SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-01-10** | Period of Report: **1993-11-30**
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CAPITAL ASSOCIATES INC
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[TEXT]

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[x] Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended November 30, 1993

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission file number 0-15525

CAPITAL ASSOCIATES, INC.
(Exact name of registrant as specified in its charter)

Delaware	84-1055327
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

7175 West Jefferson Avenue, 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

The number of shares outstanding of the Registrant's $.008par value common stock at January 4, 1994, was 9,710,620.

CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES

INDEX

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CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands, except par value)

ASSETS

	November 30, 1993	May 31, 1993 (Note 1)
Cash and cash equivalents, including restricted funds of$1,484 and $1,697, respectively	$ 2,658	$ 3,210
Accounts receivable, net of allowance for doubtful accounts of $700 and $593, respectively	702	1,376
Income tax refunds receivable	255	1,870
Residual values and other receivables arising from equipment under lease sold to private investors	5,987	5,071
Notes receivable arising from sale-leaseback transactions	37,657	42,674
Net investment in direct finance leases	33,205	51,649
Leased equipment, net	28,406	39,974
Investments in affiliated limited partnerships	13,592	15,200
Other	5,427	6,084
Discounted lease rentals assigned to lenders arising from equipment sales	115,769	113,527
	$ 243,658	$280,635

LIABILITIES AND STOCKHOLDERS' EQUITY

Revolving Credit Facility	$ 89	$ 21
Accounts payable and other liabilities	8,098	10,414
Term Loan	28,016	37,836
Deferred income taxes	1,553	1,500
Obligations under capital leases arising from sale-leaseback transactions	37,530	42,496
Discounted lease rentals	147,616	168,065
	222,902	260,332
Stockholders' equity:		
Common stock	59	59

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Additional paid-in capital	16,604	16,604
Retained earnings	4,144	3,691
Treasury stock	(51)	(51)
Total stockholders' equity	20,756	20,303
	$ 243,658	$ 280,635

See accompanying notes

CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except earnings per share)

<TABLE>

<S>	Three Months Ended November 30, 1993 <C>	Three Months Ended November 30, 1992 (Note 1) <C>	Six Months Ended November 30, 1993 <C>	Six Months Ended November 30, 1992 (Note 1) <C>
Revenue:				
Equipment sales to affiliated limited partnerships	$ 21,882	$ 21,463	$ 49,525	$ 32,216
Other equipment sales	9,616	10,502	25,259	17,675
Leasing	3,609	7,580	7,838	15,138
Interest	4,008	3,767	7,520	8,403
Other	785	790	2,101	1,689
Total revenue	39,900	44,102	92,243	75,121
Costs and expenses:				
Equipment sales	29,661	28,716	70,508	43,878
Leasing	1,288	3,563	2,996	7,569
Operating and other expenses	3,167	3,631	6,273	7,051
Interest:				
Non-recourse debt	4,887	5,488	9,630	11,916
Recourse debt	464	930	1,018	1,930
Provision for losses	145	1,140	1,060	1,500
Total costs and expenses	39,612	43,468	91,485	73,844
Income before income taxes	288	634	758	1,277
Income tax expense	115	254	303	511
Net income	$ 173	$ 380	$ 455	$ 766
Earnings per common and common equivalent share	$ 0.02	$ 0.04	$ 0.04	$ 0.08
Weighted average number of common and common equivalent shares outstanding	11,029,000	9,713,000	11,043,000	9,517,000

See accompanying notes

</TABLE>

CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Six Months Ended November 30, 1993	Six Months Ended November 30, 1992
Net cash provided by operating activities	$ 4,710	$ 7,640
Cash flows from investing activities:		
Recovery of investment in direct finance leases	7,894	10,685
Equipment purchased for leasing	(1,847)	(7,870)
Net receipts from affiliated limited partnerships	1,030	1,289
Proceeds from sales of equipment held for investment	4,768	8,097
Proceeds from sales of lease rentals	2,960	-

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Net cash provided by investing activities	14,805	12,201
Cash flows from financing activities:		
Proceeds from discounting of lease rentals	2,479	4,333
Principal payments on discounted lease rentals	(12,794)	(17,520)
Net payments on recourse debt	(9,752)	(7,871)
Net cash used in financing activities	(20,067)	(21,058)
Net decrease in cash	(552)	(1,217)
Cash at beginning of period	3,210	7,026
Cash at end of period	$ 2,658	$ 5,809
Supplemental schedule of cash flow information:		
Recourse interest paid	$ 1,003	$ 2,309
Non-recourse interest paid	1,878	3,304
Income taxes paid	181	1,342
Income tax refunds received	1,614	-
Supplemental schedule of non-cash investing and financing activities:		
Discounted lease rentals assigned to lenders arising from equipment sales transactions	28,050	6,679
Assumption of discounted lease rentals in lease acquisitions	15,675	11,846
Residual values and other receivables arising from equipment under lease sold to private investors	1,658	522
Notes receivable relating to equipment sale transactions	5,017	4,522
Obligations under capital leases arising from sale-leaseback transactions	4,966	4,459

See accompanying notes

CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated 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 management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. For further information, please refer to the financial statements of Capital Associates, Inc. (the "Company"), and the related notes, included within the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1993 ("the 1993 Form 10-K"), previously filed with the Securities and Exchange Commission.

The consolidated balance sheet as of May 31, 1993 and the consolidated statements of operations for the three and six months ended November 30, 1992 have been restated to reflect the adoption of Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes", as discussed further in Note 3 to Notes to Consolidated Interim

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Financial Statements.

Certain reclassifications have been made to prior periods' financial statements to conform to the current period's presentation.

2. Credit Facility

The Company's recourse operating credit facility ("Credit Facility") consists of two facilities, a revolving credit facility (the "Revolving Credit Facility") and a term facility (the "Term Loan"). The availability under the Revolving Credit Facility is equal to (1) the lesser of $10.75 million or (2) the Borrowing Base amount, reduced by the outstanding indebtedness under the Revolving Credit Facility. As of November 30, 1993, the Borrowing Base amount was $7.8 million, and the outstanding indebtedness under the Revolving Credit Facility was $89,000, leaving approximately $7.7 million of availability under the Revolving Credit Facility to fund the Company's working capital needs.

The outstanding principal balance of the Term Loan as of November 30, 1993 was $28,016,000. Principal reductions under the Term Loan are scheduled to occur as follows (in thousands):

Six months ended May 31, 1994	$ 7,426
Twelve months ended May 31, 1995	16,446
Balance remaining at May 31, 1995 (the scheduled termination date of the Credit Facility)	4,144
	$ 28,016

At November 30, 1993, CAII had prepaid $400,000 of the scheduled Term Loan payments, representing approximately one-third of one month's scheduled payments. As of the time these financial statements were prepared, there were no Defaults or Events of Default existing under the Credit Facility.

2. Credit Facility, (continued)

The Revolving Credit Facility bears interest at the Mellon Bank, N.A.'s Prime Rate plus 1%, payable monthly, in arrears. On November 30, 1993, Mellon's Prime Rate was 6.0%. The Term Loan bears interest at a fixed rate of 6.0%, payable monthly, in arrears.

3. Income Taxes

Effective June 1, 1993, the Company adopted SFAS 109. SFAS 109 requires the recognition of deferred tax liabilities and assets for the future income tax consequences of events that have been recognized in the Company's financial statements or tax returns.

The Company elected to adopt SFAS No. 109 by restating fiscal years 1993 and 1992 financial statements. The effects of the restatement on net income and related per share amounts for the three and six months ended November 30, 1992 are as follows:

	Three Months Ended November 30, 1992	Six Months Ended November 30, 1992
As previously reported:		
Net income	$ 259,000	$ 527,000
Net income per common share	.03	.06
As restated:		
Net income	$ 380,000	$ 766,000
Net income per common share	.04	.08
Change in net income due	$ 121,000	$ 239,000

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to adoption of SFAS 109

Income taxes are provided on net income at the appropriate federal and state statutory rates. The effective overall tax rate for fiscal year 1993 was 40%. The Company files state income tax returns in 50 states. Statutory state income tax rates vary between 0% and 12%. The changing mix of business among states impacts the Company's aggregate effective state income tax rate. The Company estimates that its effective tax rate will remain at 40% for fiscal year 1994.

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

I. Results of Operations

Presented below are schedules (prepared solely to facilitate the discussion of results of operations that follows) showing condensed income statement categories and analyses of changes in those condensed categories derived from the Consolidated Statements of Operations.

<TABLE>

(in thousands)	Condensed Consolidated Statements of Operations for the Three Months Ended November 30, 1993	1992	Effect on net income	Condensed Consolidated Statements of Operations for the Six Months Ended November 30, 1993	1992	Effect on net income
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Equipment sales margin	$ 1,837	$ 3,249	$ (1,412)	$ 4,275	$ 6,013	$ (1,738)
Leasing margin (net of interest expense on discounted lease rentals)	1,442	2,296	(854)	2,732	4,056	(1,324)
Other income	785	790	(5)	2,101	1,689	412
Operating and other expenses	(3,167)	(3,631)	464	(6,272)	(7,051)	779
Provision for losses	(145)	(1,140)	995	(1,060)	(1,500)	440
Interest expense on recourse debt	(464)	(930)	466	(1,018)	(1,930)	912
Income taxes	(115)	(254)	139	(303)	(511)	208
Net income	$ 173	$ 380	$ (207)	$ 455	$ 766	$ (311)

</TABLE>

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

I. Results of Operations

Equipment Sales

Equipment sales revenue (and related equipment sales margin) consists of the following (in thousands):

<TABLE>

	Three Months Ended November 30, 1993 Revenue	1993 Margin	1992 Revenue	1992 Margin	Increase (Decrease) Revenue	Increase (Decrease) Margin
<S>	<C>	<C> <C>	<C>	<C>		
Transactions during initial lease term:						
Equipment under lease sold to PIFs	$21,882	$ 538	$21,463	$ 692		
Equipment under lease sold to private investors	7,872	319	5,233	181		
	29,754	857	26,696	873	$ 3,058	$ (16)
Transactions subsequent to initial lease termination:						
Sales of off-lease equipment	1,127	441	2,741	941		
Sales-type leases	232	154	1,414	321		
Excess collections (cash collections in excess of the associated residual value arising from equipment under lease sold to private investors)	385	385	1,114	1,114		
	1,744	980	5,269	2,376	(3,525)	(1,396)

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	$31,498	1,837	$31,965	3,249	$ (467)	($1,412)
Provision for losses		145		1,140		
Equipment realizations in excess of provision for losses		$ 1,692		$2,109		

</TABLE>

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

I. Results of Operations

Equipment Sales, continued
<TABLE>

	Six Months Ended November 30, 1993		1992		Increase (Decrease)	
<S>	Revenue <C>	Margin <C>	Revenue <C>	Margin <C>	Revenue	Margin
Transactions during initial lease term:						
Equipment under lease sold to PIFs	$49,525	$ 1,270	$32,216	$ 865		
Equipment under lease sold to private investors	20,951	738	5,233	180		
	70,476	2,008	37,449	1,045	$33,027	$ 963
Transactions subsequent to initial lease termination:						
Sales of off-lease equipment	2,540	942	6,877	1,767		
Sales-type leases	976	533	3,339	976		
Excess collections (cash collections in excess of the associated residual value arising from equipment under lease sold to private investors)	792	792	2,225	2,225		
	4,308	2,267	12,441	4,968	(8,133)	(2,701)
	$74,784	4,275	$49,890	6,013	$24,894	($1,738)
Provision for losses		1,060		1,500		
Equipment realizations in excess of provision for losses		$ 3,215		$4,513		

</TABLE>

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

I. Results of Operations

Equipment Sales, continued

As discussed below, to maintain profitable results of operations, the Company is selling more leased equipment during its initial lease term (shown in the preceding table as an increase in margin of $963,000 for the six months ended November 30, 1993) to offset the decrease in sales margins from transactions subsequent to initial lease termination (shown in preceding table as a decrease in margin of $2,701,000 for the six months ended November 30, 1993). In the ordinary course of business, the Company will (i) sell new lease originations to its PIFs (to the extent the PIFs have funds available for such purpose) or private investors, and (ii) sell seasoned lease transactions (previously originated leases held in the Company's portfolio) to private investors when the profit is desirable or to reduce perceived residual exposure. The Company expects to continue to sell leased equipment during the initial lease term to maintain profitable results of operations during fiscal 1994. To the extent such sales involve seasoned lease transactions, it will increase the effect of portfolio run-off.

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

I. Result of Operations, continued

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Equipment Sales, continued

The table below demonstrates that the decline in the Company's lease portfolio during the six months ended November 30, 1993 is attributable primarily to equipment sales:

<TABLE>

	As of May 31, 1993	Equipment Sales to:(1) Private Investors(2)	Sale of Lease Rentals(3)	PIFs	Net Portfolio Run-off(1)	As of November 30, 1993
<S> <C>	<C>	<C>	<C>	<C>	<C>	<C>
Direct finance leases and operating leases, net	$ 91,623	$ (12,546)	$ (2,946)	$ (4,049)	$ (10,471)	$ 61,611
Non-recourse debt	(54,538)	9,418	2,933	1,362	8,978	(31,847)
Net investment in leases	$ 37,085	$ (3,128)	$ 13	$ (2,687)	$ (1,493)	$ 29,764

(1) Equipment sales and portfolio run-off amounts above are net of new leases originated during factoringthe six months ended November 30, 1993.

(2) In connection with one sale to a private investor, the Company retained its existing interest in the residual value of the equipment of approximately $974,000 and, accordingly, such retained residual values have been recorded in the accompanying balance sheet as residual values and other receivables arising from sales to private investors.

(3) The Company recorded a gain of $189,000 on the sale of the underlying lease rentals.

</TABLE>

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

I. Result of Operations, continued

Equipment Sales, continued

A significant portion of the Company's net assets consists of aircraft. The following table summarizes the Company's investment in aircraft as of November 30, 1993 and May 31, 1993 (in thousands):

	November 30, 1993	May 31, 1993
Lease equipment, net of accumulated depreciation	$ 18,518	$ 23,836
Associated non-recourse debt	(8,396)	(12,425)
	10,122	11,411
Residual values and other receivable arising from equipment under lease sold to private investors	1,008	1,008
Net investment in aircraft	$ 11,130	$ 12,419

To reduce the concentration of aircraft in it's portfolio, during the first fiscal quarter 1994 the Company sold three aircraft under lease. The sale of the Company's investment in these three aircraft represented approximately one-half of the total net investment of $3,128,000 sold to private investors during the six months ended November 30, 1993.

Approximately $8.3 million (net of non-recourse debt of $7.4 million) of the Company's current $11.1 million of net investment in aircraft is represented by three jet aircraft. Leases on these aircraft expire between December 31, 1993 and December 31, 1994. The existing lessee has signed a commitment to extend the leases on two of the aircraft through December 31, 1996. The existing lessee notified the Company that it would not renew the lease on the third aircraft after its expiration on December 31, 1993. During the first fiscal quarter 1994, a provision for loss of $180,000 was recorded to reduce the carrying value of that aircraft to its expected net sales value. The Company is

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continuing to remarket the third aircraft through re-lease or sale to other third party users. Due to the long remaining useful life of this type of asset, the Company prefers to renew or re-lease, rather than sell, the assets, in order to maximize their value. However, to reduce the concentration of its investment in this type of equipment, the Company will consider a sale of one or more of the aircraft.

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

I. Result of Operations, continued

Equipment Sales, continued

The Company's investment in the third aircraft discussed above is subject to non-recourse "balloon" debt of approximately $2.3 million which was payable in full upon expiration of the lease and, accordingly, the Company funded such payment using the availability under the Revolving Credit Facility on January 3, 1994.

Equipment Sales to PIFs

Equipment sales to PIFs increased during both the second fiscal quarter 1994 and the six months ended November 30, 1993, as compared to the similar periods in fiscal 1993, principally because more leases that satisfied the Company's Underwriting Standards were identified, in part as a result of the opening of new sales offices.

Under applicable regulatory guidelines, the Company is entitled to receive various fees and distributions in connection with its activities related to its sponsored PIFs. One such fee, an acquisition fee payable upon sale of equipment under lease to a PIF, is, in general, subject to a regulatory maximum amount over the term of a PIF. Acquisition fees earned by the Company from equipment sales to one of its PIFs reached the regulatory maximum during fiscal 1992 and, during first fiscal quarter 1994, the maximum was reached for another PIF. These circumstances will have an impact on reported equipment sales margins in future periods, but are not expected to impact total PIF-related income (after costs of equipment sales) in future periods because other allowable fees and distributions are expected to increase during such periods.

Equipment Sales to Private Investors

The Company re-opened its private investor sales department during the second fiscal quarter 1993 and has hired two experienced private equity salespersons. The Company sold $7.9 million and $21 million of equipment under lease to private investors during the three and six month periods ended November 30, 1993, respectively. This compares to $5.2 million of sales of equipment to private investors during the three and six month periods ended November 30, 1992. The development of a customer base of private investors is a principal operating goal for the Company.

Remarketing Sales

Margins from remarketing sales (i.e., sales occurring after the initial lease term) are affected by the amount of equipment leases that mature in a particular quarter. In general, as the size of the Company's lease portfolio declines, fewer leases mature and less equipment is available for remarketing each quarter. As a result, remarketing revenue has declined during the three and six

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months ended November 30, 1993 compared to similar periods in fiscal 1993. The Company's ability to remarket additional amounts of equipment and realize a greater amount of remarketing revenue in future periods is dependent on adding additional leases to its portfolio. Accordingly, the Company is pursuing financing possibilities to obtain funds to add to its own portfolio, such as lease securitization and other financing possibilities. See the discussion of financing possibilities under "Business Plan" below.

Provision for Losses

Residual values are established equal to the estimated value to be received from the equipment following termination of the lease. In estimating such values, the Company considers all relevant facts regarding the equipment and the lessee, including, for example, the likelihood that the lessee will re-lease the equipment. The Company performs ongoing quarterly assessments of its assets to identify other than temporary losses in value. At the time the first fiscal quarter 1994 interim financial statements were prepared, the Company identified a greater than expected amount of equipment under lease that the Company had expected to be released, which instead, would be terminated and returned to the Company. The amounts recovered (and expected to be recovered) from the sale of such equipment was less than the previously estimated residual value, and accordingly, an appropriate provision for loss was recorded. Because the first quarter's provision considered known second quarter activity, the Company recorded a correspondingly smaller provision for loss in the second fiscal quarter 1994.

Provision for losses result from the realization of less than the carrying value of equipment (which is typically not known until remarketing subsequent to the initial lease termination has occurred). The remarketing of equipment for an amount greater than its book value is reported as equipment sales margin or as leasing margin. As shown on pages 8 and 9 of 19, the "net" realizations from portfolio sales during the second fiscal quarter 1994 exceeded the aggregate carrying value of the assets sold, even without considering realizations from remarketing activities recorded as leasing margin (see discussion below).

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

I. Result of Operations, continued

Leasing Margin

Leasing margin consists of the following (in thousands):

	Three Months Ended November 30, 1993	Three Months Ended November 30, 1992	Six Months Ended November 30, 1993	Six Months Ended November 30, 1992
Leasing revenue	$ 3,609	$ 7,580	$ 7,838	$ 15,138
Leasing costs and expenses	(1,288)	(3,563)	(2,996)	(7,569)
Net interest expense on associated discounted lease rentals	(879)	(1,721)	(2,110)	(3,513)
Leasing margin	$ 1,442	$ 2,296	$ 2,732	$ 4,056
Leasing margin ratio	40%	30%	35%	27%

Leasing margin has declined as a result of portfolio run-off. See the discussion under "Business Plan" below. The leasing margin ratio has increased as a result of remarketing activities, which include the rental proceeds related to renewing, extending or re-leasing equipment before or after the end of the initial lease term.

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Other Income

During the first fiscal quarter 1994, the Company received a $2 million income tax refund, consisting of $1.6 million that was previously recorded as "Income tax refunds receivable", and an additional $.4 million of interest that was recorded in first fiscal quarter 1994 as "Other income".

Operating and Other Expenses

Operating and other expenses decreased $464,000 (13%) and $779,000 (11%) for the three and six months ended November 30, 1993, as compared to fiscal 1993. The decrease principally reflects a reduction in salaries and wages. As of November 30, 1993, the Company had 119 full-time employees compared to 149 full-time employees at November 30, 1992. As the portfolio has run-off, the Company has decreased the size of its back office staff while adding revenue producing sales personnel. The Company has eleven field sales offices open as of November 30, 1993.

Interest Income and Expense

Interest income on discounted lease rentals arises when equipment financed with non-recourse debt is sold to investors. The Consolidated Statements of Operations reflect an equal amount of interest expense. The decline in interest income and non-recourse debt interest expense is due to portfolio run-off.

The decrease in recourse debt interest expense principally reflects the decline in the outstanding balance of the Working Capital Facility.

Income Taxes

Effective June 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". See Note 3 to Notes to Consolidated Interim Financial Statements.

II. Liquidity and Capital Resources

The Company's activities are principally funded by the Revolving Credit Facility, rents, proceeds from sales of on-lease equipment, non-recourse debt, fees and distributions from its PIFs, and sales or re-leases of equipment after the expiration of the initial lease terms.

Cash held by the PIFs available for purchase of equipment from the Company is:

	As of November 30, 1993	1992
Available cash	$ 11,238	$ 14,802
Cash committed for equipment purchases	9,122	5,695
Uncommitted cash	$ 2,116	$ 9,107

Currently, one PIF, Capital Preferred Yield Fund-II, ("CPYF-II") is actively selling units to the public. Three other PIFs have ceased offering units, however, they generate cash for purchase of equipment from operating activities. The Company anticipates that $19 million of additional cash available for purchase of equipment will be generated by the four PIFs during third fiscal quarter 1994. During the fourth fiscal quarter 1994, CPYF-II will cease offering units for sale to the public. The Company has commenced the process of registering for sale to the public up to $50 million of units in a new PIF, Capital Preferred Yield Fund-III, ("CPYF-III"). The Company anticipates commencing the offering of unit sales in CPYF-III following the termination of the offering for sale to the public of units in CPYF-II.

Management believes the Company's ability to generate cash

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from operations is sufficient to fund operations, particularly when operations are viewed as including investing and financing activities. In this context, it should be noted that the Company reduced its recourse debt by $9.8 million since May 31, 1993 and improved it's recourse debt-to-equity ratio as follows:

	As of November 30, 1993	As of May 31, 1993
Recourse debt	$ 28,105	$ 37,857
Stockholders equity	$ 20,756	$ 20,303
Recourse debt/stockholder's equity	1.35 to 1	1.86 to 1

III. Business Plan

As discussed in the 1993 Form 10-K, during fiscal year 1991, the Company agreed with its Lenders to begin repaying its Credit Facility. Accordingly, during the last four months of fiscal year 1991, fiscal years 1992 and 1993 and during the six months ended November 30, 1993, the Company used substantially all of its cash flow after payment of operating expenses to pay down its Credit Facility. As a result of making these repayments, the Company did not have the funds necessary to significantly add to its leasing portfolio. Because a leasing portfolio declines in size as it matures, the Company's leasing portfolio and related revenue have declined since 1991. The Revolving Credit Facility provides a limited amount of funds to the Company to invest in new leases. However, this level of funds is not sufficient to maintain the current portfolio and, accordingly, the current level of remarketing profits may not be achievable in the future. Therefore, maintaining the current level of profitability is dependent principally upon equipment sales margins from new lease originations and from seasoned lease transactions (see the discussion on page 9 of 19) or development of new sources of revenue related to the Company's core business.

The Company's current business plan is designed to maintain profitable operations. The amount of longer-term future profits, if any, will largely depend on the amount of new capital available to the Company. Such capital may be in a variety of forms including new recourse debt, additional equity (which could include a sale of the Company, possibly coupled with an infusion of new funds into the Company from the purchaser), securitized financing vehicles or equity provided from private purchases of equipment originated by the Company. The Company is actively pursuing financing possibilities. No assurance can be given, however, that the Company will be successful in operating profitably, developing new sources of revenue or in obtaining access to new financing.

CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments during second fiscal quarter 1994 with respect to the legal proceedings described in the Company's fiscal 1993 Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

The 1993 Annual Meeting of Stockholders of the Company (the "Annual Meeting") was held on October 15, 1993. At the Annual Meeting, James D. Edwards, Richard Kazan, Dennis J. Lacey, William B. Patton, Jr., and Peter F. Schabarum were re-elected as directors of the Company.

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Item 6. Exhibits and Reports on Form 8-K

a. Included as exhibits are the items listed in the Exhibit Index. The Company will furnish to its shareholders a copy of any of the exhibits listed therein upon payment of $.25 per page to cover the costs to the Company of furnishing the exhibits.

b. There were no reports on Form 8-K filed during the three months ended November 30, 1993.

Item No. Exhibit Index

11A Computation of Primary Earnings Per Share. A computation of fully diluted earnings per share is not presented as it is the same as the computation of primary earnings per share.

Exhibit 11A

CAPITAL ASSOCIATES, INC. AND SUBSIDIARIES

COMPUTATION OF PRIMARY EARNINGS PER SHARE

<TABLE>

	Three Months Ended November 30, 1993	Three Months Ended November 30, 1992	Six Months Ended November 30, 1993	Six Months Ended November 30, 1992
<S>	<C>	<C>	<C>	<C>
Shares outstanding at beginning of period	9,654,000	9,273,000	9,654,000	8,948,000
Shares issued during the period (weighted average)	-	-	-	162,000
Shares earned but not issued under the CEO Bonus Plan	50,000	-	50,000	-
Dilutive shares contingently issuable upon exercise of options (weighted average)	2,286,000	1,103,000	2,286,000	1,092,000
Less shares assumed to have been purchased for treasury with assumed proceeds from exercise of stock options (weighted average)	(961,000)	(663,000)	(947,000)	(685,000)
Total shares, primary	11,029,000	9,713,000	11,043,000	9,517,000
Net income	$ 173,000	$ 380,000	$ 455,000	$ 766,000
Net income per share,	$ 0.02	$ 0.04	$ 0.04	$ 0.08

</TABLE>

CAPITAL ASSOCIATES INC. AND SUBSIDIARIES

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.

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CAPITAL ASSOCIATES, INC.
Registrant

Date: January 7, 1994 By: /s/Anthony M. DiPaolo

Anthony M. DiPaolo,
Vice-President and Controller
(Principal Accounting Officer)

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