

AEROCENTURY CORP
Form 10-Q
August 10, 2012

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, 2012

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

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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 x

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

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 10, 2012 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.

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: (i) Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources," the Company's statements that the Company will be in compliance with all of its Credit Facility covenants in 2012; and that the Company will have adequate cash flow to fund operational needs and payments required under its Credit Facility; (ii) in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Outlook," the Company's statements that the trend of lower on-lease utilization rates, longer lead times for remarketing returned aircraft, and lower rental rates is expected to continue to affect the Company's operating revenue in the remainder of 2012; that there is likely to be a significant decrease in the pool of customers requiring aircraft and that the Company's portfolio growth will continue to be slow; that the Company has incurred the majority of the maintenance costs necessary to prepare certain off-lease assets returned prior to 2012 for re-lease to new customers but that it is possible additional maintenance expenses will be incurred when new customers are identified; that the availability under the Credit Facility should be sufficient to fund its anticipated asset acquisitions through the end of 2012; that the Company will be in compliance with all of its Credit Facility covenants in 2012; and that the Company does not believe that its lessee deferral agreements represent a trend that will result in additional deferral agreements in 2012; that it is possible that the Company will agree to a deferral of some arrearages from a lessee of four of the Company's Fokker-50 aircraft; and (iii) 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 have sufficient funds to make any payment that arises due to any collateral base limitations; that the Company will continue to be in compliance with all of its Credit Facility covenants; that the availability under the Credit Facility will be sufficient to fund projected acquisitions through the end of 2012; that most of the Company's growth will be outside the United States; that the Company has the industry experience and technical resources necessary to effectively manage new aircraft types and engines; that there are effective mitigating factors against undue compensation-incented risk-taking by JMC; 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 the Company has sufficient replacement mechanisms in the event of a cyber-attack. 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 impact of the current economic downturn or future financial crises, particularly in Europe, on the Company's customer base of regional air carriers; the continued availability of financing for acquisitions; the compliance of the Company's lessees with obligations under their respective leases; risks related to use of debt financing for acquisitions; 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.

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Item 1. Financial Statements.

AeroCentury Corp.
Condensed Balance Sheets
(Unaudited)

ASSETS	June 30, 2012	December 31, 2011
Assets:		
Cash and cash equivalents	\$3,215,900	\$995,500
Accounts receivable, including deferred rent of \$1,822,600 and \$1,923,300, net of allowance for doubtful accounts of \$1,924,400 at June 30, 2012 and December 31, 2011, respectively	3,335,800	2,936,100
Finance lease receivable	1,185,400	1,271,400
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$49,814,100 and \$48,935,200 at June 30, 2012 and December 31, 2011, respectively	144,650,200	124,245,000
Prepaid expenses and other	2,011,400	1,378,000
Total assets	\$ 154,398,700	\$ 130,826,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$372,600	\$368,100
Notes payable and accrued interest	82,925,000	65,672,700
Maintenance reserves and accrued maintenance costs	7,881,600	5,814,700
Security deposits	6,521,300	5,607,300
Unearned revenues	627,700	558,200
Deferred income taxes	13,072,500	12,094,400
Taxes payable	22,300	20,400
Total liabilities	111,423,000	90,135,800
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	28,698,100	26,412,600
Treasury stock at cost, 63,300 shares	(504,100)	(504,100)
Total stockholders' equity	42,975,700	40,690,200

Total liabilities and stockholders' equity	\$ 154,398,700	\$ 130,826,000
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The accompanying notes are an integral part of these statements.

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AeroCentury Corp.
Condensed Statements of Operations
(Unaudited)

	For the Six Months Ended		For the Three Months	
	June 30,		Ended	
	2012	2011	2012	2011
Revenues and other income:				
Operating lease revenue, net	\$11,595,900	\$8,866,900	\$5,689,000	\$4,662,500
Maintenance reserves revenue, net	1,763,000	1,175,300	913,200	634,900
Gain on disposal of assets and other income	927,600	1,607,400	901,000	1,457,800
	14,286,500	11,649,600	7,503,200	6,755,200
Expenses:				
Depreciation	2,979,500	2,661,500	1,492,700	1,422,800
Maintenance	2,367,100	7,507,700	1,612,600	2,939,700
Interest	2,225,000	1,932,800	1,153,100	965,600
Management fees	1,993,400	1,876,400	1,006,700	931,000
Professional fees, general and administrative and other	627,900	765,800	294,000	440,700
Insurance	319,300	589,200	186,600	300,500
Bad debt expense	310,300	-	310,300	-