

AEROCENTURY CORP
Form 10-Q
November 14, 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 September 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):

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 November 14, 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 a Saab 340B in November 2014; and that the Company will be in compliance with all of its credit facility covenants at future calculation dates; (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 will be in compliance with all of its credit facility covenants at future calculation dates; (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 the Company could experience a delay in remarketing its off-lease assets; that the customers for several of the leases that expire in 2015 will choose to return the assets; that additional customers may choose to return leased assets in the future; that an engine on lease may be returned at lease expiration; that the Company will be in compliance with all of its credit facility covenants at future calculation dates; and that the available borrowings under the Credit Facility will be sufficient to meet the Company's continuing obligations and 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 will be in compliance with all of its credit facility covenants at future calculation dates; 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; a deterioration of the market values of aircraft types owned by the Company; 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.

- 2 -

Item 1. Financial Statements.

AeroCentury Corp.
Balance Sheets
(Unaudited)

ASSETS		
	September 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	\$2,588,100	\$2,112,700
Accounts receivable, including deferred rent of \$32,100 and \$217,200 at September 30, 2014 and December 31, 2013, respectively	2,726,300	3,303,800
Finance leases receivable	945,400	1,895,200
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$37,665,700 and \$50,679,300 at September 30, 2014 and December 31, 2013, respectively	159,408,600	152,954,600
Assets held for sale	6,561,200	735,000
Prepaid expenses and other	4,296,700	3,633,000
Total assets	\$ 176,526,300	\$ 164,634,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$2,239,700	\$1,202,700
Notes payable and accrued interest	108,352,400	77,527,300
Maintenance reserves	13,777,200	16,671,800
Accrued maintenance costs	1,778,400	1,612,100
Security deposits	5,579,300	6,265,000
Unearned revenues	2,121,400	646,700
Deferred income taxes	7,540,700	14,573,800
Taxes payable	800,100	-
Total liabilities	142,189,200	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	20,059,500	31,857,300
	34,841,200	46,639,000
Treasury stock at cost, 63,300 shares	(504,100)	(504,100)
Total stockholders' equity	34,337,100	46,134,900
Total liabilities and stockholders' equity	\$ 176,526,300	\$ 164,634,300

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Statements of Operations
(Unaudited)

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2014	2013	2014	2013
Revenues and other income:				
Operating lease revenue, net	\$15,998,500	\$13,941,200	\$4,815,400	\$4,368,200
Maintenance reserves revenue, net	3,393,600	13,866,000	-	6,146,000
Net gain on disposal of assets	2,963,900	4,147,700	1,809,400	1,985,200
Other income	151,800	644,500	700	37,800
	22,507,800	32,599,400	6,625,500	12,537,200
Expenses:				
Provision for impairment in value of aircraft	18,518,700	-	11,718,700	-
Maintenance	5,819,800	4,883,700	2,173,200	1,413,800
Depreciation	5,609,900	5,376,600	1,731,500	1,803,600
Management fees	3,864,900	3,231,000	1,205,000	1,058,400
Interest	3,793,000	3,034,300	1,225,000	966,200
Professional fees, general and administrative and other	1,488,000	881,000	360,200	256,400
Insurance	1,034,100	827,900	413,600	276,300
Other taxes	407,600	67,600	362,500	22,500
Bad debt expense	-	357,600	-	357,600
	40,536,000	18,659,700	19,189,700	6,154,800
(Loss)/income before income tax provision	(18,028,200)	13,939,700	(12,564,200)	6,382,400
Income tax (benefit)/provision	(6,230,400)	4,764,300	(4,317,200)	2,361,200
Net (loss)/income	\$(11,797,800)	\$9,175,400	\$(8,247,000)	