

AEROCENTURY CORP  
Form 10-K  
March 12, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 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  
(IRS Employer Identification No.)

1440 Chapin Avenue, Suite 310  
Burlingame, California 94010  
(Address of Principal Executive Offices)

Registrant's telephone number, including area code: (650) 340-1888

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	NYSE MKT Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes ☐ No ☒

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.

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates (based upon the closing price as of June 30, 2014) was \$15,332,400.

The number of shares of the Registrant's Common Stock outstanding as of March 12, 2015 was 1,543,257.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates information by reference from the Registrant's Proxy Statement for its 2015 Annual Meeting of Stockholders. Except as expressly incorporated by reference, the Registrant's Proxy Statement shall not be deemed to be a part of this Annual Report on Form 10-K.

PART I  
FINANCIAL INFORMATION

Forward Looking Statements

This Annual Report on Form 10-K 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 I, Item 1, "Business of the Company," that the Company can purchase assets at an appropriate price and maintain an acceptable overall on-lease rate for the Company's assets; and that it is able and willing to enter into transactions with a wider range of lessees than would be possible for traditional, large lending institutions and leasing companies; (ii) in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" that the Company will be in compliance with all of its credit facility covenants at future calculation dates; and that the Company will have adequate cash flow to meet its ongoing operational needs, including any required repayments under the Credit Facility due to borrowing base limitations; (iii) in Part II, Item 7, "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 under several of the leases that expire in 2015 will choose to return the assets; that three of the Company's aircraft will be returned at lease-end in 2015 after meeting the return conditions of the leases; that the leases for the remaining four aircraft will be extended; and that the Company will be in compliance with all of its Credit Facility covenants at future calculation dates; that available borrowings under the Credit Facility will be sufficient to meet its continuing obligations and, if it is expanded to the maximum of \$180 million, to fund anticipated acquisitions; (v) in Part II, Item 7, "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 arises due to borrowing base limitations; that most of the Company's growth will be outside North America; 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 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; that its main vulnerability would be interruption to email communication, loss of archives and loss of document sharing; and that sufficient replacement mechanisms exist such 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.

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Item 1. Business.

Business of the Company

AeroCentury Corp., a Delaware corporation incorporated in 1997 (the “Company”), typically acquires used regional aircraft and aircraft engines for lease to regional carriers worldwide.

The business of the Company is managed by JetFleet Management Corp. (“JMC”), pursuant to a management agreement (the “Management Agreement”) with JMC. JMC is an integrated aircraft management, marketing and financing business and a subsidiary of JetFleet Holding Corp. (“JHC”). Certain officers of the Company are also officers of JHC and JMC and hold significant ownership positions in both JHC and the Company.

Since its formation, the Company has been engaged in the business of investing in used regional aircraft equipment leased to foreign and domestic regional air carriers. The Company’s principal business objective is to increase stockholder value by acquiring aircraft assets and managing those assets in order to provide a return on investment through lease revenue and, eventually, sale proceeds. The Company strives to achieve its business objective by reinvesting cash flow and using short-term and long-term debt and/or equity financing.

The Company’s success in achieving its objective depends in large part on its success in three areas: asset selection, lessee selection and obtaining financing for acquisition of aircraft and engines.

The Company typically acquires assets in one of three ways. The Company may purchase an asset already subject to a lease and assume the rights and obligations of the seller, as lessor under the existing lease. Additionally, the Company may purchase an asset from an air carrier and lease it back to the air carrier. Finally, the Company may purchase an asset from a seller and then immediately enter into a new lease for the aircraft with a third party lessee. In this last case, the Company typically does not purchase an asset unless a potential lessee has been identified and has committed to lease the asset. Occasionally, the Company may also acquire an asset for which it does not have a potential lessee.

Although the Company has generally targeted used regional aircraft and engines with purchase prices between \$3 million and \$10 million, and lease terms of less than five years, in 2013 and 2014, the Company acquired six regional jets and a new ATR 42-600 aircraft with purchase prices and lease terms exceeding those of previously-acquired aircraft. In determining assets for acquisition, the Company evaluates, among other things, the type of asset, its current price and projected future value, its versatility or specialized uses, the current and projected availability of and demand for that asset, and the type and number of future potential lessees. Because JMC has extensive experience in purchasing, leasing and selling used regional aircraft and engines, the Company believes it can purchase these assets at an appropriate price and maintain an acceptable overall on-lease rate for the Company’s assets.

In order to improve the remarketability of an aircraft after expiration of a lease, the Company’s leases generally contain provisions that require lessees to return the aircraft in a condition that allows the Company to expediently re-lease or sell the aircraft, or pay sufficient amounts based on usage under the lease to cover any maintenance or overhaul of the aircraft required to bring the aircraft to such a state.

When considering whether to enter into transactions with a lessee, the Company generally reviews the lessee’s creditworthiness, growth prospects, financial status and backing; the experience of its management; and the impact of legal and regulatory matters in the lessee’s market, all of which are weighed in determining the lease terms offered to the lessee. In addition, it is the Company’s policy to monitor the lessee’s business and financial performance closely throughout the term of the lease, and, if requested, provide assistance drawn from the experience of the Company’s

management in many areas of the air carrier industry. Because of its “hands-on” approach to portfolio management, the Company believes it is able and willing to enter into transactions with a wider range of lessees than would be possible for traditional, large lending institutions and leasing companies.

The Company has funded its asset acquisitions primarily through debt financing supplemented by free cash flow. The Company’s primary source of debt financing has been a secured credit facility. The Company's current credit facility ("Credit Facility") is provided by a syndicate of banks, with MUFG Union Bank, N.A. as agent, and in May 2014, the term was extended to May 31, 2019.

#### Working Capital Needs

The Company’s portfolio of assets has historically generated revenues that have exceeded the Company’s cash expenses, which consist mainly of management fees, maintenance costs, principal and interest payments on debt, professional fees, and insurance premiums.

The management fees paid by the Company to JMC are based upon the size of the Company’s asset pool. Maintenance costs for off-lease aircraft are recognized as expenses as incurred, while reimbursement of lessee maintenance costs from previously collected maintenance reserves reduce the Company's maintenance reserves liability. Interest expense is dependent on both the balance of the Company’s indebtedness and applicable interest rates. Professional fees are paid to third parties for expenses not covered by JMC under the Management Agreement. Insurance expense includes amounts paid for directors and officers insurance, as well as product liability insurance and aircraft hull insurance for periods when an aircraft is off lease.

So long as the Company succeeds in keeping the majority of its assets on lease and interest rates do not rise significantly and rapidly, the Company’s cash flow should continue to be sufficient to cover its expenses and provide excess cash flow. If the Company incurs unusually large maintenance costs or reimbursements for maintenance in any given period, the Company expects it will have sufficient cash flow or borrowing availability under its credit facility to fund such maintenance.

#### Competition

The Company competes with other leasing companies, banks, financial institutions, and aircraft leasing partnerships for customers that generally are regional commercial aircraft operators seeking to lease aircraft under operating leases. Competition has increased as competitors who have traditionally neglected the regional air carrier market have begun to focus on that market. Because competition is largely based on price and lease terms, the entry of new competitors into the market, and/or the entry of traditional large aircraft lessors into the regional aircraft niche, particularly those with greater access to capital markets than the Company, could lead to fewer acquisition opportunities for the Company and/or lease terms less favorable to the Company on acquisitions, as well as fewer renewals of existing leases or new leases of existing aircraft, all of which could lead to lower revenues, profitability and cash flow for the Company.

The Company, however, believes that it has a competitive advantage due to its experience and operational efficiency in financing the transaction sizes that are desired by many in the regional air carrier market. Management believes that the Company also continues to have a competitive advantage because JMC has developed a presence as a global participant in the regional aircraft leasing market.

#### Dependence on Significant Customers

For the year ended December 31, 2014, the Company’s four largest customers accounted for 20%, 18%, 14% and 11% of lease revenue. For the year ended December 31, 2013, the Company’s four largest customers accounted for 23%, 19%, 11% and 10% of lease revenue. Concentration of credit risk with respect to lease receivables will diminish in

the future only if the Company is able to re-lease assets currently on lease to significant customers to new customers and/or acquire assets for lease to new customers.

#### Environmental Matters

Neither compliance with federal, state and local provisions regulating discharge of greenhouse gas emissions (including carbon dioxide (CO<sub>2</sub>)) in the environment and/or aircraft noise regulations, nor remedial agreements or other actions relating to the environment, has had, or is expected to have, a material effect on the Company's capital expenditures, financial condition, results of operations or competitive position.

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## Employees

Under the Company's Management Agreement with JMC, JMC is responsible for all administration and management of the Company. Consequently, the Company does not have any employees.

## Available Information

The headquarters of AeroCentury Corp. is located at 1440 Chapin Avenue, Suite 310, Burlingame, California 94010. The main telephone number is (650) 340-1888. The Company's website is located at: <http://www.aerocentury.com>.

The Company is subject to the reporting requirements of the Securities Exchange Act (the "Exchange Act"). Therefore, the Company files periodic reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). Copies of these materials, filed by us with the SEC, are available free of charge on our website at [www.aerocentury.com](http://www.aerocentury.com) through the Investor Relations link (SEC Filings). The public may read and copy any materials the Company files with the SEC at the SEC's Public Reference Room of the SEC at 100 F Street N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

## Item 1A.Risk Factors.

Smaller reporting companies are not required to provide this information.

## Item 1B.Unresolved Staff Comments.

None.

## Item 2.Properties.

As of December 31, 2014, the Company did not own or lease any real property, plant or materially important physical properties. The Company maintains its principal office at 1440 Chapin Avenue, Suite 310, Burlingame, California 94010. However, since the Company has no employees and the Company's portfolio of leased aircraft assets is managed and administered under the terms of the Management Agreement with JMC, all office facilities are provided by JMC.

For information regarding the aircraft and aircraft engines owned by the Company, refer to Note 3 to the Company's financial statements in Item 8 of this Annual Report on Form 10-K.

## Item 3.Legal Proceedings.

The Company from time to time engages in ordinary course litigation relating to lease collection matters against defaulting lessees and mechanic's lien claims by vendors hired by lessees. None of the current litigation, if resolved adverse to the Company, is anticipated to have a material adverse effect on the Company's financial condition or results of operations.

## Item 4.Mine Safety Disclosures.



Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The shares of the Company's Common Stock are traded on the NYSE MKT exchange ("NYSE MKT") under the symbol "ACY."

## Market Information

The Company's Common Stock has been traded on the NYSE MKT since January 16, 1998. The following table sets forth the high and low sales prices reported on the NYSE MKT for the Company's Common Stock for the periods indicated:

Period	High	Low
Fiscal year ended December 31, 2014:		
Fourth Quarter	\$11.82	\$8.05
Third Quarter	16.40	10.90
Second Quarter	18.90	15.25
First Quarter	19.00	15.03
Fiscal year ended December 31, 2013:		
Fourth Quarter	20.60	14.65
Third Quarter	22.30	19.10
Second Quarter	21.50	17.53
First Quarter	18.31	14.20

On March 10, 2015, the closing sale price of the Company's Common Stock on the NYSE MKT exchange was \$13.50 per share.

## Number of Security Holders

According to the Company's transfer agent, the Company had approximately 1,400 stockholders of record as of March 10, 2015. Because brokers and other institutions on behalf of beneficial stockholders hold many of the Company's shares of Common Stock, the Company is unable to estimate the total number of beneficial stockholders represented by those record holders.

## Dividends

No dividends have been declared or paid to date. The Company has no plans at this time to declare or pay dividends, and intends to re-invest any earnings into the acquisition of additional revenue-generating aircraft equipment.

The terms of the Credit Facility prohibit the Company from declaring or paying dividends on its Common Stock, except for cash dividends in an aggregate annual amount not to exceed 50% of the Company's net income in the immediately preceding fiscal year so long as immediately prior to and immediately following such dividend the Company is not in default under the Credit Facility.

## Stockholder Rights Plan

For information regarding the Company's stockholder rights plan, refer to Note 8 to the Company's financial statements in Item 8 of this Annual Report on Form 10-K.

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## Item 6. Selected Financial Data.

This report does not include information described under Item 301 of Regulation S-K pursuant to the rules of the SEC that permit “smaller reporting companies” to omit such information.

## Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

### Overview

The Company owns regional aircraft and engines, which are typically leased to customers under triple net leases with terms that are less than the useful life of the assets. A “triple net operating lease” is an operating lease under which, in addition to monthly rental payments, the lessee is generally responsible for the taxes, insurance and maintenance and repair of the aircraft arising from the use and operation of the aircraft during the term of the lease. The acquisition of such equipment is generally made using debt financing. The Company’s profitability and cash flow are dependent in large part upon its ability to acquire equipment, obtain and maintain favorable lease rates on such equipment, and re-lease or sell equipment that comes off lease. The Company is subject to the credit risk of its lessees, both as to collection of rental payments and as to performance by lessees of their obligations to maintain the equipment. Since lease rates for assets in the Company’s portfolio generally decline as assets age, the Company’s ability to maintain and grow revenue and earnings is primarily dependent upon the Company’s ability to acquire and lease additional assets.

The Company’s primary uses of cash are for purchases of aircraft and engines, maintenance, debt service payments, management fees, insurance and professional fees.

The Company’s most significant non-cash expenses include aircraft and engine depreciation, amortization of costs associated with the Company’s indebtedness, which is included in interest expense, and, in some years, impairment provisions, which are affected by significant estimates.

### Critical Accounting Policies, Judgments and Estimates

The Company’s discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities at the date of the financial statements. In the event that actual results differ from these estimates or the Company adjusts these estimates in future periods, the Company’s operating results and financial position could be materially affected. For a discussion of Critical Accounting Policies, Judgments and Estimates, refer to Note 1 to the Company’s financial statements in Item 8 of this Annual Report on Form 10-K.

For a discussion of the Company’s accounting policies regarding maintenance reserves, refer to Note 4 to the Company’s financial statements in Item 8 of this Annual Report on Form 10-K. For a discussion of the Company’s change in method of accounting for certain maintenance reserves and lessor maintenance obligations and its application to prior periods, refer to Note 2 to the Company’s financial statements in Item 8 of this Annual Report on Form 10-K.

### Results of Operations

The Company recorded a net loss of \$11.3 million in 2014 compared to net income of \$8.3 million in 2013, primarily as a result of recording impairment charges totaling \$18.2 million for its seven Fokker 100 aircraft, as well as

impairment charges of \$0.5 million for three of its Fokker 50 aircraft in 2014. There were no recorded impairment charges of long-lived assets during 2013.

Operating lease revenue increased 17% from \$18.8 million in 2013 to \$21.9 million in 2014, primarily as a result of assets purchased during 2013 and 2014. The effect of these increases was partially offset by the effect of assets that were on lease in the 2013 period but off lease in the 2014 period and asset sales during 2013 and 2014.

Maintenance reserves revenue decreased 77% from \$14.9 million in 2013 to \$3.4 million in 2014. The amount recorded in 2013 period was comprised of \$6.5 million, which was received from the prior lessee of two of the Company's aircraft when the leases were assigned to a new lessee in 2012 and recognized as maintenance reserves revenue upon termination of those leases in the first quarter of 2013, and \$8.4 million from maintenance reserves retained at lease end for five other aircraft. The amount recorded in 2014 period includes approximately \$1.7 million of maintenance reserves retained at lease end for one aircraft and approximately \$1.7 million of maintenance reserves retained when six aircraft were returned to the Company prior to lease expiration.

During 2014, the Company recorded \$3.1 million of net gains on the sale of nine aircraft and an aircraft engine, as compared to 2013, when the Company recorded \$3.8 million in net gains from the sale of five aircraft and an engine, as well as the disposal of a spare engine.

During 2014, the Company recorded \$0.1 million of other income from retention of a non-refundable security deposit when a potential buyer of one of the Company's aircraft did not complete the planned purchase. During 2013, the Company recorded \$0.5 million of other income from security deposits retained upon early termination of two leases following the lessee's bankruptcy.

During 2014 and 2013, the Company added equipment to its lease portfolio of approximately \$81.0 million and \$24.7 million, respectively. The Company sold equipment with book values of approximately \$14.5 million and \$8.7 million during 2014 and 2013, respectively. As a result of the timing of these asset acquisitions and sales, as well as changes in residual value assumptions from year to year, depreciation decreased by 1% in 2014 over the previous year. Management fees, which are based on the net asset value of the Company's aircraft and engines, increased by 12% in 2014 as compared to 2013. Due to a waiver by JMC of its fourth quarter management fees of approximately \$1.2 million, management fees incurred by the Company were less by that amount than they would have been without such waiver.

The average net book value of assets held for lease during 2014 and 2013 was approximately \$171.7 million and \$143.3 million, respectively, representing an increase of 20%. The average portfolio utilization during 2014 and 2013 was 82% and 76%, respectively.

The Company's maintenance expense increased by 7% from \$7.0 million in 2013 to \$7.5 million in 2014, primarily as a result of an increase in maintenance performed by the Company on off-lease aircraft.

The Company's interest expense increased by 26% from \$4.1 million in 2013 to \$5.1 million in 2014, primarily as a result of a higher average Credit Facility balance.

The Company's professional fees, general and administrative and other expenses increased by 46% from \$1.2 million in 2013 to \$1.7 million in 2014, primarily as a result of expenses incurred in connection with the return of six aircraft and two engines by one of the Company's customers when it ceased operations in 2014.

The Company's other taxes expense increased by \$0.4 million in 2014 compared to 2013 as a result of the accrual of goods and service tax related to four of the Company's aircraft that are leased to a customer in Papua New Guinea.



## Liquidity and Capital Resources

The Company is currently financing its assets primarily through debt financing and excess cash flows.

### (a)Credit Facility

In May 2014, the Company's \$130 million Credit Facility was increased to \$180 million and extended through May 31, 2019. The Credit Facility is provided by a syndicate of banks and is secured by all of the assets of the Company, including its aircraft and engine portfolio.

In November 2013, the Company obtained a waiver of compliance with a lessee concentration covenant under its Credit Facility agreement at the September 30, 2013 and December 31, 2013 calculation dates. The Company was in compliance with all covenants other than the waived covenant under the Credit Facility agreement at December 31, 2013.

Although the Company previously had letters of intent for the lease of five of its Fokker 100 aircraft, the prospective lessees decided not to lease the aircraft during the second quarter of 2014. Therefore, at June 30, 2014, the Company reevaluated the recoverability of the net book value of these assets and consequently obtained current market value appraisals, which resulted in aircraft impairment charges totaling \$6.8 million being recorded for these aircraft during the second quarter of 2014. As a result of the impairment charges, the Company was out of compliance with a profitability covenant at June 30, 2014. In August 2014, the Company and the Credit Facility banks agreed to an amendment to the profitability covenant which cured the June 30, 2014 non-compliance.

During the third quarter of 2014, based on management's assessment of the market for Fokker 100 aircraft and the estimated costs associated with preparing the Company's five off-lease Fokker 100 aircraft for re-lease, the Company recorded additional impairment charges of \$8.5 million for these aircraft to write them down to their estimated liquidation values. The Company also recorded impairment charges of \$0.3 million for an off-lease Fokker 50 aircraft and reclassified these six aircraft as held for sale. The Company sold the Fokker 50 aircraft in March 2015. The Company also recorded an impairment charge of \$2.9 million, based on the appraised market values, for its two other Fokker 100 aircraft that were leased in September and October 2014.

As a result of the third quarter impairment charges, the Company was out of compliance with the profitability, interest coverage and debt service coverage covenants of its Credit Facility at September 30, 2014. In November 2014, the Company and the Credit Facility banks agreed to an amendment to the Credit Facility that: cured the September 30, 2014 non-compliance; revised the compliance requirements through September 30, 2015; decreased the amount of the Credit Facility to \$150 million due to the departure of two participant lenders; and decreased the maximum amount to which the Credit Facility can be expanded from \$200 million to \$180 million. The Company was in compliance with all covenants at December 31, 2014.

Based on its current projections, the Company believes that it will be in compliance with all of its Credit Facility covenants at future calculation dates. Although the Company believes that the assumptions it has made in forecasting its compliance with the Credit Facility covenants are reasonable in light of experience, actual results could deviate from such assumptions and there can be no assurance the Company's beliefs will prove to be correct. Among the more significant factors that could have an impact on the accuracy of the Company's covenant compliance forecasts are (i) unanticipated decreases in the market value of the Company's assets, or in the rental rates deemed achievable for such assets that cause the Company to record an impairment charge against earnings; (ii) lessee non-compliance with lease obligations, (iii) inability to locate new lessees for returned equipment within a reasonable remarketing period, or at a rent level consistent with projected rates, (iv) inability to locate and acquire a sufficient volume of additional assets at prices that will produce acceptable net returns, (v) increases in interest rates, or (vi) inability to timely dispose of off-lease assets at prices commensurate with their market value.

Although the Company believes it will continue to be in compliance with all of the Credit Facility covenants, there can be no assurance of such compliance and, in the event of any non-compliance, the Company will need to seek further waivers or amendment of applicable covenants from its lenders if such compliance failure is not timely cured. Any default under the Credit Facility, if not cured in the time permitted under the facility or waived by the lenders, could result in foreclosure upon any or all of the assets of the Company.

For additional information regarding the Company's Credit Facility, refer to Note 7 to the Company's financial statements in Item 1 of this Annual Report on Form 10-K.

(b)Cash flow

The Company's primary sources of cash are (i) rent payments due under the Company's operating and finance leases, (ii) maintenance reserves billed monthly to lessees based on asset usage, and (iii) proceeds from the sale of aircraft and engines.

The Company's primary uses of cash are for purchase of assets, maintenance expense and reimbursement to lessees from collected maintenance reserves, management fees, professional fees, insurance, and Credit Facility fees, interest and principal payments. The amount of interest paid by the Company depends on the outstanding balance of its Credit Facility, which carries a floating interest rate as well as an interest rate margin, and is therefore also dependent on changes in prevailing interest rates.

The timing and amount of the Company's payments for maintenance vary, depending on the timing of lessee-performed maintenance that is eligible for reimbursement, the aggregate amount of such claims and the timing and amount of maintenance incurred in connection with preparation of off-lease assets for re-lease to new customers. The Company's maintenance payments typically constitute a large portion of its cash needs, and the Company may from time to time borrow additional funds under the Credit Facility to provide funding for such payments.

Management believes that the Company will have adequate cash flow to meet its ongoing operational needs, including any required repayments under the Credit Facility due to borrowing base limitations, based upon its estimates of future revenues and expenditures, which include assumptions regarding (i) revenues for assets to be re-leased, (ii) the cost and anticipated timing of maintenance to be performed, (iii) required debt payments, (iv) timely use of proceeds of unused debt capacity toward additional acquisitions of income producing assets and (v) interest rates. There can be no assurance, however, that the Company's beliefs will prove to be correct.

Although the Company believes that the assumptions it has made in forecasting its cash flow are reasonable in light of experience, actual results could deviate from such assumptions. As discussed above, in "Liquidity and Capital Resources – (a) Credit Facility" above, there are a number of factors that may cause actual results to deviate from such forecasts.

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(i) Operating activities

The Company's cash flow from operations decreased by \$1.6 million in 2014 compared to 2013. As discussed below, the change in cash flow was primarily a result of a decrease in payments received for maintenance reserves and increases in payments for maintenance, interest, management fees and professional fees and general and administrative expenses, the effects of which were partially offset by an increase in payments received for operating lease revenue and a decrease in payments for aircraft insurance.

Payments for operating lease revenue and maintenance reserves

Rent receipts from lessees increased by \$2.9 million in 2014 compared to 2013, primarily due to rent from assets purchased during late 2013 and early 2014. Receipts from lessees for maintenance reserves decreased by \$1.8 million in 2014 compared to 2013, primarily as a result of asset sales and returns, as well as lower utilization of some assets for which the Company collects maintenance reserves. In addition, the Company does not collect maintenance reserves for most of the aircraft it acquired in 2013 and 2014.

As of the date of this filing, the Company is receiving no lease revenue for six aircraft and five engines that are off lease, with a total book value of \$22.3 million, representing 12% of the Company's total assets held for lease. One of the off-lease engines is being held as a spare and used in connection with required maintenance on the Company's Fokker 100 aircraft. In addition, five off-lease Fokker 100 aircraft, with a total book value of \$5.0 million, are being held for sale and not lease.

Payments for maintenance

Payments for maintenance increased by \$0.7 million in 2014 compared to 2013, primarily as a result of an increase in maintenance costs for off-lease aircraft. The amount of payments for maintenance in future periods will depend on the amount and timing of maintenance paid as reimbursement to lessees for maintenance reserves claims, which are dependent upon utilization and required maintenance intervals, as well as maintenance paid for off-lease assets.

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#### Payment for interest

Payments for interest increased by \$1.1 million in 2014 compared to 2013 as a result of a higher Credit Facility balance.

#### Payments for management fees

Although JMC waived its management fees of approximately \$1.2 million for the fourth quarter of 2014, payments for management fees increased by \$0.4 million in 2014 compared to 2013 as a result of asset purchases in 2013 and 2014. No assurance can be given that JMC will waive any management fees in the future.

#### Payment for professional fees, general and administrative and other expenses and aircraft insurance

Payments for professional fees, general and administrative and other expenses increased by \$0.6 million in 2014 compared to 2013 primarily as a result of expenses incurred in connection with the early return of six aircraft and two engines by one of the Company's customers in 2014 period when it ceased operations. Payments for aircraft insurance decreased by \$0.7 million in 2014 compared to 2013 primarily as a result of a difference in the timing of premium payments that are made on a semi-annual basis.

#### (ii) Investing activities

During 2014 and 2013, the Company received cash of \$16.2 million and \$10.9 million, respectively, from the sale of assets. During the same time periods, the Company used cash of \$74.5 million and \$25.0 million, respectively, for purchases and capital improvement of aircraft.

#### (iii) Financing activities

The Company borrowed \$71.1 million and \$19.0 million under the Credit Facility during 2014 and 2013, respectively. In these same time periods, the Company repaid \$15.2 million and \$9.3 million, respectively, of its total outstanding debt under the Credit Facility. Such repayments were funded by excess cash flow and the sale of assets. During 2014 and 2013, the Company paid \$3.0 million and \$2.1 million of fees, respectively, in connection with the extension and administration of the Company's Credit Facility, as well as the waiver obtained from the banks during the fourth quarter of 2014. Such fees are being amortized over the term of the Credit Facility.

#### Outlook

##### (a) General

While in certain areas of the world the air carrier industry is now beginning to experience growth after a period of contraction following the global downturn of recent years, other areas of the world continue to experience slow recovery and failures of weaker air carrier competitors that were unable to survive the aftermath of the global downturn. Overall, the Company continues to experience a reduction in the number of aircraft and aircraft engines needed for operation by carriers in nearly all geographic areas, especially in Western Europe, as compared to periods before the global downturn.

The Company has identified three areas that could challenge the Company's growth and operating results by negatively affecting its collateral base and, therefore, its ability to access sources of financing:

- The Company could experience (i) a delay in remarketing its off-lease assets, as well as (ii) lower rental rates for assets that are remarketed. The Company expects that the customers for several of the leases that expire in 2015 and after will choose to return the assets rather than renew the leases, notwithstanding that any such customer may incur significant expenses to satisfy return conditions.
- Lessees that are located in low- or no- growth areas of the world carry heightened risk of an unanticipated lessee default. A lessee's default and the unscheduled return of an asset to the Company for remarketing could result not only in reduced operating lease revenue but also in unanticipated, unrecoverable expenses arising from the lessee's default on its maintenance and return condition obligations. The Company monitors the performance of all of its customers and has noted that several of the Company's customers continue to experience weakened operating results and have not yet achieved financial stability.
- Competition in the Company's market niche has increased recently as a result of new entrants to the acquisition and leasing market. The increased competition has put downward pressure on lease rates, resulting in lower margins.

#### (b) Operating Segments

The Company operates in one business segment, the leasing of regional aircraft to foreign and domestic regional airlines, and therefore does not present separate segment information for lines of business.

At February 28, 2015, the dominant types of aircraft in the Company's portfolio of assets held for lease were as follows:

Model	Number owned	% of net book value
Bombardier Dash-8-300	8	17 %
Bombardier CRJ-700	3	16 %
Bombardier CRJ-900	2	16 %
Bombardier Dash-8-Q400	3	13 %

For the month ended February 28, 2015, the Company's sources of operating lease revenue were from the following regions:

Region	Number of lessees	% of operating lease revenue
Europe	3	29 %
North America	2	22 %
Africa	2	17 %
Asia	3	14 %
Central and South America	1	9 %
Australia	1	9 %

#### (c) Remarketing Efforts

At December 31, 2014, five Fokker 100 aircraft and one Fokker 50 aircraft were classified as held for sale. In March 2015, the Company sold the Fokker 50 aircraft. The Company is seeking sales opportunities for the Fokker 100 aircraft.

The Company is seeking remarketing opportunities for six aircraft and five engines that are held for lease. The Company is considering selling some or all of these assets. The Company is analyzing the amount and timing of

maintenance required to remarket the assets, the amount of which may differ significantly if the assets are sold rather than re-leased.

The leases for seven of the Company's aircraft will expire during the first half of 2015. The Company believes that three of the aircraft will be returned at lease-end in 2015 after meeting the return conditions of the leases, and the Company believes that the leases for the remaining four aircraft will be extended.

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(d)Credit Facility

In August 2014 and November 2014, the Company and the Credit Facility banks agreed to amendments to the Credit Facility, which cured non-compliance with certain of the covenants under the Credit Facility at June 30, 2014 and September 30, 2014. The November 2014 amendment also revised the compliance requirements through September 30, 2015, decreased the amount of the Credit Facility to \$150 million due to the departure of two participant lenders, and decreased the maximum amount to which the Credit Facility can be expanded from \$200 million to \$180 million.

The unused amount of the Credit Facility was \$16,600,000 as of March 12, 2015. Based on its current projections, the Company believes that it will be in compliance with all of its Credit Facility covenants at future calculation dates. The Company also believes that available borrowings under the Credit Facility will be sufficient to meet its continuing obligations and, if it is expanded to the maximum of \$180 million, to fund anticipated acquisitions. However, there can be no assurance the Company's beliefs will prove to be correct.

Factors that May Affect Future Results

**Noncompliance with Credit Facility Financial Covenants.** The Company's use of debt as the primary form of acquisition financing subjects the Company to increased risks associated with leverage. In addition to payment obligations, the Credit Facility agreement includes financial covenants, including some requiring the Company to have positive earnings, meet minimum net worth standards and be in compliance with certain other financial ratios.

As discussed above in "Outlook – Credit Facility," the Company was out of compliance with a number of covenants under its Credit Facility at June 30, 2014 and September 30, 2014. The Credit Facility was amended in August 2014 to cure the June 30, 2014 non-compliance and in November 2014 to cure the September 30, 2014 non-compliance, revise certain compliance requirements and decrease the amount of the Credit Facility from \$180 million to \$150 million. The November amendment also reduced the amount to which the Credit Facility can be expanded from \$200 million to \$180 million.

Although the Company believes it will continue to be in compliance with all of the Credit Facility covenants, there can be no assurance of such compliance, and in the event of any non-compliance, the Company will need to seek further waivers or amendment of applicable covenants from its lenders if such compliance failure is not timely cured. Any default under the Credit Facility, if not cured in the time permitted under the facility or waived by the lenders, could result in foreclosure upon any or all of the assets of the Company.

**Ownership Risks.** The Company's leases typically are for a period shorter than the entire, anticipated, remaining useful life of the leased assets. The Company's ability to recover its investment in an asset subject to such a lease is dependent upon the Company's ability to profitably re-lease or sell the asset after the expiration of the lease term. This ability is dependent on worldwide economic conditions, general aircraft market conditions, regulatory changes that may make an asset's use more expensive or preclude use due to the age of the aircraft or unless the asset is modified, changes in the supply or cost of aircraft equipment and technological developments that cause the asset to become obsolete. If the Company is unable to remarket its assets on favorable terms when the leases for such assets expire, the Company's financial condition, cash flow, ability to service debt and results of operations could be adversely affected.

The Company typically acquires used aircraft equipment. The market for used aircraft equipment has been cyclical, and generally reflects economic conditions and the strength of the travel and transportation industry. The demand for and value of many types of used aircraft in the recent past has been depressed by such factors as airline financial difficulties, the number of new aircraft on order and the number of aircraft coming off lease, as well as introduction of

new aircraft models and types that may be more technologically advanced, more fuel efficient and/or less costly to maintain and operate. Values may also increase or decrease for certain aircraft types that become more or less desirable based on market conditions and changing airline capacity.

In addition, a successful investment in an asset subject to a lease depends in part upon having the asset returned by the lessee in the condition as required under the lease. Each lease typically obligates a customer to return an asset to the Company in a specified condition, which generally requires it be returned in equal or better condition than at delivery to the lessee. If the lessee were to become insolvent during the term of its lease and the Company had to repossess the asset, it is unlikely that the lessee would have the financial ability to meet these return obligations and it is likely that the Company would be required to expend funds in excess of any maintenance reserves collected to return the asset to a remarketable condition. If the lessee filed for bankruptcy and rejected the aircraft lease, the lessee would be required to return the aircraft but would be relieved from further lease obligations, including return conditions specified in the lease. In that case, it is also likely that the Company would be required to expend funds in excess of any maintenance reserves collected to return the asset to a remarketable condition.

Several of the Company's leases do not require payment of monthly maintenance reserves, which serve as the lessee's advance payment for its future repair and maintenance obligations. If repossession due to lessee default or bankruptcy occurred under such a lease, the Company would be left with the costs of unperformed repair and maintenance under the applicable lease and the Company would likely incur an unanticipated expense in order to re-lease or sell the asset.

Furthermore, the occurrence of unexpected adverse changes that impact the Company's estimates of expected cash flows generated from an asset could result in an asset impairment charge against the Company's earnings. The Company periodically reviews long-term assets for impairment, in particular, when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment charge is recorded when the carrying amount of an asset is estimated to be not recoverable and exceeds its fair value. The Company recorded impairment charges for some of its aircraft in 2014 and may be required to record asset impairment charges in the future as a result of a prolonged weak economic environment, challenging market conditions in the airline industry, events related to particular lessees, assets or asset types or other factors affecting the value of aircraft or engines.

**Lessee Credit Risk.** The Company carefully evaluates the credit risk of each customer and attempts to obtain a third party guaranty, letters of credit or other credit enhancements, if it deems them necessary in addition to customary security deposits. There can be no assurance, however, that such enhancements will be available, or that, if obtained, will fully protect the Company from losses resulting from a lessee default or bankruptcy.

If a lessee that is a certified U.S. airline were in default under a lease and sought protection under Chapter 11 of the United States Bankruptcy Code, Section 1110 of the Bankruptcy Code would automatically prevent the Company from exercising any remedies against such lessee for a period of 60 days. After the 60-day period had passed, the lessee would have to agree to perform the lease obligations and cure any defaults, or the Company would have the right to repossess the equipment. However, this procedure under the Bankruptcy Code has been subject to significant litigation, and it is possible that the Company's enforcement rights would be further adversely affected by a bankruptcy filing by a defaulting lessee.

Several of the Company's customers have experienced significant financial difficulties, become insolvent, or have been declared or have filed for bankruptcy. An insolvency or bankruptcy of a customer usually results in a total loss of those receivables. The Company closely monitors the performance of all of its lessees and its risk exposure to any lessee that may be facing financial difficulties, in order to guide decisions with respect to such lessee that would mitigate losses in the event the lessee is unable to meet or rejects its lease obligations. There can be no assurance that additional customers will not become insolvent or file for bankruptcy or that the Company will be able to mitigate any of the resultant losses.

**Risks Related to Regional Air Carriers.** The Company's continued focus on its customer base of regional air carriers subjects the Company to additional risks. Some of the lessees in the regional air carrier market are companies that are start-up, low-capital, and/or low-margin operators. Often, the success of such carriers depends on contractual arrangements with major trunk carriers or franchises from governmental agencies that provide subsidies for operating essential air routes, both of which may be subject to termination or cancellation on short notice. Regional carriers, even if financially strong, that are affiliated with an established major carrier can also be swept into bankruptcy if the major carrier files for bankruptcy or becomes insolvent. Four of the Company's regional air carrier customers filed for bankruptcy in 2012 and 2013, and a Thai regional carrier that leased six aircraft and two engines from the Company ceased operations in May of 2014.

**Credit Facility Debt Limitations.** The amount available to be borrowed under the Credit Facility is limited by the asset-specific advance rates. Lessee arrearages or asset off-lease periods may reduce the advance rate for the related assets and, therefore, the permitted borrowing under the facility. Amounts subject to payment deferral agreements also reduce the amount of permitted borrowing. The Company believes it will have sufficient cash funds to make any required principal repayment that arises due to any such borrowing limitations.

**Availability of Financing.** The Company's continued growth will depend on its ability to continue to obtain capital, either through debt or equity financings. There can be no assurance that the Company will succeed in obtaining capital in the future at terms favorable to the Company.

**General Economic Conditions and Lowered Demand for Travel.** The Company's business is dependent upon general economic conditions and the strength of the travel and transportation industry. The industry is continuing to experience financial difficulty due to the slow recovery in the global economy. The spread of a disease epidemic, the threat or execution of a terrorist attack against aviation, a worsening financial/bank crisis in Europe, a natural event that interrupts air traffic, military conflict, political crises or other events that cause a prolonged spike in fuel prices, or other like events could exacerbate an already weakened condition and lead to widespread failures in the air carrier industry. If lessees experience financial difficulties and are unable to meet lease obligations, this will, in turn, negatively affect the Company's financial performance.

**Airline reductions in capacity in response to lower passenger loads** have resulted in reduced demand for aircraft and aircraft engines and a corresponding decrease in market lease rental rates and aircraft values for many aircraft types. This reduced market value could affect the Company's results if the market value of an asset or assets in the Company's portfolio falls below carrying value, and the Company determines that a write-down of the value on its balance sheet is appropriate. Furthermore, if older, expiring leases are replaced with leases at decreased lease rates, the lease revenue from the Company's existing portfolio is likely to decline, with the magnitude of the decline dependent on the length of the downturn and the depth of the decline in market rents.

Economic downturns can affect certain regions of the world more than others. As the Company's portfolio is not entirely globally diversified, a localized downturn in one of the key regions in which the Company leases assets could have a significant adverse impact on the Company. The Company's significant sources of operating lease revenue by region are summarized in "Outlook - Operating Segments," above.

In past years, several of the Company's customers have experienced financial difficulties arising from a combination of the weakened air carrier market and their own unique financial circumstances and have requested and been granted deferral of certain overdue and/or future rental or maintenance reserve payment obligations. It is possible that the Company may enter into additional deferral agreements if the current weakened air carrier environment continues. When a customer requests a deferral of lease obligations, the Company evaluates the lessee's financial plan, the likelihood that the lessee can remain a viable carrier, and whether the deferral will be repaid according to the agreed schedule. The Company may elect to record the deferred rent and reserve payments from the lessee on a cash basis, which could have a material effect on the Company's financial results in the applicable periods. Deferral agreements with lessees also reduce the Company's borrowing capacity under its Credit Facility.

**International Risks.** The Company leases assets in overseas markets. Leases with foreign lessees, however, may present different risks than those with domestic lessees. Most of the Company's expected growth is outside of North America.

A lease with a foreign lessee is subject to risks related to the economy of the country or region in which such lessee is located, which may be weaker than the U.S. economy. An economic downturn in a particular country or region may impact a foreign lessee's ability to make lease payments, even if the U.S. and other foreign economies remain stable.

Foreign lessees are subject to risks related to currency conversion fluctuations. Although the Company's current leases are all payable in U.S. dollars, the Company may agree in the future to leases that permit payment in foreign currency, which would subject such lease revenue to monetary risk due to currency fluctuations. In addition, if the Company undertakes certain obligations under a lease to contribute to a repair or improvement and if the work is performed in a foreign jurisdiction and paid for in foreign currency, currency fluctuations resulting in a weaker dollar between the time such agreement is made and the time payment for the work is made may result in an unanticipated increase in U.S. dollar-denominated cost for the Company.

Even with U.S. dollar-denominated lease payment provisions, the Company could still be affected by a devaluation of the lessee's local currency that would make it more difficult for a lessee to meet its U.S. dollar-denominated payments, increasing the risk of default of that lessee, particularly if its revenue is primarily derived in the local currency.

Foreign lessees that operate internationally may also face restrictions on repatriating foreign revenue to their home country. This could create a cash flow crisis for an otherwise profitable carrier, affecting its ability to meet its lease obligations. Foreign lessees may also face restrictions on payment of obligations to foreign vendors, including the Company, which may affect their ability to timely meet lease obligations to the Company.

Foreign lessees are not subject to U.S. bankruptcy laws, although there may be debtor protection similar to U.S. bankruptcy laws available in some jurisdictions. Certain countries do not have a central registration or recording system with which to locally establish the Company's interest in equipment and related leases. This could make it more difficult for the Company to recover an aircraft in the event of a default by a foreign lessee. In any event, collection and enforcement may be more difficult and complicated in foreign countries.

Finally, ownership of a leased asset operating in a foreign country and/or by a foreign carrier may subject the Company to additional tax liabilities that are not present with aircraft operated in the United States. Depending on the jurisdiction, laws governing such tax liabilities may be complex, not well formed or not uniformly enforced. In such jurisdictions, the Company may decide to take an uncertain tax position based on the best advice of the local tax experts it engages, which position may be challenged by the taxing authority. If the taxing authority later assesses a liability, the Company may be required to pay penalties and interest on the assessed amount, which penalties and interest would not give rise to a corresponding foreign tax credit on the Company's U.S. tax return.





**Concentration of Lessees and Aircraft Type.** For the month ended February 28, 2015, the Company's four largest customers accounted for a total of approximately 54% of the Company's monthly lease revenue. A lease default by or collection problem with one or a combination of any of these significant customers could have a disproportionate negative impact on the Company's financial results and borrowing base under the Credit Facility, and, therefore, the Company's operating results are especially sensitive to any negative developments with respect to these customers in terms of lease compliance or collection. In addition, if the Company's revenues become overly concentrated in a small number of lessees, the Company could fail to comply with certain financial covenants in its Credit Facility related to customer concentration. In the event of any such failure to be in compliance, the Company will need to seek waivers or amendment of the applicable covenants from its lenders if such compliance failure is not timely cured. Any default under the Credit Facility, if not cured in the time permitted under the Credit Facility or waived by the lenders, could result in foreclosure upon any or all of the assets of the Company.

The dominant types of aircraft in the Company's portfolio are summarized in "Outlook - Operating Segments," above. A change in the desirability and availability of any of these types of aircraft, which would in turn affect valuations of such aircraft, would have a disproportionately significant impact on the Company's portfolio value. Such aircraft type concentration would diminish if the Company acquires assets of other types. Conversely, acquisition of these types of aircraft will increase the Company's risks related to its concentration of those aircraft types.

**Investment in New Aircraft Types and Engines.** The Company intends to continue to focus solely on regional aircraft and engines. Although the Company has traditionally invested in a limited number of types of turboprop aircraft and engines, the Company has also acquired several types of regional jet aircraft and regional jet aircraft engines, and may continue to seek acquisition opportunities for new types and models of aircraft and engines used in the Company's targeted customer base of regional air carriers. Acquisition of aircraft types and engines not previously acquired by the Company entails greater ownership risk due to the Company's lack of experience managing those assets. The Company believes, however, that the overall industry experience of JMC's personnel and its technical resources should permit the Company to effectively manage such new aircraft types and engines. Further, the broadening of the asset types in the aircraft portfolio may have a benefit of diversifying the Company's portfolio (see "Factors That May Affect Future Results – Concentration of Lessees and Aircraft Type," above).

**Engine Leasing Risk.** The Company currently has five engines in its portfolio, making up 5% of the Company's total net book value of aircraft and aircraft engines held for lease. The Company may from time to time lease one or more of these engines under industry standard short-term engine leases, which place the risk of an engine failure not caused by lessee negligence or foreign object damage upon the lessor. It is not economically practicable for an engine lessor to insure against that risk. If an engine failure occurs and is not covered by a manufacturer's warranty or is not otherwise caused by circumstances that the lessee is required to cover, the Company's investment in the engine could be a significant loss or the Company might incur a significant maintenance expense.

**Interest Rate Risk.** The Credit Facility carries a floating interest rate based upon short-term interest rate indices. Lease rates typically, but not always, move over time with interest rates, but market demand and numerous other asset-specific factors also affect lease rates. Because the Company's typical lease rates are fixed at lease origination, interest rate changes during the lease term have no effect on existing lease rental payments. Therefore, if interest rates rise significantly and there is relatively little lease origination by the Company following such rate increases, the Company could experience decreased net income as additional interest expense outpaces revenue growth. Further, even if significant lease origination occurs following such rate increases, other contemporaneous aircraft market forces may result in lower or flat rental rates, thereby decreasing net income.

**Reliance on JMC.** All management of the Company is performed by JMC under the twenty-year Management Agreement between the Company and JMC that expires in April of 2018 and provides for an asset-based management fee. JMC is not a fiduciary of the Company or its stockholders. The Company's Board of Directors (the "Board") has ultimate control and supervisory responsibility over all aspects of the Company and owes fiduciary duties to the

Company and its stockholders. The Board has no control over the internal operations of JMC, but the Board does have the ability and responsibility to manage the Company's relationship with JMC and the performance of JMC's obligations to the Company under the Management Agreement, as it would have for any third party service provider to the Company. While JMC may not owe any fiduciary duties to the Company by virtue of the Management Agreement, all of the officers of JMC are also officers of the Company, and in that capacity owe fiduciary duties to the Company and its stockholders. In addition, certain officers of the Company hold significant ownership positions in the Company and JHC, the parent company of JMC.

The Management Agreement may be terminated if JMC defaults on its obligations to the Company. However, the agreement provides for liquidated damages in the event of its wrongful termination by the Company. Certain directors of the Company are also directors of JMC and, as discussed above, the officers of the Company are also officers of JMC and certain officers hold significant ownership positions in both the Company and JHC, the holding company for JMC. Consequently, the directors and officers of JMC may have a conflict of interest in the event of a dispute between the Company and JMC. Although the Company has taken steps to prevent conflicts of interest arising from such dual roles, such conflicts may still occur.

**Management Fee Structure.** All decisions regarding acquisitions and disposal of aircraft from the Company's portfolio are made by JMC. JMC is paid a management fee based on the net asset value of the Company's portfolio. It may also receive a one-time asset acquisition fee upon purchase of an asset by the Company, and a one-time remarketing fee in connection with the sale or re-lease of an asset. Optimization of the results of the Company depends on timing of the acquisition, lease yield on the acquired assets, and re-lease or sale of its portfolio assets. Under the current management fee structure, a larger volume of acquisitions generates acquisition fees and also increases the periodic management fee by increasing the size of the aircraft portfolio. Since the Company's current business strategy involves continued growth of its portfolio and a "buy and hold" strategy, a compensation structure that results in greater compensation with an increased portfolio size is consistent with that strategy. The compensation structure does, nonetheless, create a situation where a decision by JMC for the Company to forego an asset transaction deemed to be an unacceptable business risk due to the lessee or the aircraft type is in conflict with JMC's own pecuniary interest. As a result, the compensation structure could act to incent greater risk-taking by JMC in asset acquisition decision-making. The Company has established objective target guidelines for yields on acquired assets. Further, the Company's Board, including a majority of the outside independent directors, must approve any acquisition that involves a new asset type. While the Company currently believes the foregoing are effective mitigating factors against undue compensation-incented risk-taking by JMC, there is no assurance that such mechanisms can entirely and effectively eliminate such risk.

**Government Regulation.** There are a number of areas in which government regulation may result in costs to the Company. These include aircraft registration safety requirements, required equipment modifications, maximum aircraft age, and aircraft noise requirements. Although it is contemplated that the burden and cost of complying with such requirements will fall primarily upon lessees of equipment, there can be no assurance that the cost will not fall on the Company. Furthermore, future government regulations could cause the value of any non-complying equipment owned by the Company to decline substantially.

**Competition.** The aircraft leasing industry is highly competitive. The Company competes with aircraft manufacturers, distributors, airlines and aircraft operators, equipment managers, leasing companies, equipment leasing programs, financial institutions and other parties engaged in leasing, managing or remarketing aircraft, many of which have significantly greater financial resources. Nevertheless, the Company believes that it is competitive because of JMC's experience and operational efficiency in identifying and obtaining financing for the transaction types desired by regional air carriers. This market segment, which in many cases involves customers that are private companies without well-established third party credit ratings, is not well served by the Company's larger competitors. JMC has developed a reputation as a global participant in this segment of the market, and the Company believes that JMC's reputation benefits the Company. There is, however, no assurance that competition from larger aircraft leasing companies will not increase significantly or that JMC's reputation will continue to be strong in this market segment.



**Casualties, Insurance Coverage.** The Company, as owner of transportation equipment, may be named in a suit claiming damages for injuries or damage to property caused by its assets. As a triple-net lessor, the Company is generally protected against such claims, since the lessee would be responsible for, insure against and indemnify the Company for such claims. A “triple net lease” is a lease under which, in addition to monthly rental payments, the lessee is generally responsible for the taxes, insurance and maintenance and repair of the aircraft arising from the use and operation of the aircraft during the term of the lease. Although the United States Aviation Act may provide some protection with respect to the Company’s aircraft assets, it is unclear to what extent such statutory protection would be available to the Company with respect to its assets that are operated in foreign countries where such provisions of the United States Aviation Act may not apply.

The Company’s leases generally require a lessee to insure against likely risks of loss or damage to the leased asset, and liability to passengers and third parties pursuant to industry standard insurance policies and require lessees to provide insurance certificates documenting the policy periods and coverage amounts. The Company tracks receipt of the certificates and calendars their expiration dates. Prior to the expiration of an insurance certificate, if a replacement certificate has not been received, the Company reminds the lessee of its obligation to provide current insurance certificates to avoid a default under the lease.

Despite these requirements and procedures, there may be certain cases where the loss is not entirely covered by the lessee or its insurance. The possibility of such an event is remote, but any such uninsured loss with respect to the equipment or insured loss for which insurance proceeds are inadequate might result in a loss of invested capital in and any profits anticipated from, such equipment, as well as a potential claim directly against the Company.

**Compliance with Future Environmental Regulations.** Compliance with future environmental regulations may harm the Company’s business. Many aspects of aircraft operations are subject to increasingly stringent environmental regulations, and growing concerns about climate change may result in the imposition by the U.S and foreign governments of additional regulation of carbon emissions, aimed at either requiring adoption of technology to reduce the amount of carbon emissions or putting in place a fee or tax system on carbon emitters. It is likely that any such regulation will be directed at the Company’s customers, as operators of aircraft, or at the Company, as owners of aircraft. Under the Company’s triple-net lease arrangements, the Company would likely shift responsibility for compliance to its lessees, but there might be some costs of regulation that the Company could not shift and would itself have to bear. Although it is not expected that the costs of complying with current environmental regulations will have a material adverse effect on the Company’s financial position, results of operations, or cash flows, no assurance can be given that the costs of complying with environmental regulations adopted in the future will not have such an effect.

**Cyber-Security Risks.** The Company believes that it has sufficient cyber-security measures in place commensurate with the risks to the Company of a successful cyber-attack or breach of security. The Company believes that its main vulnerability to a cyber-attack would be interruption of the Company’s email communications internally and with third parties, loss of customer and lease archives, and loss of document sharing between the Company’s offices and remote workers. Such an attack could temporarily impede the efficiency of the Company’s operations; however, the Company believes that sufficient replacement mechanisms exist in the event of such an interruption that there would not be a material adverse financial impact on the Company’s business.

**Warrants.** As part of a subordinated debt financing, which was fully repaid in December of 2011, the Company issued warrants to purchase up to 81,224 shares of the Company’s common stock that are currently exercisable (and expire on December 31, 2015) and represent approximately 5% of the post-exercise fully diluted capitalization of the Company. The exercise price of the warrants is \$8.75 per share. If the warrants to purchase shares are exercised at a time when the exercise price is less than the market price of the Company’s common stock, there will be dilution to the existing holders of common stock. This dilution of the Company’s common stock could depress its trading price.

Possible Volatility of Stock Price. The market price of the Company's common stock may be subject to fluctuations following developments relating to the Company's operating results, changes in general conditions in the economy, the financial markets, the airline industry, changes in accounting principles or tax laws applicable to the Company or its lessees, or other developments affecting the Company, its customers or its competitors, or arising from other investor sentiment unknown to the Company. Because the Company has a relatively small capitalization of approximately 1.5 million shares outstanding, there is a correspondingly limited amount of trading and float of the Company's shares. Consequently, the Company's stock price is more sensitive to a single large trade or a small number of simultaneous trades along the same trend than a company with larger capitalization and higher trading volume and float.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

This report does not include information described under Item 305 of Regulation S-K pursuant to the rules of the Securities and Exchange Commission that permit "smaller reporting companies" to omit such information.

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Item 8. Financial Statements and Supplementary Data.

(a) Financial Statements and Schedules

(1) Financial statements for the Company:

Report of Independent Registered Public Accounting Firm

Balance Sheets as of December 31, 2014 and 2013

Statements of Operations for the Years Ended December 31, 2014 and 2013

Statements of Stockholders' Equity for the Years Ended December 31, 2014 and 2013

Statements of Cash Flows for the Years Ended December 31, 2014 and 2013

Notes to Financial Statements

(2) Schedules:

All schedules have been omitted since the required information is presented in the financial statements or is not applicable.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
AeroCentury Corp.  
Burlingame, California

We have audited the accompanying balance sheets of AeroCentury Corp. (the "Company") as of December 31, 2014 and 2013 and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AeroCentury Corp. at December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for non-refundable maintenance reserves and lessor maintenance obligations during the year ended December 31, 2014. These changes were applied retrospectively to all periods presented.

/s/ BDO USA, LLP

San Francisco, California  
March 12, 2015



## Item 8. Financial Statements and Supplementary Data.

AeroCentury Corp.  
Balance Sheets

ASSETS		
	December 31, 2014	December 31, 2013 (As adjusted)
Assets:		
Cash and cash equivalents	\$1,840,500	\$2,112,700
Accounts receivable, including deferred rent of \$111,300 and \$217,200 at December 31, 2014 and December 31, 2013, respectively	2,128,600	3,303,800
Finance leases receivable	-	1,895,200
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$38,962,800 and \$50,679,300 at December 31, 2014 and December 31, 2013, respectively	186,762,600	152,954,600
Assets held for sale	6,522,900	735,000
Prepaid expenses and other	4,520,300	3,633,000
Total assets	\$201,774,900	\$164,634,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	\$2,818,200	\$1,202,700
Notes payable and accrued interest	133,590,600	77,527,300
Maintenance reserves	12,927,700	16,671,800
Accrued maintenance costs	2,115,700	1,612,100
Security deposits	5,218,300	6,265,000
Unearned revenues	1,642,200	646,700
Deferred income taxes	8,621,300	14,573,800
Total liabilities	166,934,000	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	20,563,300	31,857,300
	35,345,000	46,639,000
Treasury stock at cost, 63,300 shares	(504,100 )	(504,100 )
Total stockholders' equity	34,840,900	46,134,900
Total liabilities and stockholders' equity	\$201,774,900	\$164,634,300

The accompanying notes are an integral part of these statements.

AeroCentury Corp.  
Statements of Operations

	For the Years Ended December 31,	
	2014	2013
		(As adjusted)
Revenues and other income:		
Operating lease revenue, net	\$21,913,300	\$18,794,200
Maintenance reserves revenue, net	3,393,600	14,910,400
Net gain on disposal of assets	3,147,200	3,808,200
Other income	252,400	718,800
	28,706,500	38,231,600
Expenses:		
Provision for impairment in value of aircraft	18,736,500	-
Maintenance	7,478,400	6,962,400
Depreciation	7,299,000	7,363,100
Management fees, net of approximately \$1,200,000 of fees waived by JMC in 2014	3,864,900	4,369,300
Interest	5,134,200	4,075,000
Professional fees, general and administrative and other	1,718,800	1,174,500
Insurance	1,255,300	1,166,400
Other taxes	465,200	90,200
Bad debt expense	-	357,600
	45,952,300	25,558,500
(Loss)/income before income tax provision	(17,245,800)	12,673,100
Income tax (benefit)/provision	(5,951,800 )	4,329,200
Net (loss)/income	\$(11,294,000)	\$8,343,900
(Loss)/earnings per share:		
Basic	\$(7.32 )	\$5.41
Diluted	\$(7.32 )	\$5.26
Weighted average shares used in (loss)/earnings per share computations:		
Basic	1,543,257	1,543,257
Diluted	1,543,257	1,587,036

The accompanying notes are an integral part of these statements.

AeroCentury Corp.  
Statements of Stockholders' Equity  
For the Years Ended December 31, 2014 and 2013

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 2012 (As adjusted)	\$ 1,600	\$ 14,780,100	\$ 23,513,400	\$(504,100 )	\$ 37,791,000
Net income	-	-	8,343,900	-	8,343,900
Balance, December 31, 2013 (As adjusted)	1,600	14,780,100	31,857,300	(504,100 )	46,134,900
Net loss	-	-	(11,294,000)	-	(11,294,000)
Balance, December 31, 2014	\$ 1,600	\$ 14,780,100	\$ 20,563,300	\$(504,100 )	\$ 34,840,900

The accompanying notes are an integral part of these statements.

AeroCentury Corp.  
Statements of Cash Flows

	For the Years Ended December 31,	
	2014	2013
	(As adjusted)	
Operating activities:		
Net (loss)/income	\$(11,294,000)	\$8,343,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on disposal of assets	(3,147,200 )	(3,808,200 )
Depreciation	7,299,000	7,363,100
Provision for impairment in value of aircraft	18,736,500	-
Non-cash interest	950,100	1,113,600
Deferred income taxes	(5,952,600 )	4,321,300
Changes in operating assets and liabilities:		
Accounts receivable	(498,000 )	(96,100 )
Finance leases receivable	1,895,200	246,000
Income taxes receivable	-	2,000
Prepaid expenses and other	486,700	(772,400 )
Accounts payable and accrued expenses	(132,400 )	(23,400 )
Accrued interest on notes payable	163,300	(38,400 )
Maintenance reserves and accrued costs	(1,313,700 )	(9,128,800 )
Security deposits	(2,167,700 )	(525,200 )
Unearned revenue	210,200	(105,700 )
Income taxes payable	-	(19,100 )
Net cash provided by operating activities	5,235,400	6,872,600
Investing activities:		
Proceeds from sale of aircraft and aircraft engines held for lease, net of re-sale fees	15,854,800	10,018,700
Proceeds from sale of assets held for sale, net of re-sale fees	312,100	945,100
Purchases of aircraft and aircraft engines	(74,529,000)	(24,965,500)
Net cash used in investing activities	(58,362,100)	(14,001,700)
Financing activities:		
Borrowings under Credit Facility	71,100,000	19,000,000
Repayments of Credit Facility	(15,200,000)	(9,300,000 )
Debt issuance costs	(3,045,500 )	(2,055,000 )
Net cash provided by financing activities	52,854,500	7,645,000
Net (decrease)/increase in cash and cash equivalents	(272,200 )	515,900
Cash and cash equivalents, beginning of year	2,112,700	1,596,800
Cash and cash equivalents, end of year	\$1,840,500	\$2,112,700

During the years ended December 31, 2014 and 2013, the Company paid interest totaling \$4,117,900 and \$3,077,100, respectively. During the years ended December 31, 2014 and 2013, the Company paid income taxes totaling \$800 and \$800, respectively.

The accompanying notes are an integral part of these statements.



AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

1. Organization and Summary of Significant Accounting Policies

(a) The Company and Basis of Presentation

AeroCentury Corp. ("the Company"), a Delaware corporation incorporated in 1997, typically acquires used regional aircraft and engines for lease to foreign and domestic regional carriers.

As discussed in Note 2, during the first quarter of 2014, the Company changed its method of accounting for non-refundable maintenance reserves and certain lessor maintenance obligations. The Company has applied this change in accounting principle retrospectively to all periods presented in accordance with ASC 250, Accounting Changes and Error Corrections ("ASC 250").

(b) Use of Estimates

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments that are not readily apparent from other sources.

The most significant estimates with regard to these financial statements are the residual values and useful lives of the assets, the amount and timing of cash flows associated with each asset that are used to evaluate whether assets are impaired, accrued maintenance costs, accounting for income taxes, and the amounts recorded as allowances for doubtful accounts.

(c) Cash and cash equivalents

The Company considers highly liquid investments readily convertible into known amounts of cash, with original maturities of 90 days or less from the date of acquisition, as cash equivalents.

(d) Aircraft Capitalization and Depreciation

The Company's interests in aircraft and aircraft engines are recorded at cost, which includes acquisition costs. Since inception, the Company has typically purchased only used aircraft and aircraft engines. It is the Company's policy to hold aircraft for approximately twelve years unless market conditions dictate otherwise. Therefore, depreciation of aircraft is initially computed using the straight-line method over the anticipated holding period, usually twelve years, to an estimated residual value based on appraisal. For an aircraft engine held for lease as a spare, the Company estimates the length of time that it will hold the aircraft engine based upon estimated usage, repair costs and other factors, and depreciates it to the appraised residual value over such period using the straight-line method.

The Company periodically reviews plans for lease or sale of its aircraft and aircraft engines and changes, as appropriate, the remaining expected holding period for such assets. Estimated residual values are reviewed and

adjusted periodically, based upon updated estimates obtained from an independent appraiser. Decreases in the fair value of aircraft could affect not only the current value, discussed below, but also the estimated residual value.

Assets that are held for sale are not subject to depreciation and are separately classified on the balance sheet. Such assets are carried at the lower of their carrying value or estimated fair values, less costs to sell.

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AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

(e) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible. The fair value hierarchy under GAAP is based on three levels of inputs.

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and Liabilities Measured and Recorded at Fair Value on a Recurring Basis

The carrying amount of the Company's money market funds included in cash and cash equivalents was \$1,044,300 and \$1,842,000 at December 31, 2014 and December 31, 2013. The fair value of the Company's money market funds would be categorized as Level 1 under the GAAP fair value hierarchy.

As of December 31, 2014 and December 31, 2013, there were no liabilities that were required to be measured and recorded at fair value on a recurring basis.

Assets Measured and Recorded at Fair Value on a Nonrecurring Basis

The Company determines fair value of long-lived assets held and used, such as aircraft and aircraft engines held for lease and held for sale, by reference to independent appraisals, quoted market prices (e.g., offers to purchase) and other factors. An impairment charge is recorded when the Company believes that the carrying value of an asset will not be recovered through future net cash flows and that the carrying value exceeds its fair value.

During 2014, based on appraised values, the Company recorded impairment charges totaling \$3,124,200 for two Fokker 100 aircraft and two Fokker 50 aircraft that are held for lease, resulting in a carrying value of \$7,837,300. The fair value of such assets would be categorized as Level 2 under the GAAP fair value hierarchy. No impairments were recorded on the Company's aircraft and aircraft engines held for lease in 2013.

During 2014, based on management's estimate of realizable value, the Company recorded impairment charges totaling \$15,612,300 for five Fokker 100 aircraft and one Fokker 50 aircraft that are held for sale, resulting in a carrying value of \$6,100,000. The fair value of such assets would be categorized as Level 3 under the GAAP fair value hierarchy. No impairments were recorded on the Company's aircraft and aircraft engines held for sale in 2013.





AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Other Financial Instruments

The Company's financial instruments, other than cash and cash equivalents, consist principally of finance leases receivable and amounts borrowed under its credit facility (the "Credit Facility," as defined in Note 7). The fair value of accounts receivable, finance leases receivable, accounts payable and the Company's maintenance reserves and accrued maintenance costs approximates the carrying value of these financial instruments.

Borrowings under the Company's Credit Facility bear floating rates of interest that reset periodically to a market benchmark rate plus a credit margin. The Company believes the effective interest rate of this debt agreement approximates current market rates for such indebtedness at the balance sheet date, and therefore that the carrying amount of its floating rate debt at the balance sheet dates approximates its fair value. The fair value of the Company's outstanding balance of its Credit Facility would be categorized as Level 3 under the GAAP fair value hierarchy.

(f) Impairment of Long-lived Assets

The Company reviews assets for impairment when there has been an event or a change in circumstances indicating that the carrying amount of a long-lived asset may not be recoverable. In addition, the Company routinely reviews all long-lived assets for impairment annually. Recoverability of an asset is measured by comparison of its carrying amount to the future estimated undiscounted cash flows (without interest charges) that the asset is expected to generate. Estimates are based on currently available market data and independent appraisals and are subject to fluctuation from time to time. If these estimated future cash flows are less than the carrying value of an asset at the time of evaluation, any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value. Fair value is determined by reference to independent appraisals and other factors considered relevant by management. Significant management judgment is required in the forecasting of future operating results that are used in the preparation of estimated future undiscounted cash flows and, if different conditions prevail in the future, material write-downs may occur. As discussed in (e) Fair Value Measurements above, the Company recorded impairment provisions totaling \$18,736,500 in 2014. No impairment provisions were recorded in 2013.

(g) Deferred Financing Costs and Commitment Fees

Costs incurred in connection with debt financing are deferred and amortized over the term of the debt using the effective interest method or, in certain instances where the differences are not material, using the straight-line method. Costs incurred in connection with the Company's Credit Facility are deferred and amortized using the straight-line method. Commitment fees for unused funds are expensed as incurred.

AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

(h) Security deposits

The Company's leases are typically structured so that if any event of default occurs under a lease, the Company may apply all or a portion of the lessee's security deposit to cure such default. If such application of the security deposit is made, the lessee typically is required to replenish and maintain the full amount of the deposit during the remaining term of the lease. All of the security deposits received by the Company are refundable to the lessee at the end of the lease upon satisfaction of all lease terms.

(i) Taxes

As part of the process of preparing the Company's financial statements, management estimates income taxes in each of the jurisdictions in which the Company operates. This process involves estimating the Company's current tax exposure under the most recent tax laws and assessing temporary differences resulting from differing treatment of items for tax and GAAP purposes. These differences result in deferred tax assets and liabilities, which are included in the balance sheet. Management also assesses the likelihood that the Company's deferred tax assets will be recovered from future taxable income, and, to the extent management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized, the Company establishes a valuation allowance. To the extent the Company establishes a valuation allowance or changes the allowance in a period, the Company reflects the corresponding increase or decrease within the tax provision in the statement of operations. Significant management judgment is required in determining the Company's future taxable income for purposes of assessing the Company's ability to realize any benefit from its deferred taxes.

The Company accrues non-income based sales, use, value added and franchise taxes as other tax expense in the statements of operations.

(j) Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue from leasing of aircraft assets is recognized as operating lease revenue on a straight-line basis over the terms of the applicable lease agreements. Deferred payments are recorded as accrued rent when the cash rent received is lower than the straight-line revenue recognized. Such receivables decrease over the term of the applicable leases. Interest income is recognized on finance leases based on the interest rate implicit in the lease and the outstanding balance of the lease receivable. Maintenance reserves retained by the Company at lease-end are recognized as maintenance reserves revenue.

In instances where collectability is not reasonably assured, the Company recognizes revenue as cash payments are received. The Company estimates and charges to income a provision for bad debts based on its experience with each specific customer, the amount and length of payment arrearages, and its analysis of the lessee's overall financial condition. If the financial condition of any of the Company's customers deteriorates, it could result in actual losses exceeding any estimated allowances.

The Company had no allowance for doubtful accounts at December 31, 2014 and 2013.

(k)Comprehensive (Loss)/Income

The Company does not have any comprehensive income other than the revenue and expense items included in the statements of operations. As a result, comprehensive (loss)/income equals net (loss)/income for the years ended December 31, 2014 and 2013.

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AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

1. Organization and Summary of Significant Accounting Policies (continued)

(l) Finance Leases

The lease for one of the Company's aircraft contained a lessee purchase option at a price substantially below the asset's estimated residual value at the exercise date for the option. Consequently, the Company considered the purchase option to be a "bargain purchase option" and classified the lease as a finance lease for financial accounting purposes. The Company does not include the value, purchase price or accumulated depreciation of finance lease assets on its balance sheet. Instead, the discounted present value of (i) future minimum lease payments (including the bargain purchase option) and (ii) any residual value not subject to a bargain purchase option are reported as a finance lease receivable. Rental revenue and depreciation expense are not recognized on finance leases. Rather, the Company accrues interest on the balance of the finance lease receivable based on the interest rate inherent in the applicable lease. The aircraft that was subject to a finance lease was sold to the lessee during 2014.

Two engines that were previously subject to finance leases were returned to the Company during 2014 and the finance lease receivable balances were reclassified to aircraft and aircraft engines held for lease on the Company's balance sheet.

The Company recognized interest earned on finance leases as "other income" in the amount of \$150,000 and \$175,700 in 2014 and 2013, respectively.

(m) Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (the "ASU") that created the new Topic 606 in the Accounting Standards Codification ("ASC"). The ASU also included numerous conforming additions and amendments to other Topics within the ASC. Topic 606 establishes new rules that affect the amount and timing of revenue recognition for contracts with customers, but does not affect lease accounting and reporting. As such, adoption of these provisions will not affect the Company's lease revenues but may affect the reporting of other of the Company's revenues. The provisions included in the ASU are effective for years commencing after December 15, 2016, cannot be adopted early, and may be reflected using either a full retrospective method or a simplified method that does not recast prior periods but does disclose the effect of the adoption on the current period financial statements. The Company has not determined either the potential impact on its financial statements nor the method it will elect to use in connection with the adoption of the changes included in the ASU.

On August 27, 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern," which added Subtopic 205-40 to the ASC (the "Subtopic"). This Subtopic requires management to determine whether substantial doubt exists concerning the reporting entity's ability to continue as a going concern, in which case certain disclosures will be required. The Subtopic affects financial statement presentation but not methods of accounting, and is effective on a prospective basis for annual periods ending after December 2016 and each reporting period thereafter, although early adoption is permitted. The Company has not early adopted the Subtopic.



AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

2.Change in Accounting Principle

The Company previously adopted the direct expensing method under Financial Accounting Standards Board (“FASB”) ASC 908, formerly FASB Staff Position AUG AIR-1, Accounting for Planned Major Maintenance Activities (“FSP AUG AIR-1”) on January 1, 2007. Under FSP AUG AIR-1, non-refundable maintenance reserves were recorded as maintenance reserves revenue (assuming cash was received or collection was reasonably assured), and associated maintenance work was recorded as maintenance expense when the work was performed. During the first quarter of 2014, the Company evaluated its method of accounting for maintenance reserves and lessor maintenance obligations and elected to change its method of accounting to:

- (i) Recognize non-refundable maintenance reserves as liabilities for deposits against future maintenance reimbursements of maintenance reserves received in the normal course of ongoing leases;
- (ii) Recognize reimbursements from such collected reserves as disbursements against the liability when claims are submitted for payment against previously collected maintenance reserves;
- (iii) Reflect as liabilities non-refundable reserves received by the prior lessor upon acquisition of an aircraft, which are claimable by the lessee when maintenance is performed;
- (iv) Recognize as income non-refundable reserves not refunded to lessees upon termination of the lease and return of the aircraft to the Company in accordance with all lease return requirements; and
- (v) Record lessor maintenance obligations as liabilities upon acquisition of an aircraft subject to a lease under which the Company assumes the prior lessor’s obligation to pay a portion of a first-time maintenance event.

In management’s judgment, the change to this accounting method is preferable in that it will provide the user of the Company’s financial statements a better understanding of the underlying business terms of the Company’s leasing transactions and provide additional clarity with respect to the Company’s sources of income, its non-refundable reserve obligations, and its lessor maintenance obligations. The Company has applied the change in method of accounting for maintenance reserves and lessor maintenance obligations to all prior periods presented within the financial statements in accordance with accounting principles relating to accounting changes. The change in accounting principle resulted in a cumulative net decrease of \$8,088,200 in stockholders’ equity as of January 1, 2013.

AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

2.Change in Accounting Principle (continued)

The effects on the Company's balance sheet at December 31, 2013 as a result of the retroactive application of the change in accounting principle in accordance with ASC 250 were as follows:

	December 31, 2013		
	As reported previously	As adjusted	Effect of change
Cash and cash equivalents	\$2,112,700	\$2,112,700	\$-
Accounts receivable, net	3,313,700	3,303,800	(9,900 )
Finance leases receivable	1,895,200	1,895,200	-
Aircraft and aircraft engines held for lease, net	152,375,200	152,954,600	579,400
Assets held for sale	735,000	735,000	-
Prepaid expenses and other	3,633,000	3,633,000	-
Total assets	\$164,064,800	\$164,634,300	\$569,500
Accounts payable and accrued expenses	\$1,175,300	\$1,202,700	\$27,400
Notes payable and accrued interest	77,527,300	77,527,300	-
Maintenance reserves and accrued maintenance costs	13,254,100	18,283,900	5,029,800
Security deposits	6,265,000	6,265,000	-
Unearned revenues	646,700	646,700	-
Deferred income taxes	16,099,700	14,573,800	(1,525,900)
Total liabilities	114,968,100	118,499,400	3,531,300
Preferred stock	-	-	-
Common stock	1,600	1,600	-
Paid-in capital	14,780,100	14,780,100	-
Retained earnings	34,819,100	31,857,300	(2,961,800)
Treasury stock	(504,100 )	(504,100 )	-
Total stockholders' equity	49,096,700	46,134,900	(2,961,800)
Total liabilities and stockholders' equity	\$164,064,800	\$164,634,300	\$569,500



AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

2.Change in Accounting Principle (continued)

The effects on the Company's statement of operations for the year ended December 31, 2013 as a result of the retroactive application of the change in accounting principle in accordance with ASC 250 were as follows:

	For the Year Ended December 31, 2013		
	As reported previously	As adjusted	Effect of change
Operating lease revenue, net	\$ 18,794,200	\$ 18,794,200	\$ -
Maintenance reserves income, net	8,878,300	14,910,400	6,032,100
Gain on disposal of assets and other income	4,527,000	4,527,000	-
	32,199,500	38,231,600	6,032,100
Maintenance	8,765,000	6,962,400	(1,802,600)
Depreciation	7,312,500	7,363,100	50,600
Management fees	4,352,400	4,369,300	16,900
Interest	4,075,000	4,075,000	-
Professional fees, general and administrative and other	1,532,100	1,532,100	-
Insurance	1,166,400	1,166,400	-
Other taxes	90,200	90,200	-
	27,293,600	25,558,500	(1,735,100)
Income before taxes	4,905,900	12,673,100	7,767,200
Tax provision	1,688,400	4,329,200	2,640,800
Net income	\$ 3,217,500	\$ 8,343,900	\$ 5,126,400
Earnings per share:			
Basic	\$ 2.08	\$ 5.41	\$ 3.33
Diluted	\$ 2.03	\$ 5.26	\$ 3.23

AeroCentury Corp.  
Notes to Financial Statements  
December 31, 2014

2.Change in Accounting Principle (continued)

The effects on the Company's statement of cash flows for the year ended December 31, 2013 as a result of the retroactive application of the change in accounting principle in accordance with ASC 250 were as follows:

	For the Year Ended December 31, 2013		
	As reported previously	As adjusted	Effect of change
Operating activities:			
Net income	\$ 3,217,500	\$ 8,343,900	\$ 5,126,400
Adjustments to reconcile net income to net cash provided by operating activities:			
Net gain on disposal of assets	(3,808,200 )	(3,808,200 )	-
Depreciation	7,312,500	7,363,100	50,600
Non-cash interest	1,113,600	1,113,600	-
Deferred income taxes	1,680,500	4,321,300	2,640,800
Changes in operating assets and liabilities:			
Accounts receivable	(106,000 )	(96,100 )	9,900
Finance lease receivable	246,000	246,000	-
Income taxes receivable	2,000	2,000	-
Prepaid expenses and other	(772,400 )	(772,400 )	-
Accounts payable and accrued expenses	(40,300 )	(23,400 )	16,900
Accrued interest on notes payable	(38,400 )	(38,400 )	-
Maintenance reserves and accrued costs	(1,284,200 )	(9,128,800 )	(7,844,600)
Security deposits	(525,200 )	(525,200 )	-
Unearned revenue	(105,700 )	(105,700 )	-
Income taxes payable	(19,100 )	(19,100 )	-
Net cash provided by operating activities	6,872,600	6,872,600	-
Investing activities:			
Proceeds from sale of aircraft and aircraft engines held for lease, net of re-sale fees	10,018,700	10,018,700	-
Proceeds from sale of assets held for sale, net of re-sale fees	945,100	945,100	-
Purchases of aircraft and aircraft engines	(24,965,500)	(24,965,500)	-
Net cash used in investing activities	(14,001,700)	(14,001,700)	-
Financing activities:			
Borrowings under Credit Facility	19,000,000	19,000,000	-
Repayments of Credit Facility	(9,300,000 )	(9,300,000 )	-
Debt issuance costs	(2,055,000 )	(2,055,000 )	-
Net cash provided by financing activities	7,645,000	7,645,000	-
Net increase in cash and cash equivalents	515,900	515,900	-
Cash and cash equivalents, beginning of year	1,596,800	1,596,800	-
Cash and cash equivalents, end of year	\$ 2,112,700	\$ 2,112,700	\$ -

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AeroCentury Corp.  
Notes to Financial Statements  
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3. Aircraft and Aircraft Engines Held for Lease or Sale

(a) Assets Held for Lease

At December 31, 2014 and December 31, 2013, the Company's aircraft and aircraft engines, which were on lease or held for lease, consisted of the following:

Model	December 31, 2014			December 31, 2013		
	Number	% of net		Number	% of net	
	owned	book value		owned	book value	
Bombardier Dash-8-300	8	17	%	9	23	%
Bombardier CRJ-700	3	16	%	-	-	
Bombardier CRJ-900	2	16	%	-	-	
Bombardier Dash-8-Q400	3	13	%	3	17	%
ATR 42-600	1	9	%	-	-	
Bombardier CRJ-705	1	9	%	1	12	%
Saab 340B Plus	6	7	%	6	8	%
Fokker 50	6	5	%	10	10	%
General Electric CF34-8E5 engine	2	4	%	3	6	%
Fokker 100	2	3	%	7	19	%
Saab 340B	1	1	%	4	4	%
Tay 650-15 engine	1	-		1	1	%
General Electric CT7-9B engine	2	-		2	-	
Saab 340A	-	-		1	-	

Assets subject to finance leases are not included in the net book value of assets held for lease. Therefore, the Company's single Saab 340A aircraft and two General Electric CT7-9B engines, which were subject to finance leases in 2013, are not included in the net book value calculation as of December 31, 2013.

During 2014, based on appraised values, the Company recorded impairment charges on assets held for lease totaling \$2,906,400 and \$217,800 on two Fokker 100 and two Fokker 50 aircraft, respectively.

During 2014 and 2013, the Company used cash of \$74,529,000 and \$24,965,500, respectively, for the purchase and capital improvement of aircraft and engines.

During 2014, the Company recorded net gains totaling \$3,147,200 from the sale of three Fokker 50 aircraft, five Saab 340B aircraft, one Bombardier Dash-8-300 aircraft and one General Electric CF34-8E5 engine. During 2013, the Company recorded net gains totaling \$4,504,200 from the sale of three Fokker 50 aircraft, a deHavilland DHC-8-100 aircraft, a deHavilland DHC-6 aircraft and a General Electric CT7-9B engine. The Company also leased an engine pursuant to a finance lease in 2013 and recorded a gain of \$73,300. In addition, the Company recorded a loss of \$769,300 in 2013 on the disposal of a Tay 650-15 engine, which was replaced by one of the Company's spare engines.

During 2014, the Company extended the leases for nine of its assets and leased two assets that had been off lease at December 31, 2013.

In May 2014, six Saab 340B Plus aircraft and two General Electric CT7-9B engines were returned by a customer when it ceased operations. Two of the aircraft have been re-leased.



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December 31, 2014

3. Aircraft and Aircraft Engines Held for Lease or Sale (continued)

(a) Assets Held for Lease (continued)

Ten of the Company's assets that are held for lease were off lease at December 31, 2014, representing 10% of the net book value of the Company's aircraft and engines held for lease. Such assets were comprised of four Saab 340B Plus aircraft, one Saab 340B aircraft, and five engines.

(b) Assets Held for Sale

Assets held for sale include two Saab 340B airframes, which are being sold in parts, as well as five Fokker 100 aircraft and a Fokker 50 aircraft.

During 2014 and 2013, the Company received \$312,100 and \$945,100, respectively, from the sale of parts belonging to the two airframes, which proceeds reduced their carrying value.

During 2014, the Company recorded impairment charges totaling \$15,278,900 and \$333,400 related to five Fokker 100 aircraft and one Fokker 50 aircraft, respectively. At December 31, 2014, five of the Fokker 100 aircraft and one of the Fokker 50 aircraft were classified as held for sale on the Company's balance sheet. As discussed in Note 13, the Company sold the Fokker 50 aircraft in March 2015.

4. Maintenance Reserves and Accrued Maintenance Costs

Maintenance costs under the Company's triple net leases are generally the responsibility of the lessees. Most of the Company's leases require payment of maintenance reserves, which are based upon lessee-reported usage and billed monthly, and are intended to accumulate and be applied by the Company toward reimbursement of most or all of the cost of the lessees' performance of certain maintenance obligations under the leases. Maintenance reserves are characterized as either refundable or non-refundable depending on their disposition at lease-end. The Company retains non-refundable maintenance reserves at lease-end, even if the lessee has met all of its obligations under the lease, including any return conditions applicable to the leased asset, while refundable reserves are returned to the lessee under such circumstances.

The liabilities for maintenance reserves in the accompanying balance sheets include both refundable and non-refundable maintenance reserves payments billed to and received from lessees. These amounts are paid out as related maintenance is performed and, in the case of refundable reserves, at the end of the lease. Such payments reduce the associated maintenance reserve liability. Any reserves retained by the Company at lease end are recorded as revenue at that time.

Accrued maintenance costs include (i) maintenance for work performed for off-lease aircraft, which is not related to the release of reserves received from lessees and (ii) lessor maintenance obligations assumed upon acquisition of aircraft subject to a lease with such provisions. Maintenance costs are expensed as incurred.



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## 5. Operating Segments

The Company operates in one business segment, the leasing of regional aircraft to foreign and domestic regional airlines, and therefore does not present separate segment information for lines of business.

Approximately 18% and 0% of the Company's operating lease revenue was derived from lessees domiciled in the United States during 2014 and 2013, respectively. All revenues relating to aircraft leased and operated internationally are denominated and payable in U.S. dollars.

The tables below set forth geographic information about the Company's operating lease revenue for leased aircraft and aircraft equipment, grouped by domicile of the lessee:

	For the Years Ended December 31,	
Operating Lease Revenue	2014	2013
North America	\$6,423,700	\$1,542,000
Africa	5,183,600	5,454,700
Central and South America	3,533,300	4,233,000
Asia	3,460,400	4,149,000
Europe and United Kingdom	2,952,300	3,415,500
Australia	360,000	-
	\$21,913,300	\$18,794,200

	December 31,	
Net Book Value of Aircraft and Aircraft Engines Held for Lease	2014	2013
North America	\$65,423,400	\$17,779,000
Europe and United Kingdom	43,468,700	20,384,700
Africa	28,858,200	29,951,800
Off lease	17,106,000	34,446,300
Asia	16,588,900	31,068,800
Central and South America	10,146,100	19,324,000
Australia	5,171,300	-
	\$186,762,600	\$152,954,600

## 6. Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits and receivables. The Company places its deposits with financial institutions and other creditworthy issuers and limits the amount of credit exposure to any one party.

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For the year ended December 31, 2014 the Company had four significant customers, which accounted for 20%, 18%, 14% and 11%, respectively, of lease revenue. For the year ended December 31, 2013 the Company had four significant customers, which accounted for 23%, 19%, 11% and 10%, respectively, of lease revenue.

At December 31, 2014, the Company had receivables from two customers totaling \$1,130,000, representing 56% of the Company's total receivables. The two customers paid the amounts owed in full in early 2015.

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6. Concentration of Credit Risk (continued)

At December 31, 2013, the Company had receivables from two customers totaling \$1,231,500, representing 40% of the Company's total receivables, all of which was paid in 2014.

As of December 31, 2014, minimum future lease revenue payments receivable under noncancelable leases were as follows:

Years ending	
2015	\$ 22,938,700
2016	21,300,400
2017	17,937,600
2018	13,719,200
2019	12,860,000
Thereafter	37,596,300
	\$ 126,352,200

7. Notes Payable and Accrued Interest

At December 31, 2014 and December 31, 2013, the Company's notes payable and accrued interest consisted of the following:

	December 31, 2014	December 31, 2013
Credit Facility principal	\$ 133,400,000	\$ 77,500,000
Credit Facility accrued interest	190,600	27,300
	\$ 133,590,600	\$ 77,527,300

The Company's Credit Facility is provided by a syndicate of banks and is secured by all of the assets of the Company, including its aircraft and engine portfolio.

In November 2013, the Company obtained a waiver of compliance with a customer concentration covenant under its Credit Facility at the September 30, 2013 and December 31, 2013 calculation dates. The Company was in compliance with all covenants other than the waived covenant under the Credit Facility agreement at December 31, 2013.

During May 2014, the Company's Credit Facility was increased from \$130 million to \$180 million and extended through May 31, 2019.

The Company was out of compliance with a profitability covenant at June 30, 2014, primarily as a result of the Company recording aircraft impairment charges on aircraft totaling \$6,800,000 during the quarter then ended. In August 2014, the Company and the Credit Facility banks agreed to an amendment to the profitability covenant, which cured the June 30, 2014 non-compliance.



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#### 7. Notes Payable and Accrued Interest (continued)

The Company was out of compliance with the profitability, interest coverage and debt service coverage covenants at September 30, 2014, resulting primarily from the Company recording additional aircraft impairment charges on aircraft totaling \$11,718,700 during the third quarter of 2014. In November 2014, the Company and the Credit Facility banks agreed to an amendment to the Credit Facility, which cured the September 30, 2014 non-compliance, revised the compliance requirements through September 30, 2015, decreased the amount of the Credit Facility to \$150 million due to the departure of two participant lenders, and decreased the maximum amount to which the Credit Facility can be expanded from \$200 million to \$180 million.

The unused amount of the Credit Facility was \$16,600,000 and \$52,500,000 as of December 31, 2014 and December 31, 2013, respectively.

The weighted average interest rate on the Credit Facility was 3.58% and 3.94% at December 31, 2014 and December 31, 2013, respectively.

#### 8. Stockholder Rights Plan

In December 2009, the Company's Board of Directors adopted a stockholder rights plan granting a dividend of one stock purchase right for each share of the Company's common stock outstanding as of December 18, 2009 and the Company entered into a rights agreement dated December 1, 2009 in connection therewith. The rights become exercisable only upon the occurrence of certain events specified in the rights agreement, including the acquisition of 15% of the Company's outstanding common stock by a person or group in certain circumstances. Each right allows the holder, other than an "acquiring person," to purchase one one-hundredth of a share (a unit) of Series A Preferred Stock at an initial purchase price of \$97.00 under circumstances described in the rights agreement. The purchase price, the number of units of preferred stock and the type of securities issuable upon exercise of the rights are subject to adjustment. The rights expire at the close of business December 1, 2019 unless earlier redeemed or exchanged. Until a right is exercised, the holder thereof, as such, has no rights as a stockholder of the Company, including the right to vote or to receive dividends.

#### 9. Income Taxes

The items comprising the income tax provision are as follows:

	For the Years Ended December 31,	
	2014	2013 (As adjusted)
Current tax provision:		
Federal	\$ -	\$ -
State	800	800
Foreign	-	7,100
Current tax provision	800	7,900

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Deferred tax (benefit)/provision:

Federal	(5,854,400)	4,478,800
State	(98,200 )	1,100
Decrease in valuation allowance	-	(158,600 )
Deferred tax (benefit)/provision	(5,952,600)	4,321,300
Total income tax (benefit)/provision	\$ (5,951,800)	\$ 4,329,200

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9. Income Taxes (continued)

Total income tax expense differs from the amount that would be provided by applying the statutory federal income tax rate to pretax earnings as illustrated below:

	For the Years Ended December 31,	
	2014	2013 (As adjusted)
Income tax (benefit)/provision at statutory federal income tax rate	\$(5,863,600)	\$4,308,900
State tax (benefit)/provision, net of federal benefit	(97,500 )	19,400
Prior year withholding tax adjustment	-	174,600
Decrease in valuation allowance	-	(158,600 )
Other	9,300	(15,100 )
Total income tax (benefit)/provision	\$(5,951,800)	\$4,329,200

Temporary differences and carry-forwards that give rise to a significant portion of deferred tax assets and liabilities as of December 31, 2014 and 2013 were as follows:

	December 31,	
	2014	2013 (As adjusted)
Deferred tax assets:		
Maintenance reserves	\$2,138,900	\$1,813,900
Foreign tax credit carryover	-	1,210,900
Alternative minimum tax credit	10,800	100,800
Bad debt allowance and other	961,100	490,100
Deferred tax assets	3,110,800	3,615,700
Deferred tax liabilities:		
Accumulated depreciation on aircraft and aircraft engines	(10,450,000)	(17,540,000)
Minimum lease payments receivable	-	(649,500 )
Deferred income	(1,282,100 )	-
Net deferred tax liabilities	\$(8,621,300 )	\$(14,573,800)

All foreign tax credit carryovers were used to offset federal tax expense in 2014. The foreign tax credit carryovers are expected to expire between 2016 and 2022. A significant portion of the alternative minimum tax credit was used to offset federal tax expense in the current year. The remaining alternative minimum tax credit will be available to offset federal tax expense in excess of the alternative minimum tax in future years and does not expire.

At December 31, 2014 and December 31, 2013, the Company had no material uncertain tax positions.

The Company accounts for interest related to uncertain tax positions as interest expense, and for income tax penalties as tax expense.

All of the Company's tax years remain open to examination other than as barred in the various jurisdictions by statutes of limitation.

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## 10. Computation of Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	For the Years Ended December 31,	
	2014	2013 (As adjusted)
Net (loss)/income	\$(11,294,000)	\$8,343,900
Weighted average shares outstanding for the period	1,543,257	1,543,257
Dilutive effect of warrants	-	43,779
Weighted average diluted shares used in calculation of diluted (loss)/earnings per share	1,543,257	1,587,036
Basic (loss)/earnings per share	\$(7.32)	) \$5.41
Diluted (loss)/earnings per share	\$(7.32)	) \$5.26

Basic earnings per common share is computed using net income and the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed using net income and the weighted average number of common shares outstanding, assuming dilution. Weighted average common shares outstanding, assuming dilution, include potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of warrants using the treasury stock method. For the year ended December 31, 2014, warrants for 81,224 shares were not included in the calculation of diluted loss per share because the effect would have been anti-dilutive.

## 11. Related Party Transactions

The Company's portfolio of leased aircraft assets is managed and administered under the terms of a management agreement with JetFleet Management Corp. ("JMC"), which is an integrated aircraft management, marketing and financing business and a subsidiary of JetFleet Holding Corp. ("JHC"). Certain officers of the Company are also officers of JHC and JMC and hold significant ownership positions in both JHC and the Company.

Under the management agreement, JMC receives a monthly management fee based on the net asset value of the assets under management. Such fee, totaling approximately \$1,200,000, was waived by JMC for the fourth quarter of 2014. JMC also receives an acquisition fee for locating assets for the Company. Acquisition fees are included in the cost basis of the asset purchased. JMC may receive a remarketing fee in connection with the re-lease or sale of the Company's assets. Remarketing fees are amortized over the applicable lease term or included in the gain or loss on sale.

Fees incurred during 2014 and 2013 were as follows:

	For the Years Ended December 31,	
	2014	2013

Management fees, net of approximately \$1,200,000 of fees waived by JMC in 2014	\$3,864,900	\$4,369,300
Acquisition fees	2,100,000	799,000
Remarketing fees	64,000	589,300

## 12. Warrants

As part of a previous subordinated debt financing, which was fully repaid in December 2011, the Company issued warrants to purchase up to 81,224 shares of the Company's common stock that are currently exercisable (and expire on December 31, 2015) and represent approximately 5% of the post-exercise fully diluted capitalization of the Company. The exercise price of the warrants is \$8.75 per share.

## 13. Subsequent Events

In March 2015, the Company sold a Fokker 50 aircraft that had been classified as held for sale at December 31, 2014 and recorded a gain of approximately \$475,000.



Item 9.Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A.Controls and Procedures.

CEO and CFO Certifications. Attached as exhibits to this Annual Report on Form 10-K (the “Report”) are certifications of the Company’s Chief Executive Officer (the “CEO”) and the Company’s Chief Financial Officer (the “CFO”), which are required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the “Section 302 Certifications”). This section of the Report includes information concerning the evaluation of disclosure controls and procedures referred to in the Section 302 Certifications and this should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Evaluation of the Company’s Disclosure Controls and Procedures. Disclosure controls and procedures (“Disclosure Controls”) are controls and other procedures that are designed to ensure that information required to be disclosed in the Company’s reports filed under the Securities Exchange Act of 1934 (the “Exchange Act”), such as this Report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (“SEC”) and that such information is accumulated and communicated to the Company’s management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

The Company’s management, with the participation of the CEO and CFO, evaluated the effectiveness of the design and operation of the Company’s Disclosure Controls and concluded that the Company’s Disclosure Controls were effective as of December 31, 2014.

Management’s Annual Report on the Company’s Internal Control Over Financial Reporting. Internal control over financial reporting (“Internal Control”) is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements. The Company’s management is responsible for establishing and maintaining adequate Internal Control. Management evaluated the Company’s Internal Control based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (1992) and concluded that the Company’s Internal Control was effective as of December 31, 2014. This report does not include an attestation report on Internal Control by the Company’s independent registered public accounting firm since the Company is a smaller reporting company under the rules of the SEC.

Changes in Internal Control Over Financial Reporting. No change in Internal Control occurred during the fiscal quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company’s Internal Control.

Item 9B.Other Information.

None.



### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is included under (i) “Proposal 1: Election of Directors” as it relates to members of the Company’s Board of Directors, including the Company’s Audit Committee and the Company’s Audit Committee financial experts, any changes to procedures by which security holders may recommend nominees to the Company’s Board of Directors, (ii) “Information Regarding the Company’s Directors and Officers” as it relates to the Company’s executive officers, and (iii) “Section 16(a) Beneficial Ownership Reporting Compliance” as it relates to information concerning Section 16(a) beneficial ownership reporting compliance, in the Company’s definitive proxy statement (“Proxy Statement”), to be filed in connection with the Company’s 2015 Annual Meeting of Stockholders, and is incorporated herein by reference.

The Company has adopted a code of business conduct and ethics, or code of conduct. The code of conduct qualifies as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. A copy of the code of conduct is available on the Company’s website at <http://www.aerocentury.com> or upon written request to the Investor Relations Department, 1440 Chapin Avenue, Suite 310, Burlingame, California 94010. To the extent required by law, any amendments to, or waivers from, any provision of the code will be promptly disclosed publicly. To the extent permitted by such requirements, the Company intends to make such public disclosure on its website in accordance with SEC rules.

#### Item 11. Executive Compensation.

Incorporated by reference to the section of the Proxy Statement entitled “Information Regarding the Company’s Directors and Officers — Employee Compensation.”

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the section of the Proxy Statement entitled “Security Ownership of Certain Beneficial Owners and Management.”

#### Item 13. Certain Relationships and Related Transactions, and Director Independence.

Incorporated by reference to the section of the Proxy Statement entitled “Related Party Transactions.”

#### Item 14. Principal Accountant Fees and Services.

Incorporated by reference to the section of the Proxy Statement entitled “Information Regarding Auditors – Audit Fees.”

## PART IV

## Item 15.Exhibits.

## (b)Exhibits

Exhibit Number	Description
10.19	Second Amended and Restated Loan and Security Agreement, between the Company and MUFG Union Bank, N.A., as agent and lender (“Union”), and the other lenders under its credit facility, California Bank and Trust, First Bank, Umpqua Bank, U.S. Bank National Association, and Cathay Bank (collectively, the “Participants”), incorporated by reference to Exhibit 10.19 to the Quarterly Report on Form 10-Q of the Company, filed with the Securities and Exchange Commission (“SEC”) on August 13, 2014
10.20	Modification and Limited Waiver to Second Amended and Restated Loan and Security Agreement between Union, the Participants and the Company, dated as of August 26, 2014, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K of the Company, filed with the SEC on September 2, 2014
10.21	Second Modification Agreement between Union, Participants and the Company, dated as of November 13, 2014, incorporated by reference to Exhibit 10.21 to the Report on Form 10-Q of the Company, filed with the SEC on November 14, 2014
10.22	Form of Aircraft Sale Agreement (SN 15128) between the Company and Adria Airways d.d., dated December 5, 2014
10.23	Form of Aircraft Sale Agreement (SN15129) between the Company and Adria Airways d.d., dated December 5, 2014
31.1	Certification of Neal D. Crispin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Toni M. Perazzo, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Neal D. Crispin, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Toni M. Perazzo, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document

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101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

\* These certificates are furnished to, but shall not be deemed to be filed with, the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEROCENTURY CORP.

By

-----  
Toni M. Perazzo  
Senior Vice President-Finance and  
Chief Financial Officer

Date March 12, 2015

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Neal D. Crispin and Toni M. Perazzo, and each of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title	Dated
----- Neal D. Crispin	Director, President and Chairman of the Board of Directors of the Registrant (Principal Executive Officer)	March 12, 2015
----- Toni M. Perazzo	Director, Senior Vice President-Finance and Secretary of the Registrant (Principal Financial and Accounting Officer)	March 12, 2015
----- Roy E. Hahn	Director	March 12, 2015
----- Thomas W. Orr	Director	March 12, 2015
----- Evan M. Wallach	Director	March 12, 2015

David P. Wilson

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