

AEROCENTURY CORP
Form 10-Q
August 10, 2018
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, 2018

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 94-3263974
(State or Other Jurisdiction of Incorporation or Organization) (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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the Registrant's Common Stock outstanding as of August 10, 2018 was 1,416,699.

PART I
FINANCIAL INFORMATION

Forward-Looking Statements

As used in this report, unless the context indicates otherwise, the "Company" and "AeroCentury" refer to AeroCentury Corp. together with its consolidated subsidiaries.

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 the Company's plans and objectives for future operations, the Company's future financial or economic performance (including known or anticipated trends), and the assumptions underlying or related to 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 in this report include statements about the following matters, although this list is not exhaustive:

The Company's business plans and strategies, including its continued focus on acquiring used regional aircraft, any potential for acquiring and managing new types and models of regional aircraft, and its expectation that most of its future growth will be outside of North America;

Matters related to the Company's proposed merger with JetFleet Holding Corp. ("JHC"), including: the Company's ability to obtain the approval of its stockholders to issue shares of its common stock as partial merger consideration; the ability to complete, and the timing of, the closing of the merger; and the anticipated impact of the merger (if completed) on the Company and its performance, including the amount and nature of merger expenses payable by the Company, certain losses and other accounting effects of the merger, any changes to the Company's risk profile after the Company internalizes the management services presently performed for the Company by JetFleet Management Corp. ("JMC"), a subsidiary of JHC, and the expectation that the combination effected by the merger could be accretive to the Company and create value for the stockholders of the combined post-merger company;

Certain industry trends and their impact on the Company and its performance, including: increasing competition that results in higher acquisition prices for many of the aircraft types that the Company has targeted to buy and, at the same time, downward pressure on lease rates for these aircraft; relatively lower market demand for older aircraft types that are no longer in production, which could cause certain of the Company's aircraft to remain off lease for significant periods of time; and expectations of shakeouts of weaker carriers in economically troubled regions, which could impact the financial condition and viability of certain of the Company's customers, and as a result, their demand for the Company's aircraft and their ability to fulfill their lease commitments and other obligations to the Company under existing leases;

Expectations about the Company's future liquidity, cash flow and capital requirements;

The Company's continued compliance with its existing credit facility and other outstanding debt instruments, including making payments of principal and interest thereunder as and when required and complying with the financial and other covenants included in the credit facility;

The expected impact of existing or known threatened legal proceedings;

The effect on the Company and its customers of complying with applicable government and regulatory requirements in the numerous jurisdictions in which the Company and its customers operate;

The Company's cyber vulnerabilities and the anticipated effects on the Company if a cybersecurity threat or incident were to materialize;

General economic, market, political and regulatory conditions, including anticipated changes in these conditions and the impact of such changes on customer demand and other facets of the Company's business; and

The impact of the foregoing on the prevailing market price and trading volume of the Company's common stock.

All of the Company's forward-looking statements involve risks and uncertainties that could cause the Company's actual results to differ materially from those projected or assumed by such forward-looking statements. Among the factors that could cause such differences are: the continued availability of financing under the Company's credit facility or otherwise; the Company's ability to locate and acquire appropriate and revenue-producing assets; deterioration of the market for or appraised values of aircraft owned by the Company; a surge in interest rates; any noncompliance by the Company's lessees with obligations under their respective leases, including payment obligations; any economic downturn or other financial crises; the timing, rate and amount of maintenance expenses for the Company's asset portfolio, as well as the distribution of these expenses among the assets in the portfolio; the ability to complete the merger with JHC, and the timing of such completion; if and after the JHC merger is completed, the Company's ability to internalize the management services currently performed by JMC and the costs to the Company to internally perform these services; the Company's ability to raise capital on attractive terms when needed, or at all; limited trading volume in the Company's stock; and the other factors detailed under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Factors That May Affect Future Results and Liquidity" in this report. In addition, the Company operates in a competitive and evolving industry in which new risks emerge from time to time, and it is not possible for the Company to predict all of the risks it may face, nor can it assess the impact of all factors on its business or the extent to which any factor or combination of factors could cause actual results to differ from expectations. As a result of these and other potential risks and uncertainties, the Company's forward-looking statements should not be relied on or viewed as predictions of future events.

This cautionary statement should be read as qualifying all forward-looking statements included in this report, wherever they appear. All forward-looking statements and descriptions of risks included in this report are made as of the date hereof based on information available to the Company as of the date hereof, and except as required by applicable law, the Company assumes no obligation to update any such forward-looking statement or risk for any reason. You should, however, consult the risks and other disclosures described in the reports the Company files from time to time with the Securities and Exchange Commission after the date of this report for updated information.

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Item 1. Financial Statements.

AeroCentury Corp.
Condensed Consolidated Balance Sheets
(Unaudited)

ASSETS	June 30, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	\$4,378,000	\$8,657,800
Accounts receivable, including deferred rent of \$228,100 and \$707,300 at June 30, 2018 and December 31, 2017, respectively	3,151,600	3,825,100
Finance leases receivable	22,066,100	23,561,000
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$38,219,000 and \$33,234,200 at June 30, 2018 and December 31, 2017, respectively	210,592,000	195,098,200
Assets held for sale	4,736,100	4,966,500
Prepaid expenses and other	312,700	301,300
Total assets	\$245,236,500	\$236,409,900
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$2,277,900	\$645,200
Notes payable and accrued interest, net of unamortized debt issuance costs of \$1,483,500 and \$2,216,000 at June 30, 2018 and December 31, 2017, respectively	147,642,500	145,598,200
Maintenance reserves	30,342,000	26,942,800
Accrued maintenance costs	359,800	1,275,300
Security deposits	3,434,800	3,147,900
Unearned revenues	4,764,200	2,447,500
Deferred income taxes	8,503,000	8,533,700
Income taxes payable	309,400	452,600
Total liabilities	197,633,600	189,043,200
Commitments and contingencies (Note 5)		
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, 1,629,999 shares issued, 1,416,699 shares outstanding	1,600	1,600
Paid-in capital	14,780,100	14,780,100
Retained earnings	35,858,000	35,621,800
Treasury stock at cost, 213,300 shares	50,639,700	50,403,500
	(3,036,800)	(3,036,800)
Total stockholders' equity	47,602,900	47,366,700
Total liabilities and stockholders' equity	\$245,236,500	\$236,409,900

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

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AeroCentury Corp.
Condensed Consolidated Statements of Operations
(Unaudited)

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2018	2017	2018	2017
Revenues and other income:				
Operating lease revenue	\$ 13,286,800	\$ 14,427,000	\$ 6,823,900	\$ 7,110,100
Finance lease revenue	740,400	757,700	361,300	432,300
Maintenance reserves revenue	-	686,000	-	686,000
Net gain on sales-type finance leases	-	297,400	-	-
Net gain/(loss) on disposal of assets	9,900	(133,900)	18,100	(147,700)
Other income	1,631,600	600	580,200	400
	15,668,700	16,034,800	7,783,500	8,081,100
Expenses:				
Depreciation	6,092,300	5,879,100	3,150,400	2,943,000
Interest	4,619,400	3,353,000	2,365,100	1,742,800
Management fees	2,948,800	3,005,100	1,502,100	1,498,300
Professional fees, general and administrative and other	954,000	924,100	376,900	418,000
Maintenance	160,200	661,400	68,900	405,300
Provision for impairment in value of aircraft	298,200	454,300	298,200	454,300
Insurance	157,700	130,900	78,000	57,700
Other taxes	45,100	45,200	22,500	22,500
	15,275,700	14,453,100	7,862,100	7,541,900
Income/(loss) before income tax provision	393,000	1,581,700	(78,600)	539,200
Income tax provision				