

AEROCENTURY CORP  
Form 10-Q  
May 15, 2008

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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 March 31, 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 May 15, 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

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 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; (ii) 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 proceeds of the June 30, 2008 \$18 million Subordinated Notes closing will be used to repay Credit Facility indebtedness; that the Credit Facility interest rate is likely to continue to be lower than the Subordinated Notes fixed rate and this is likely to result in the Company paying a higher effective interest rate on its debt once Subordinated Note proceeds are used to repay Credit Facility indebtedness; that the debt financing available to the Company is sufficient to fund planned 2008 acquisitions; that even if two returned aircraft are off lease for an extended period of time, the Company will be able to remain in compliance with the terms of its Credit Facility and Subordinated Notes; that the Company may incur significant unreimbursed expense in order to prepare the two returned aircraft for re-lease or re-sale; that the Company will be successful in extending leases or find new lessees for aircraft with leases expiring during the remainder of 2008 and that, even if the aircraft are off lease for an extended period of time, it will be able to 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; (iii) 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 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 the compliance of the Company's lessees with obligations under their respective leases, risks related to use of debt financing for acquisitions; 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; a sudden weakening in demand for regional aircraft or severe reduction in regional airline capacity; 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 Consolidated Balance Sheet  
Unaudited

ASSETS		
	March 31, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	\$ 5,539,200	\$ 2,843,200
Accounts receivable, including deferred rent of \$298,600 and \$675,550 at March 31, 2008 and December 31, 2007, respectively	1,747,700	1,647,700
Aircraft and aircraft engine held for lease, net of accumulated depreciation of \$28,870,000 and \$26,163,170 at March 31, 2008 and December 31, 2007, respectively	117,242,300	118,924,000
Taxes receivable	1,625,100	1,835,600
Prepaid expenses and other	1,490,700	1,402,300
<b>Total assets</b>	<b>\$ 127,645,000</b>	<b>\$ 126,652,800</b>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,387,500	\$ 811,000
Notes payable and accrued interest	71,731,400	73,074,500
Maintenance reserves and accrued costs	7,776,400	6,025,500
Security deposits	5,391,000	5,696,500
Prepaid rent	1,037,400	1,028,000
Deferred income taxes	7,711,300	7,649,000
Taxes payable	174,700	228,600
<b>Total liabilities</b>	<b>95,209,700</b>	<b>94,513,100</b>
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, 3,000,000 shares authorized, 1,606,557 shares issued and outstanding	1,600	1,600
Paid in capital	15,377,600	15,377,600
Retained earnings	17,560,200	17,264,600
Treasury stock at cost, 63,300 shares	(504,100)	(504,100)
<b>Total stockholders' equity</b>	<b>32,435,300</b>	<b>32,139,700</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 127,645,000</b>	<b>\$ 126,652,800</b>

The accompanying notes are an integral part of these statements.

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AeroCentury Corp.  
Condensed Consolidated Statements of Operations  
Unaudited

	For the Three Months Ended March 31,	
	2008	2007 (as restated)
Revenues and other income:		
Operating lease revenue	\$ 5,893,900	\$ 4,283,000
Maintenance reserves income	1,749,500	827,400
Other	179,500	7,400
	7,822,900	5,117,800
Expenses:		
Interest	2,129,200	1,221,700
Depreciation	1,706,900	1,234,800
Management fees	883,400	683,400
Maintenance costs	2,381,400	225,400
Professional fees and general and administrative	278,400	156,300
Other taxes	(79,800)	12,200
Insurance	78,100	26,700
Bad debt expense	-	15,700
	7,377,600	3,576,200
Income before income taxes	445,300	1,541,600
Income tax provision	149,700	517,800
Net income	\$ 295,600	\$ 1,023,800
Earnings per share:		
Basic	\$ 0.19	\$ 0.66
Diluted	\$ 0.18	\$ 0.66
Shares used in per share computations:		