FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**
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FILER

PAINEWEBBER PREFERRED YIELD FUND L P
CIK:**859176**| IRS No.: **841130506** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **000-19166** | Film No.: **96666607**
SIC: **7359** Equipment rental & leasing, nec

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

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 0-19166

PaineWebber Preferred Yield Fund, L.P.
(Exact name of registrant as specified in its charter)

Delaware	84-1130506
(State of organization)	(IRS Employer) (Identification No.)

7175 West Jefferson Avenue Suite 3000 Lakewood, Colorado	80235
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (303) 980-1000

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

PaineWebber Preferred Yield Fund, L.P.
Quarterly Report on Form 10-Q for the
Quarter Ended September 30, 1996

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>
<CAPTION>

PAINEWEBBER PREFERRED YIELD FUND, L.P.

BALANCE SHEETS --SEPTEMBER 30, 1996 AND DECEMBER 31, 1995
(unaudited)

	1996	1995
ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 2,445,541	$ 9,235,759
Rent and other receivables, net	546,796	837,380
Equipment held for sale or lease, net of accumulated depreciation of $500,066 and $847,848 at 1996 and 1995 and allowances for losses of $ 91,282 and $152,227 at 1996 and 1995	105,072	56,395
Net investment in direct financing leases	3,348,309	3,527,277
Equipment on operating leases, net of accumulated depreciation of $30,453,375 in 1996 and $29,400,612 in 1995 and allowance for losses of $291,546 in 1996 and $724,212 in 1995	37,675,502	39,625,794
Other assets, net	36,614	19,406
Total assets	$44,157,834	$53,302,011
LIABILITIES AND PARTNERS' EQUITY		
LIABILITIES:		
Prepaid rent	$ 9,053,001	$11,124,724
Accounts payable and accrued liabilities	322,437	531,458
Payable to affiliates (Note 2)	928,514	639,846
Interest payable	11,750	22,288
Deferred rental income and deposits	950,260	911,517
Distributions payable to partners	3,179,714	1,211,123
Discounted lease rentals	3,162,561	4,747,859
Total liabilities	17,608,237	19,188,815
Commitments and contingencies (Notes 2,3 and 4)		
PARTNERS' EQUITY:		
General Partners	1,327,667	1,612,447
Limited Partners:		
Class A (142,128 Units outstanding)	22,032,703	28,417,629
Class B	3,189,227	4,083,120
Total Partners' equity	26,549,597	34,113,196
Total liabilities and partners' equity	$44,157,834	$53,302,011

</TABLE>

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

PAINEWEBBER PREFERRED YIELD FUND, L.P.

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995
(unaudited)

	1996	1995
REVENUE:		
Rentals from operating leases	$3,637,307	$3,562,569
Direct financing lease income	186,315	200,049
Gain on sale of equipment	165,439	104,888
Interest	43,127	43,262
Other income	36,385	7,513
	4,068,573	3,918,281
EXPENSES:		
Depreciation and amortization	2,366,097	2,507,047
Provision for losses	200,000	--
Management and disposition fees (Note 2)	184,182	145,122
General and administrative (Note 2)	90,357	65,333
Interest	235,348	64,118
	3,075,984	2,781,620
NET INCOME	$ 992,589	$1,136,661
NET INCOME ALLOCATED:		
To the General Partners	$ 143,030	$ 125,277
To the Class A Limited Partners	898,847	959,723
To the Class B Limited Partner	(49,288)	51,661
	$ 992,589	$1,136,661
NET INCOME PER WEIGHTED AVERAGE NUMBER OF UNITS OF CLASS A LIMITED PARTNER INTEREST OUTSTANDING	$6.32	$6.75
WEIGHTED AVERAGE NUMBER OF UNITS OF CLASS A LIMITED PARTNER INTEREST OUTSTANDING	142,128	142,128

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

PAINEWEBBER PREFERRED YIELD FUND, L.P.

STATEMENTS OF INCOME

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995
(unaudited)

	1996	1995
REVENUE:		
Rentals from operating leases	$10,942,688	$11,878,832
Direct financing lease income	563,786	417,634

Gain on sale of equipment	572,568	98,585
Interest	214,434	154,585
Other income	36,385	143,043
	12,329,861	12,692,679
EXPENSES:		
Depreciation and amortization	7,116,362	8,432,861
Provision for losses	575,000	150,000
Management and disposition fees (Note 2)	512,982	505,911
General and administrative (Note 2)	352,034	199,125
Interest	820,851	195,607
	9,377,229	9,483,504
NET INCOME	$ 2,952,632	$ 3,209,175
NET INCOME ALLOCATED:		
To the General Partners	$ 241,032	$ 620,326
To the Class A Limited Partners	2,734,006	2,427,035
To the Class B Limited Partner	(22,406)	161,814
	$ 2,952,632	$ 3,209,175
NET INCOME PER WEIGHTED AVERAGE NUMBER OF UNITS OF CLASS A LIMITED PARTNER INTEREST OUTSTANDING	$19.24	$17.07
WEIGHTED AVERAGE NUMBER OF UNITS OF CLASS A LIMITED PARTNER INTEREST OUTSTANDING	142,128	142,128

</TABLE>

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

<TABLE>
<CAPTION>

PAINEWEBBER PREFERRED YIELD FUND, L.P.

STATEMENTS OF PARTNERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995
(unaudited)

<S>	General Partners <C>	Class A Limited Partners <C>	Class B Limited Partner <C>	Total <C>
Balance, January 1, 1996	$ 1,612,447	$ 28,417,629	$ 4,083,120	$ 34,113,196
Net income	241,032	2,734,006	(22,406)	2,952,632
Distributions declared	(525,812)	(9,118,932)	(871,487)	(10,516,231)
Balance, September 30, 1996	$ 1,327,667	$ 22,032,703	$ 3,189,227	$ 26,549,597
Balance, January 1, 1995	$ 1,453,727	$ 35,219,952	$ 4,955,772	$ 41,629,451
Net income	620,326	2,427,035	161,814	3,209,175
Distributions declared	(430,251)	(7,461,720)	(713,034)	(8,605,005)

Balance, September 30, 1995	$ 1,643,802	$ 30,185,267	$ 4,404,552	$ 36,233,621

</TABLE>

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

<TABLE>
<CAPTION>

PAINEWEBBER PREFERRED YIELD FUND, L.P.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995
(unaudited)

<S>	1996 <C>	1995 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,952,632	$ 3,209,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,116,362	8,432,861
Provision for losses	575,000	150,000
Gain on sale of equipment, including direct finance leases, net	(572,568)	(98,585)
Change in assets and liabilities:		
Rent and other receivables	290,584	(87,825)
Accounts payable and accrued liabilities	(209,021)	156,932
Payable to affiliates	288,668	152,214
Interest payable	(10,538)	(4,126)
Deferred rental income and deposits	38,743	24,858
Prepaid rent	(1,595,535)	--
Increase in other assets	(17,208)	--
Net cash provided by operating activities	8,857,119	11,935,504
CASH FLOWS FROM INVESTING ACTIVITIES:		
Recovery of investment in direct financing leases	1,228,604	1,087,121
Proceeds from sale of equipment, net of prepaid rent	1,997,533	2,339,148
Purchase of equipment on operating leases (Note 2)	(8,649,624)	(5,272,352)
Investment in direct financing leases (Note 2)	(90,912)	(1,446,916)
Net cash used in investing activities	(5,514,399)	(3,292,999)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of discounted lease rentals	(1,585,298)	(1,630,472)
Cash distributions paid to partners	(8,547,640)	(8,605,005)
Net cash used in financing activities	(10,132,938)	(10,235,477)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,790,218)	(1,592,972)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,235,759	3,870,361
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,445,541	$ 2,277,389
Supplemental schedule of cash flow information:		
Interest paid	$ 831,389	$ 206,733

</TABLE>

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

<TABLE>
<CAPTION>

PAINEWEBBER PREFERRED YIELD FUND, L.P.

STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995
(unaudited)

<S>	1996 <C>	1995 <C>
NON CASH TRANSACTIONS		
Equipment subject to operating leases converted to direct financing leases at renewal	$ 958,724	$ --
Distributions declared but not paid to partners	$ 3,179,714	$ 1,211,123

</TABLE>

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

PAINEWEBBER PREFERRED YIELD FUND, L.P.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1996
(unaudited)

1. GENERAL

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of the General Partners, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation have been included. The balance sheet at December 31, 1995 has been derived from the audited financial statements included in the Partnership's Annual Report on Form 10-K. For further information, refer to the financial statements of PaineWebber Preferred Yield Fund, L.P. (the "Partnership"), and the related notes, included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 1995, previously filed with the Securities and Exchange Commission.

2. TRANSACTIONS WITH AFFILIATES

Acquisition Fees During the nine months ended September 30, 1996, the Partnership acquired equipment on an all cash basis from CAII, an affiliate of the Managing General Partner, for purchase prices aggregating $2,542,028 (excluding acquisition fees) of which $20,286 was purchased during the quarter ended September 30, 1996. The purchase prices of the equipment acquired from CAII was equal to the lesser of the adjusted cost of the equipment or the appraised value of the equipment at the time of its acquisition by the Partnership. The adjusted cost of the equipment was equal to the price paid by CAII, plus the cost of an appraisal, CAII's cost of interim financing for the equipment and any taxes paid by CAII, less certain interim rentals received by CAII with respect to the equipment. The Partnership also acquired leased equipment directly from third parties for purchase prices aggregating $5,944,610, excluding acquisition fees of which $2,712,804 was purchased during the quarter ended September 30, 1996. The Managing General Partner was entitled to a fee equal to 3.0% of the purchase price of equipment purchased with reinvested Partnership income as compensation for evaluating, selecting, negotiating and consummating the acquisition of the equipment. The Managing General Partner earned $81,678 and $253,898 of acquisition fees attributable to the acquisitions of leased equipment completed during the quarter and nine months ended September 30, 1996, respectively, with respect to amount committed on or before March 31, 1996.

Management Fees The General Partners receive a quarterly fee in an amount equal to 2.0% of gross rentals for Full Payout Leases, as defined in the Partnership Agreement, and 5.0% of gross rentals for other leases (payable 55% to the Managing General Partner and 45% to the Administrative General Partner) as compensation for services rendered in connection with the management of the equipment. Management fees of $151,874 and $451,289 were earned by the General

Partners with respect to the rental revenues earned by the Partnership during the quarter and nine months ended September 30, 1996.

Disposition Fees The Managing General Partner is entitled to receive a subordinated disposition fee in an amount equal to the lesser of (i) 50% of the fee that would be charged by an unaffiliated party, or (ii) 3% of the gross contract price relating to each sale of equipment as compensation for negotiating and consummating sales of equipment. Subordinated disposition fees of $32,308 and $61,693 are payable to the Managing General Partner with respect to dispositions which occurred during the quarter and nine months ended September 30, 1996, respectively. These fees, which were charged to operations, are not currently payable since their payment is subordinated to the Class A Limited Partners receiving cash distributions equal to their capital contributions, plus an 8% annual cumulative return (as defined in the Partnership Agreement). Cumulative disposition fees payable at September 30, 1996 totaled $404,354.

Accountable General and Administrative Expenses The General Partners are entitled to reimbursement of certain expenses paid on behalf of the Partnership which are incurred in connection with the Partnership's operations. Such reimbursable expenses, all of which were paid to the Managing General Partner, amounted to $18,750 during the nine months ended September 30, 1996.

3. LITIGATION

In November 1994, a series of purported class actions (the "New York Limited Partnership Actions") were filed in the United States District Court for the Southern District of New York concerning PaineWebber Incorporated sale and sponsorship of various limited Partnership investments, including those offered by the Partnership. The lawsuits were brought against PaineWebber Incorporated and Paine Webber Group, Inc. (together, "PaineWebber"), among others, by allegedly dissatisfied Partnership investors. In March 1995, after the actions were consolidated under the title In re: PaineWebber Limited Partnerships Litigation, the plaintiffs amended their complaint to assert claims against a variety of other defendants, including the Administrative General Partner of the Partnership.

The amended complaint in the New York Limited Partnership Actions alleged that, in connection with the sale of interests in the Partnership, PaineWebber and the Administrative General Partner (1) failed to provide adequate disclosure of the risks involved with each Partnership; (2) made false and misleading representations about the safety of the investments and the partnership's anticipated performance; and (3) marketed the partnerships to investors for whom such investments were not suitable. The plaintiffs also alleged that following the sale of the Partnership investments PaineWebber and the Administrative General Partner misrepresented financial information about the partnership's value and performance. The amended complaint alleged that PaineWebber and the Administrative General Partner violated the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the federal securities laws. The plaintiffs sought unspecified damages, including reimbursement for all sums invested by them in the partnerships, as well as disgorgement of all fees and other income derived by PaineWebber from the limited partnerships. In addition, the plaintiffs also sought treble damages under RICO.

On May 30, 1995, the US District Court certified class action treatment of the plaintiffs' claims in the class action entitled, In re: PaineWebber Limited Partnerships Litigation.

In January 1996, PaineWebber signed a memorandum of understanding with the plaintiffs in the class action outlining the terms under which the parties have agreed to settle the case. Pursuant to that memorandum of understanding, PaineWebber irrevocably deposited $125 million into an escrow fund under the supervision of the United States District Court for the Southern District of New York ("District Court") to be used to resolve the litigation. On July 17, 1996, the District Court granted preliminary approval of the proposed settlement of the class action litigation. As a part of the class action settlement, PaineWebber agreed to pay $125 million and additional consideration to class members. A final hearing on the proposed settlement is scheduled to continue in November 1996.

In February 1996, approximately 150 plaintiffs filed an action entitled

Abbate v. PaineWebber Inc. in Sacramento, California Superior Court against PaineWebber Incorporated and various affiliated entities concerning the plaintiff's purchases of various limited Partnership interests. The complaint alleges, among other things, that PaineWebber and its related entities committed fraud and misrepresentation and breached fiduciary duties allegedly owed to the plaintiffs by selling or promoting limited partnership investments that were unsuitable for the plaintiffs and by overstating the benefits, understating the risks and failing to state material facts concerning the investments. The complaint seeks compensatory damages of $15 million plus punitive damages. In September 1996, the California Superior Court dismissed many of the plaintiffs' claims as barred by the applicable statutes of limitation.

Under certain limited circumstances, pursuant to the Partnership Agreement and other contractual obligations, PaineWebber and its affiliates, including the Administrative General Partner, could be entitled to indemnification from the Partnership for expenses and liabilities in connection with the Abbate litigation. The General Partners are unable to determine the amount, if any of the impact of these actions on the Partnership's financial statements taken as a whole.

4. PREPAYMENT OF LEASES

On December 11, 1995, the Partnership entered into a lease (Master Lease) with an unaffiliated third party (Master Lessee) for a term of approximately 110 months. Under the terms of the Master Lease, the Partnership assigned to the Master Lessee certain economic rights to certain user leases (with remaining lease terms ranging from 10 to 55 months) originally acquired by the Partnership for purchase prices aggregating $13,879,929 (including related acquisition fees) (Master Lease Equipment) and which represented future minimum lease rentals under non-cancelable leases totaling $7,563,186. The Master Lessee prepaid ("Prepayment of Leases"), on a discounted basis at a rate of 8.25%, the rent due to the Partnership under the Master Lease in the amount of $11,257,741 of which $9,053,001 and $11,124,724 remained outstanding at September 30, 1996 and December 31, 1995, respectively. The Prepayment of Leases is carried as prepaid rent on the balance sheets at such dates and is accounted for as a financing. The Master Lease term exceeds the related original user lease terms. Additionally, at the inception of the Master Lease the amount of the Prepayment of Leases approximated the aggregate of the remaining rental payments due under the user leases and the residual (salvage) value estimates for the equipment subject to the user leases.

The Partnership does not have any economic obligations relating to the equipment subject to the Master Lease until such equipment is returned upon the expiration of the Master Lease. Upon expiration of the Master Lease, the economic benefits of all equipment (Master Lease equipment) still being leased by third parties as well as a portion of the residual value of such equipment based upon a formula will revert to the Partnership.

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

LIQUIDITY AND CAPITAL RESOURCES

The Partnership purchased $8,740,536 of additional equipment (inclusive of related acquisition fees) pursuant to the reinvestment program during the nine months ended September 30, 1996 ("1996 Period"). Equipment purchased pursuant to the reinvestment program from the inception of the Partnership through September 30, 1996 totaled $69,965,431. The Partnership has completed the expenditure of the committed funds, the Partnership's reinvestment phase has ended and no additional leased equipment will be purchased, other than upgrades to existing equipment as necessary.

Net proceeds from equipment sales totaled approximately $2,329,000 (including sales of equipment subject to direct financing of leases) during the nine months ended September 30, 1996. The equipment sold during the nine months ended September 30, 1996 had been purchased for original purchase prices aggregating approximately $7,324,000.

The Partnership invests working capital and cash flow from operations prior to its distribution to the partners in short-term highly liquid investments.

Rent and other receivables, net of the allowance for doubtful accounts, decreased $290,584, from $837,380 at December 31, 1995 to $546,796 at September 30, 1996, due principally to continued collection efforts.

Deferred rental income and deposits increased $38,743 from $911,517 at December 31, 1995 to $950,260 September 30, 1996. The principal portion of this increase was attributable to a slight increase in the amount of rental payments received during the last week of the current quarter which were due on the first day of the succeeding quarter.

During the Quarter ending September 30,1996, the Partnership declared cash distributions in the aggregate amount of $4,779,562. The distributions declared for the 1996 Quarter included undistributed cash generated in the previous quarter. Additionally, the Partnership has changed its distribution convention from monthly to quarterly The cash distributions accrued at September 30, 1996 were paid or payable in October 1996, and the next distribution will be paid in January 1997. A substantial portion of each distribution constitutes a return of capital. Future cash distributions will be determined based upon cash flow net of obligations. Beginning in the second quarter of 1996, the Partnership entered into the Liquidation Stage and will no longer commit to new equipment purchases. Future distribution rates and timing will be determined based upon cash flow from leases, equipment sales and cash obligations.

Distributions may be characterized for tax, accounting and economic purposes as a return of capital, a return on capital or both. The portion of each distribution by a partnership, which exceeds its net income for the fiscal period, may be deemed a return of capital. Based on the amount of net income reported by the Partnership for accounting purposes, approximately 81% of the annualized cash distributions to the Class A Limited Partners for the three months ended September 30, 1996 constituted a return of capital (70% for the nine months then ended). Also, based on the amount of net income reported by the Partnership for accounting purposes, approximately 69% of the cash distributions paid to the Class A Limited Partners from inception of the Partnership through September 30, 1996 constituted a return of capital. However, the total actual return on capital over the Partnership's life can only be determined at the termination of the Partnership after all residual cash flows (which include proceeds from the re-leasing and sale of the equipment after initial lease terms expire) have been realized.

LITIGATION

See Footnote 3, "Litigation", for a discussion of certain litigation to which the Partnership is a party.

RESULTS OF OPERATIONS

Substantially all of the Partnership's revenue and cashflow during the 1996 Quarter was generated from the leasing of the Partnership's equipment to unaffiliated third parties under triple net leases. The balance of the Partnership's cashflow consisted of proceeds from the sale of equipment and interest income from temporary investments.

Under the terms of the triple net leases, substantially all of the expenses related to the ownership and operation of the equipment are paid for by the lessees. For equipment subject to operating leases, the Partnership records depreciation expense pertaining to the equipment and related management fees. The Partnership also records general and administrative expenses consisting primarily of warehouse costs, investor reporting expenses and transfer agent and audit fees as well as interest expenses incurred in connection with discounted transactions.

The Partnership performs ongoing assessments of the likelihood of lessee defaults on existing leases and the effect that any such defaults may have on the collectability of the Partnership's recorded accounts receivable, and the recoverability of recorded equipment residual values based on independent and internal evaluations of the estimated future value of equipment. Provisions for losses are recorded when it is determined that it is probable that the value of a recorded asset has declined on an other than temporary basis.

1996 Compared to 1995

The Partnership's net income was $992,589 and $2,952,632 in the 1996 Quarter and 1996 Period as compared to net income of $1,136,661 and $3,209,175 for the quarter and nine months ended September 30, 1996("1995 Quarter" and "1995 Period", respectively).

Rentals from operating leases increased by $74,738 but decreased by $936,144 or 2% and (8%), respectively in the 1996 Quarter and 1996 Period as compared to the 1995 Quarter and 1995 Period. The increase in the 1996 Quarter as compared to the 1995 Quarter is attributable to the rents generated by equipment acquired throughout 1996, which was more than offset during the 1996 Period by the expiration of leases in accordance with their respective terms and either the sale of equipment or the remarketing of the equipment at lower lease rates.

As discussed above, the Partnership performs ongoing assessments of recorded equipment residual values based on actual sales of similar equipment and other evaluations of estimated future equipment values and provides for losses when the value of the equipment has been impaired on an other than temporary basis. Based upon such assessments, the Partnership recorded provision for losses totaling $200,000 and $575,000 in the 1996 Quarter and the 1996 Period respectively as compared to $150,000 during the 1995 Period. No such amounts were provided in the 1995 Quarter.

Depreciation and amortization expense decreased by $140,950 and $1,316,499 or 6% and 16% in the 1996 Quarter and 1996 Period as compared to the 1995 Quarter and 1995 Period. The percentage decrease was smaller in the 1996 Quarter compared to the 1995 Quarter than it was in the 1996 Period compared to the 1995 Period due to the depreciation associated with leased equipment acquired throughout the 1996 Period, principally from the proceeds of the prepayment of leases (see Note 4, "Prepayment of Leases".)

Management and disposition fees incurred during the 1996 Quarter increased by 27% and 1% or $39,060 and $7,071 in comparison to the 1995 Quarter and 1995 Period, respectively. Subordinated disposition fees were $32,308 in the 1996 Quarter and $61,693 in the 1996 Period as compared to $17,334 in the 1995 Quarter and $87,696 in the 1995 Period. Management fees were $151,874 and $451,289 during the 1996 Quarter and 1996 Period as compared to $127,788 and $418,216 during the 1995 Quarter and 1995 Period based upon the leases in place (and related fee structures) in the respective periods.

Interest expense incurred during the 1996 Quarter and 1996 Period increased substantially in the 1996 Quarter as compared to the 1995 Quarter and 1995 Period. Interest expense is composed of two components; (i) interest expense incurred in connection with the discounting of certain leases with unaffiliated lenders and (ii) interest incurred in connection with the application of the prepaid rent received pursuant to the Master Lease transaction. For accounting purposes, the prepaid rent is treated as a financing. Income is recognized ratably over the terms of the leases and the related interest is charged to operations. The Master Lease was not in place in the 1995 Period.

General and administrative expenses increased significantly in the 1996 Quarter and 1996 Period as compared to the 1995 Quarter and 1995 Period. The increase in the 1996 Period is attributable to income state and taxes incurred at the Partnership level and an increase in insurance

premiums incurred by the Partnership; the increase in insurance premiums is responsible for the increase in the 1996 Quarter as compared to the 1995 Quarter.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

In November 1994, a series of purported class actions (the "New York Limited Partnership Actions") were filed in the United States District Court for the Southern District of New York concerning PaineWebber Incorporated's sale and sponsorship of various limited partnership investments, including those offered by the Partnership. The lawsuits were brought against PaineWebber Incorporated and Paine Webber Group, Inc. (together, "PaineWebber"), among others, by allegedly dissatisfied partnership investors. In March 1995, after the actions were consolidated under the title In re: PaineWebber Limited Partnerships

Litigation, the plaintiffs amended their complaint to assert claims against a variety of other defendants, including the Administrative General Partner of the Partnership.

The amended complaint in the New York Limited Partnership Actions alleged that, in connection with the sale of interests in the Partnership, PaineWebber and the Administrative General Partner (1) failed to provide adequate disclosure of the risks involved with each partnership; (2) made false and misleading representations about the safety of the investments and the partnership's anticipated performance; and (3) marketed the partnerships to investors for whom such investments were not suitable. The plaintiffs also alleged that following the sale of the partnership investments PaineWebber and the Administrative General Partner misrepresented financial information about the partnership's value and performance. The amended complaint alleged that PaineWebber and the Administrative General Partner violated the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the federal securities laws. The plaintiffs sought unspecified damages, including reimbursement for all sums invested by them in the partnerships, as well as disgorgement of all fees and other income derived by PaineWebber from the limited partnerships. In addition, the plaintiffs also sought treble damages under RICO.

On May 30, 1995, the US District Court certified class action treatment of the plaintiffs' claims in the class action entitled, In re: PaineWebber Limited Partnerships Litigation.

In January 1996, PaineWebber signed a memorandum of understanding with the plaintiffs in the class action outlining the terms under which the parties have agreed to settle the case. Pursuant to that memorandum of understanding, PaineWebber irrevocably deposited $125 million into an escrow fund under the supervision of the United States District Court for the Southern District of New York ("District Court") to be used to resolve the litigation. On July 17, 1996, the District Court granted preliminary approval of the proposed settlement of the class action litigation. As a part of the class action settlement, PaineWebber agreed to pay $125 million and additional consideration to class members. A final hearing on the proposed settlement is scheduled to continue in November 1996.

In February 1996, approximately 150 plaintiffs filed an action entitled Abbate v. PaineWebber Inc. in Sacramento, California Superior Court against PaineWebber Incorporated and various affiliated entities concerning the plaintiff's purchases of various limited partnership interests. The complaint alleges, among other things, that PaineWebber and its related entities

committed fraud and misrepresentation and breached fiduciary duties allegedly owed to the plaintiffs by selling or promoting limited partnership investments that were unsuitable for the plaintiffs and by overstating the benefits, understating the risks and failing to state material facts concerning the investments. The complaint seeks compensatory damages of $15 million plus punitive damages. In September 1996, the California Superior Court dismissed many of the plaintiffs' claims as barred by the applicable statutes of limitation.

Under certain limited circumstances, pursuant to the Partnership Agreement and other contractual obligations, PaineWebber and its affiliates, including the Administrative General Partner, could be entitled to indemnification from the Partnership for expenses and liabilities in connection with the Abbate litigation. The General Partners are unable to determine the impact, if any, of these actions on the Partnership's financial statements taken as a whole.

Item 6. Exhibits and Reports on Form 8-K

(a) None.

(b) The Partnership did not file a Form 8-K during the third quarter of the fiscal year ending December 31, 1996.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PaineWebber Preferred Yield Fund, L.P.
(Registrant)

By: General Equipment Management, Inc.
A General Partner

Date: November 7, 1996

By: /s/Joseph P. Ciavarella

Joseph P. Ciavarella
Vice President, Treasurer
and Chief Financial
and Accounting Officer

```
<TABLE> <S> <C>


<ARTICLE> 5
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     This Schedule contains summary finacial information extracted from (A) form
     10-Q for the quarter and nine months ended 9/30/96 PaineWebber Preferred
     Yield Fund, LP and is qualified in its entirety by reference to such (B)
     form 10-q.
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<F1> Net income per class A unit of limited partnership interest
<F2> Reflects Partners capital plus accumalated earnings and distrabutions to Partners
<F3> Includes allowances for equipment impairment.
</FN>

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