefore, significantly greater delinquencies than anticipated will have an adverse impact on our cash flow and distributions to our partners.





We focused on financing equipment used by small to mid-sized businesses. The recent economic recession in the US made it more difficult for some of our customers to make payments on their financings with us on a timely basis, which adversely affected our operations in the form of higher delinquencies. These higher delinquencies may continue as the US economy recovers. Our non-performing assets as a percentage of finance receivables, has increased from 7.11% at March 31, 2010 to 10.40% at March 31, 2011, primarily due the aging of our portfolio of leases and loans. Our net charge-offs decreased in 2011 compared 2010 primarily due to the ongoing reduction of the portfolio.

**Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of our assets, liabilities, revenues and cost and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including the allowance for credit losses, the estimated unguaranteed residual values of leased equipment, impairment of long-lived assets and the fair value and effectiveness of interest rate swaps. We base our estimates on historical experience, current economic conditions and on various other assumptions that we believe reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

For a complete discussion of our critical accounting procedures and estimates, see our annual report on Form 10-K for fiscal 2010 under "Management's Discussion and Analysis of Financial Condition and Analysis of Financial Condition and Results of Operation- Critical Accounting Policies and Estimates." There have been no material changes to those policies through March 31, 2011.





**Results of Operations**

*Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010*

| | | | Increase (Decrease) | |
|---|---|---|---|---|
| | **2011** | **2010** | **$** | **%** |
| **Revenues:** | | | | |
| Interest on equipment financings | $ 505 | $ 1,077 | $ (572) | (53)% |
| Rental income | 81 | 105 | (24) | (23)% |
| (Losses) gains on sales of equipment and lease dispositions, net | (23) | 228 | (251) | — |
| Other | 92 | 167 | (75) | (45)% |
| | 655 | 1,577 | (922) | (58)% |
| **Expenses:** | | | | |
| Interest expense | 106 | 711 | (605) | (85)% |
| Loss on derivative activities | 124 | | 124 | |

| | | | | |
|---|---|---|---|---|
| Loss on derivative activities | 124 | — | 124 | — |
| Depreciation on operating leases | 69 | 86 | (17) | (20)% |
| Provision for credit losses | 983 | 1,641 | (658) | (40)% |
| General and administrative expenses | 58 | 334 | (276) | (83)% |
| Administrative expenses reimbursed to affiliate | 64 | 210 | (146) | (70)% |
| Management fees to affiliate | — | — | — | — |
| | 1,404 | 2,982 | (1,578) | (53)% |
| Net loss | $ (749) | $ (1,405) | $ 656 | |
| Net loss allocated to limited partners | $ (742) | $ (1,391) | $ 649 | |

The overall decrease in revenues and expenses is primarily a result of the Fund being in its maturity phase whereby the Fund is prohibited from acquiring any more leases and loans. A more specific discussion follows:

The decrease in total revenues was primarily attributable to the following:

- A significant decrease in our weighted average net investment in financing assets to $26.2 million for the three months ended March 31, 2011 as compared to $57.0 .million for the three months ended March 31, 2010, a decrease of $30.8 million or 54%. As we entered our maturity phase in August 2009, we have not acquired additional leases and loans since the first quarter of 2009. Therefore, our revenues are expected to continue to decline as our weighted average net investment in financing assets declines.

The decrease in total expenses was primarily attributable to the following:

- A decrease in interest expense primarily due to the decrease in our bank debt caused by the ongoing maturities of the portfolio of lease and loans. Outstanding borrowings were $21.1 million at March 31, 2011 as compared to $45.9 million at March 31, 2010. Borrowings for the three months ended March 31, 2011 and 2010 were at an effective interest rate of 6.2% and 5.7%, respectively. We amended our debt facility effective March 6, 2009, such that it is now a term facility which is contractually repaid over time. As a result, our interest expense is expected to continue to decrease.

- A significant decrease in our provision for credit losses. We provide for credit losses when losses are likely to occur based on a migration analysis of past due payments and economic conditions. This decrease is consistent with the decline in the portfolio equipment financed assets.

Beginning May 1, 2009, the General Partner waived its asset management fees and reversed certain management fee accruals recorded previously in 2009. Approximately $650,000 of management fees were waived for the three months ended March 31, 2011. The General Partner has also waived all future management fees.

The net loss per limited partner unit, after the net loss allocated to our General Partner, for the three months ended March 31, 2011 and 2010 was $4.32 and $8.10, respectively, based on a weighted average number of limited partner units outstanding of 171,696 for both periods.



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**Liquidity and Capital Resources**

*General*

Our major source of liquidity is excess cash derived from the collection of lease payments, after payment of debt principal and interest on debt. Our other cash requirements, in addition to debt service, are for normal operating expenses and distributions to partners. We plan to fund our other cash requirements for operating expenses and distributions to partners, from cash remaining after payments for debt service.

As noted previously, we entered the maturity phase in August 2009. Accordingly, we will not be purchasing any new leases or loans. We have not made any purchases of leases or loans since the first quarter of 2009. As more fully discussed below, in the first quarter of 2009, we renegotiated our revolving debt facility into a term facility that will be repaid as payments are received on the correlating portfolio of leases and loans with any remaining balance due March 14, 2014. In summary, in return for agreeing to a term loan that accelerates the repayment of the loan, the lender agreed to remove all financial covenants from the loan agreement. The remaining covenants are non-financial in nature.

We believe that our future net cash inflows can be estimated as the total scheduled future payments to be received from leases and loans less our debt service payments. At March 31, 2011, the total future minimum lease payments scheduled to be received was $25.4 million which excludes the $1.9 million allowance for credit losses. The outstanding principal balance owed on our debt facility was $21.1 million. We believe at this time that future net cash inflows will be sufficient to either finance operations or meet debt service payments. The following table sets forth our sources and uses of cash for the periods indicated (in thousands):

| | Period Ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| Net cash provided by operating activities | $ 220 | $ 258 |
| Net cash provided by investing activities | 4,348 | 7,334 |
| Net cash used in financing activities | (4,603) | (7,743) |
| Decrease in cash | $ (35) | $ (151) |

Cash decreased by $35,000 primarily due to a debt repayment of $4.6 million and distributions to our partners of $86,000 offset by net proceeds from leases and loans of $4.3 million.

As of March 31, 2011, $21.1 million was outstanding under our secured term loan agreement with WestLB. No further borrowings are available under the secured term loan agreement. This facility is secured by the pledging of eligible leases and loans. Recourse under this facility is limited to the amount of collateral pledged. As of March 31, 2011, $22.9 million of leases and loans and $1.5 million of restricted cash were pledged as collateral under this facility. Interest on this facility is calculated at LIBOR plus 0.95% per annum. Interest rate swap agreements fix the interest rate on this facility at 5.3%. Interest and principal are due as payments are received on the underlying leases and loans pledged as collateral, with any remaining balance due in March 2014. As of March 31, 2011, we were in compliance with all covenants contained in this agreement.

Partners' distributions paid during the three months ended March 31, 2011 and 2010 were $86,000 and $171,000, respectively. In April 2009, and again in August of 2010, the limited partners' monthly distributions were reduced to 4% and 2%, respectively, per annum of invested capital. Cumulative partner distributions paid from our inception to March 31, 2011 were approximately $9.2 million.

Future cash distributions are dependent on our performance and are impacted by a number of factors which include lease and loan defaults by our customers and prevailing economic conditions.

The General Partner waived its management fees beginning May 1, 2009. Accordingly, we did not record any management fee expense for the three months ended March 31, 2011. The General Partner has also waived all future management fees. The cash savings on management fees and distributions is expected to be used to pay down our liabilities.

As discussed above, our liquidity has been and may continue to be adversely affected by higher than expected equipment lease defaults, which result in a loss of anticipated revenues. These losses affect our ability to make distributions to our partners and, if the level of defaults is sufficiently large, result in our inability to fully recover our investment in the underlying equipment. In evaluating our allowance for losses on uncollectible leases, we consider our contractual delinquencies, economic conditions and trends, lease portfolio characteristics and our General Partner's management's prior experience with similar lease assets. At March 31, 2011, our credit evaluation indicated a need for an allowance for credit losses of $1.9 million. As our lease portfolio ages, and if the economy in the United States deteriorates, we anticipate the need to increase our allowance for credit losses.

**ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and Qualitative Disclosures about Market Risk have been omitted as permitted under rules applicable to smaller reporting companies.

**ITEM 4 – CONTROLS AND PROCEDURES**

*Disclosure Controls*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision of our General Partner's chief executive officer and chief financial officer, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our General Partner's chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level discussed above.

*Changes in Internal Control over Financial Reporting*

There has been no change in our internal control over financial reporting that occurred during the three months ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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**PART II. OTHER INFORMATION**

**ITEM 6 – EXHIBITS**

| No. | Description |
|---|---|
| 3.1 | Amended and Restated Agreement of Limited Partnership (1) |
| 3.2 | Certificate of Limited Partnership (2) |
| 4.1 | Forms of letters sent to limited partners confirming their investment (2) |
| 10.1 | Origination and Servicing Agreement among LEAF Financial Corporation, Lease Equity Appreciation Fund I, L.P. and LEAF Funding, Inc., dated April 4, 2003 (4) |
| 10.2 | Secured Loan Agreement dated as of December 31, 2004 among LEAF Fund I, LLC, LEAF Funding, Inc., Lease Equity Appreciation Fund I, L.P., LEAF Financial Corporation, U.S. Bank National Association, and WestLB, New York Branch (3) |
| 10.3 | First Amendment to WestLB AG, New York Branch, Secured Loan Agreement (5) |
| 10.4 | Third Amendment to WestLB AG, New York Branch, Secured Loan Agreement (6) |
| 10.5 | Fourth Amendment to WestLB AG, New York Branch, Secured Loan Agreement (7) |
| 10.6 | Fifth Amendment to WestLB AG, New York Branch, Secured Loan Agreement (8) |
| 10.7 | Seventh Amendment WestLB AG, New York Branch, Secured Loan Agreement (9) |
| 10.8 | Eighth Amendment to WestLB AG, New York Branch, Secured Loan Agreement (10) |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 1350 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

| | of 2002 |
|---|---|
| 32.2 | Certification of Chief Financial Officer pursuant to Section 1350 18 U.S.C., as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(1) Filed previously as Appendix A to our Post-Effective Amendment No. 3 to our Registration Statement on Form S-1, filed on January 26, 2004 and by this reference incorporated herein.
(2) Filed previously as an exhibit to Amendment No. 1 to our Registration Statement on Form S-1 filed on June 7, 2002 and by this reference incorporated herein.
(3) Filed previously as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2004 and by this reference incorporated herein.
(4) Filed previously on Form 8-K, filed on September 19, 2003 and by this reference incorporated herein.
(5) Filed previously as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2005 and by this reference incorporated herein.
(6) Filed previously as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 and by this reference incorporated herein.
(7) File previously as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 and by this reference incorporated herein.
(8) Filed previously as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2007 and by this reference incorporated herein.
(9) Filed previously as an exhibit to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 and by this reference incorporated herein.
(10) Filed previously as an exhibit to our Annual Report on Form 10-K for the year ended December 31, 2008 and by this reference incorporated herein.



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**LEASE EQUITY APPRECIATION FUND I, L.P.**
Delaware Limited Partnership
By: LEAF Financial Corporation, the General Partner

May 16, 2011

By: /s/ CRIT S. DEMENT
CRIT S. DEMENT
Chairman and Chief Executive Officer

May 16, 2011

By: /s/ ROBERT K. MOSKOVITZ
ROBERT K. MOSKOVITZ
Chief Financial Officer