

AEROCENTURY CORP
Form 10-Q
August 13, 2008

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, 2008

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 small business issuer 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
(Issuer's telephone number)

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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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, 2008 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.

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

- 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: (i) in Item 1 "Financial Statements" the Company's statement that the adoption of FSP 157-1 and 157-2 will not have a material effect on the Company's financial statements; (ii) in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" the Company's statements regarding its belief that it will remain in compliance with the covenants of its Credit Facility; and that the Company will have adequate cash flow to meet its ongoing operational needs, including required repayments under its Credit Facility, Subordinated Notes financing and special purpose financings; (iii) in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Outlook" the Company's statements regarding its belief that the available debt capacity under the Credit Facility will be sufficient to fund its 2008 acquisitions; that the Company will be successful in extending the leases or find new lessees for aircraft with leases expiring during the remainder of 2008 but that, if the Company is unsuccessful in extending the leases, it is likely that the Company will incur significant maintenance expense in the fourth quarter of 2008 and the first quarter of 2009; that, even if the aircraft that are currently off lease and may come off lease in the remainder of 2008 remain off lease for an extended period of time, the Company will be able to meet its operational needs and remain in compliance with the terms of its Credit Facility and Subordinated Notes; and that the Company's reported net income may be subject to significant fluctuations from quarter-to-quarter as a result of the adoption of FSP AUG AIR-1 and with the recent acquisitions of Fokker 100s to the portfolio the fluctuations may have greater magnitude; and (iv) in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results," the Company's statements regarding its belief that it will have sufficient capital to fund acquisitions through 2008; that the Company will have sufficient cash funds to make any payment that arises due to borrowing base limitations caused by assets scheduled to come off lease in the near term; that JMC personnel's overall industry experience and its technical resources should permit the Company to effectively manage new aircraft types and engines; that the bulk of the equipment the Company acquires will be used aircraft equipment; that the Company intends to focus on regional air carriers and typically is able to obtain generally higher lease rates from regional carriers than mainline carriers; and that the Company is competitive because of JMC's experience and operational efficiency in identifying and obtaining financing for the transaction types desired by regional air carriers and that it benefits from JMC's reputation. 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 continued availability of Credit Facility financing; the compliance of the Company's lessees with obligations under their respective leases, risks related to use of debt financing for acquisitions; a sudden worsening in demand for regional aircraft or severe reduction in regional airline capacity; general economic conditions, particularly those that affect the air travel industry; the Company's success in finding additional financing and 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.
Condensed Consolidated Balance Sheets
Unaudited

ASSETS	June 30, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	\$ 3,047,600	\$ 2,843,200
Accounts receivable, including deferred rent of \$241,200 and \$675,600 at June 30, 2008 and December 31, 2007, respectively	1,613,200	1,647,700
Aircraft and aircraft engine held for lease, net of accumulated depreciation of \$29,612,900 and \$26,163,200 at June 30, 2008 and December 31, 2007, respectively	129,457,100	118,924,000
Taxes receivable	1,625,800	1,835,600
Prepaid expenses and other	1,184,700	1,402,300
Total assets	\$ 136,928,400	\$ 126,652,800
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 904,900	\$ 811,000
Notes payable and accrued interest	79,601,300	73,074,500
Maintenance reserves and accrued costs	7,285,600	6,025,500
Security deposits	5,442,000	5,696,500
Prepaid rent	1,016,700	1,028,000
Deferred income taxes	8,462,600	7,649,000
Taxes payable	194,400	228,600
Total liabilities	102,907,500	94,513,100
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	15,377,600	15,377,600
Retained earnings	19,145,800	17,264,600
	34,525,000	32,643,800
Treasury stock at cost, 63,300 shares	(504,100)	(504,100)
Total stockholders' equity	34,020,900	32,139,700

Total liabilities and stockholders' equity	\$ 136,928,400	\$ 126,652,800
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The accompanying notes are an integral part of these statements.

- 3 -

AeroCentury Corp.
Condensed Consolidated Statements of Operations
Unaudited

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2008	2007	2008	2007
	(as restated)		(as restated)	
Revenues and other income:				
Operating lease revenue	\$ 11,653,100	\$ 8,511,000	\$ 5,759,200	\$ 4,228,000
Maintenance reserves income	3,650,100	1,674,300	1,900,600	846,900
Gain on sale of aircraft and aircraft engines	15,000	-	-	-
Other	189,800	8,500	25,300	1,100
	15,508,000	10,193,800	7,685,100	5,076,000
Expenses:				
Interest	3,230,300	2,645,800	1,101,000	1,424,100
Depreciation	3,449,700	2,493,100	1,742,900	1,258,300
Management fees	1,772,700	1,367,200	889,200	683,800
Maintenance costs	3,634,800	925,900	1,253,400	700,500
Professional fees and general and administrative	434,800	330,700	156,600	174,400
Other taxes	(45,300)			