

AEROCENTURY CORP  
Form 10-Q  
August 13, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

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: 001-13387

AeroCentury Corp.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of Incorporation or  
Organization)

94-3263974  
(I.R.S. Employer Identification No.)

1440 Chapin Avenue, Suite 310  
Burlingame, California 94010  
(Address of Principal Executive Offices)

(650) 340-1888  
(Registrant's Telephone Number Including Area Code)

None  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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 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):

Edgar Filing: AEROCENTURY CORP - Form 10-Q

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 13, 2014 the issuer had 1,606,557 shares of common stock, par value \$0.001 per share, issued, of which 63,300 are held as treasury stock.

- 1 -

---

PART I  
FINANCIAL INFORMATION

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements in this Report other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any statements of plans and objectives for future operations and any statements of assumptions underlying any of the foregoing. Statements that include the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology are forward-looking statements. Forward-looking statements include these statements: (i) in Part 1, Item 1, "Notes to Financial Statements," that the Company expects to deliver four aircraft for lease in the third quarter of 2014; that it expects to deliver an aircraft for sale in the third quarter of 2014; and that the Company may be out of compliance with a profitability covenant at calculation dates subsequent to June 30, 2014, in the absence of an amendment to the profitability covenant; (ii) in Part 1, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Credit Facility" that the Company may be out of compliance with a profitability covenant at calculation dates subsequent to June 30, 2014, in the absence of an amendment to the profitability covenant; that the Credit Facility banks will agree to an amendment to cure such noncompliance during the third quarter of 2014; (iii) in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations – Cash Flow," that the Company will have adequate cash flow to meet its ongoing operational needs; (iv) in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Outlook," that there is an increased possibility that the Company's current lessees will choose to return leased assets at lease expiration rather than renew the existing leases; and that the Company is likely to experience lower on-lease utilization rates and longer lead times for remarketing of returned assets as well as lower rental rates for remarketed assets through 2014 and that such trend is expected to continue to affect the Company's operating results through 2014; that four of the Company's assets that have leases that will be expiring in the remainder of 2014 will be returned to the Company; that the Credit Facility banks will agree to an amendment to the profitability covenant in the third quarter of 2014; and that available borrowings under the Credit Facility will be sufficient to meet the Company's continuing obligations and to fund anticipated acquisitions; (v) in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results," that the Company believes that during the third quarter of 2014, the Credit Facility banks will agree to an amendment to cure the profitability covenant during the third quarter of 2014; that the Company will continue to be in compliance with all of the Credit Facility covenants through the term of the Credit Facility (assuming the profitability covenant is amended as expected); that the Company intends to continue to focus on its customer base of regional air carriers; that the Company will have sufficient cash funds to make any required principal repayment that arise due to borrowing base limitations; that most of the Company's growth will be outside the United States; that the overall industry experience of JMC's personnel and its technical resources should permit the Company to effectively manage new aircraft types and engines; that effective mitigating factors exist against undue compensation-incented risk-taking by JMC; that it is contemplated that the burden and cost of complying with regulatory requirements will fall primarily upon lessees of equipment or the Company as owner of the equipment; that the costs of complying with environmental regulations will not have a material adverse effect on the Company; that the Company has sufficient cyber-security measures in place; and that sufficient replacement mechanisms exist in the event of an interruption in its internet communications ability that there would not be a material adverse financial impact on the Company's business.

These forward-looking statements involve risks and uncertainties, and it is important to note that the Company's actual results could differ materially from those projected or assumed in such forward-looking statements. Among the factors that could cause actual results to differ materially are the factors detailed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Future Results,"

including the lack of any unexpected lessee defaults or insolvency; compliance by the Company's lessees with obligations under their respective leases; no sudden current economic downturn or unanticipated future financial crises; the continued availability of financing for acquisitions under the Credit Facility; the Company's success in finding appropriate assets to acquire with such financing; deviations from the assumption that future major maintenance expenses will be relatively evenly spaced over the entire portfolio; and future trends and results which cannot be predicted with certainty. The cautionary statements made in this Report should be read as being applicable to all related forward-looking statements wherever they appear herein. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statement or risk factor. You should consult the risk factors listed from time to time in the Company's filings with the Securities and Exchange Commission.

## Item 1. Financial Statements.

AeroCentury Corp.  
Balance Sheets  
(Unaudited)

## ASSETS

	June 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$5,909,600	\$2,112,700
Accounts receivable, including deferred rent of \$54,800 and \$217,200 at June 30, 2014 and December 31, 2013, respectively	2,797,800	3,303,800
Finance leases receivable	945,400	1,895,200
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$53,047,600 and \$50,679,300 at June 30, 2014 and December 31, 2013, respectively	166,922,000	152,954,600
Assets held for sale	509,200	735,000
Prepaid expenses and other	5,005,800	3,633,000
Total assets	\$182,089,800	\$164,634,300

## LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:		
Accounts payable and accrued expenses	\$2,130,700	\$1,202,700
Notes payable and accrued interest	101,457,500	77,527,300
Maintenance reserves	14,221,800	16,671,800
Accrued maintenance costs	709,000	1,612,100
Security deposits	6,286,700	6,265,000
Unearned revenues	2,042,200	646,700
Deferred income taxes	12,498,600	14,573,800
Taxes payable	159,200	-
Total liabilities	139,505,700	118,499,400
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value, 10,000,000 shares authorized, 1,606,557 shares issued and outstanding	1,600	1,600
Paid-in capital	14,780,100	14,780,100
Retained earnings	28,306,500	31,857,300
	43,088,200	46,639,000
Treasury stock at cost, 63,300 shares	(504,100 )	(504,100 )
Total stockholders' equity	42,584,100	46,134,900
Total liabilities and stockholders' equity	\$182,089,800	\$164,634,300

The accompanying notes are an integral part of these statements.

AeroCentury Corp.  
Statements of Operations  
(Unaudited)

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues and other income:</b>				
Operating lease revenue, net	\$11,183,100	\$9,573,100	\$5,332,300	\$4,672,800
Maintenance reserves revenue, net	3,393,600	7,720,000	1,717,800	1,191,500
Net gain on disposal of assets	1,154,400	2,162,500	762,500	1,944,300
Other income	151,100	606,700	66,700	56,800
	15,882,200	20,062,300	7,879,300	7,865,400
<b>Expenses:</b>				
Provision for impairment in value of aircraft	6,800,000	-	6,800,000	-
Depreciation	3,878,400	3,573,000	2,012,600	1,815,800
Maintenance	3,646,600	3,469,800	1,302,300	1,330,400
Management fees	2,659,900	2,172,600	1,332,600	1,076,700
Interest	2,568,100	2,068,100	1,261,200	1,002,500
Professional fees, general and administrative and other	1,127,500	624,300	822,900	297,500
Insurance	620,600	552,000	313,300	298,000
Other taxes	45,100	45,100	22,500	22,500
	21,346,200	12,504,900	13,867,400	5,843,400
(Loss)/income before income tax provision	(5,464,000 )	7,557,400	(5,988,100 )	2,022,000
Income tax (benefit)/provision	(1,913,200 )	2,403,100	(2,067,700 )	685,600
Net (loss)/income	\$(3,550,800 )	\$5,154,300	\$(3,920,400 )	\$1,336,400
<b>(Loss)/earnings per share:</b>				