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AEROCENTURY CORP
Form 10KSB
March 11, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

(Mark One)

[] Annual Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 2004

OR

[] Transition Report Under 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.

(Name of small business issuer in its charter)

Delaware

94-3263974

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

1440 Chapin Avenue, Suite 310

Burlingame, California

94010

(Address of principal executive offices)

(Zip Code)

Issuer'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 Exchange on Which Registered
Common Stock, \$0.001 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Check whether the Issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. []

Revenues for the Issuer's most recent fiscal year: \$10,903,840

On March 11, 2005, the aggregate market value of the voting and non-voting common equity held by non-affiliates (based upon the average of bid and asked price as of March 10, 2005) was \$6,144,338.

As of March 11, 2005, the Issuer had 1,543,257 shares of Common Stock outstanding.

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Documents Incorporated by Reference: Part III of this Report on Form 10-KSB incorporates information by reference from the Registrant's Proxy Statement for its 2005 Annual Meeting to be filed on or about March 23, 2005.

Transitional Small Business Disclosure Format (check one): Yes No X
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PART I

Forward-Looking Statements

This Annual Report on Form 10-KSB includes "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. All statements in this Annual Report other than statements of historical fact are "forward looking statements" for purposes of these provisions, including any statements of plans and objectives for future operations and any statements of assumptions underlying any of the foregoing. Statements that include the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology are forward-looking statements.

Forward-looking statements include: (i) in Item 1 "Description of Business -- Business of the Company," statements regarding the Company's intent to achieve its business objective by reinvesting cash flow and obtaining short-term and long-term debt and/or equity financing; the Company's belief that it can purchase assets at an appropriate price and maintain an acceptable overall on-lease rate for the Company's assets; the Company's belief 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 Item 1 "Description of Business - Working Capital Needs," statements regarding the Company's belief that it has sufficient cash to fund expenses and provide excess cash flow; the Company's expectation that it will be able to extend its credit facility at market terms; (iii) in Item 1 "Description of Business -- Competition," statements regarding the Company's belief that it has a competitive advantage due to its experience and operational efficiency in financing the transaction sizes that are desired by the regional air carrier market; the Company's belief that that the Company also has a competitive advantage because JMC has developed a reputation as a global participant in the aircraft leasing market (iv) in Item 5 "Market for Common Equity, Related Stockholder matters and Small Business Issuer Purchases of Equity Securities -- Dividends," the Company's intention to refrain from declaring dividends in the foreseeable future, in order to reinvest earnings into acquisition of additional assets; (v) in Item 6 "Management's Discussion and Analysis or Plan of Operation -- Liquidity and Capital Resources," statements regarding the Company's belief that it will continue to be in compliance with all covenants of its credit facility; the Company's belief that the credit facility will be renewed on market terms; the Company's belief that the Company will have adequate cash flow to meet its on-going operational needs, including required repayments under the credit facility; (vi) in Item 6 "Management's Discussion and Analysis or Plan of Operation -- Outlook," statements regarding the Company's anticipation that lenders will approve inclusion of a 2004 aircraft acquisition in the borrowing base in the second quarter of 2005; the Company's belief that it will have sufficient cash to fund any required repayments under its credit facility caused by lease expirations; (vii) in Item 6 "Management's Discussion and Analysis or Plan of Operation -- Factors that May Affect Future Results," statements regarding the Company's belief that it will have sufficient cash to fund any

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required repayments under its credit facility caused by borrowing base limitations as a result of assets scheduled to come off lease in the near term; the Company's anticipation that it will have sufficient funds to pay increased Sarbanes-Oxley compliance costs; the Company's anticipated acquisition of primarily used aircraft; the opportunities available in overseas markets; and (viii) in Item 7 "Financial Statements - Notes to Consolidated Financial Statements", statements regarding the Company's anticipation regarding renewal of the credit facility on market terms.

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 or Plan of Operation -- Factors That May Affect Future Results," including general economic conditions, particularly those that affect the demand for regional aircraft and engines and the financial status of the Company's primary customers, foreign regional passenger airlines; further disruptions to the air travel industry due to terrorist attacks or wartime hostilities or catastrophic events; increasing jet fuel costs that weaken the financial health of air carrier; the Company's ability to renew and enlarge its credit facility on reasonable business terms at or prior to its expiration; the financial performance of the Company's lessees and their compliance with rental, maintenance and return conditions under their respective leases; the availability of suitable aircraft acquisition transactions in the regional aircraft market; and future trends and results which cannot be predicted with certainty. The cautionary statements made in this Annual 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.

Item 1. Description of Business.

Business of the Company

AeroCentury Corp. ("AeroCentury"), a Delaware corporation, uses leveraged financing to acquire leased aircraft assets. AeroCentury was formed in 1997. Financial information for AeroCentury and its wholly-owned subsidiary, AeroCentury Investments II LLC ("AeroCentury II LLC") (collectively, the "Company"), is presented on a consolidated basis. All intercompany balances and transactions have been eliminated in consolidation.

The business of the Company is managed by JetFleet Management Corp. ("JMC"), pursuant to a management agreement between the Company and 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.

The Company is engaged in the business of investing in used regional aircraft equipment leased to foreign and domestic regional air carriers and has been engaged in such business since its formation. 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

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revenue and, eventually, sale proceeds. The Company intends to achieve its business objective by reinvesting cash flow and obtaining short-term and long-term debt and/or equity financing.

The Company's success in achieving its objective will depend in large part on its success in three areas: asset selection, lessee selection and obtaining acquisition financing.

The Company acquires additional assets in one of three ways. The Company may purchase an asset already subject to a lease and assume the rights of the seller, as lessor under the existing lease. In addition the Company may purchase an asset, usually from an air carrier, and lease it back to the seller. 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 does not purchase an asset unless a potential lessee has been identified and has committed to lease the aircraft.

The Company generally targets used regional aircraft and engines with purchase prices between \$1 million and \$10 million, and lease terms less than five years. 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 future 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, 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 the lease, the Company focuses on having lease provisions for its aircraft that provide for maintenance and return conditions, such that when the lessee returns the aircraft, the Company receives the aircraft in a condition which allows it to expediently re-lease or sell the aircraft, or receives sufficient payments from the lessee to cover any maintenance or overhaul of the aircraft required to bring the aircraft to such a state.

When considering whether to accept transactions with a lessee, the Company examines the creditworthiness of the lessee, its short- and long-term growth prospects, its financial status and backing, the impact of pending governmental regulation or de-regulation of the lessee's market, all of which are weighed in determining the lease rate that is offered to the lessee. In addition, where applicable, 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.

Working Capital Needs

The Company's portfolio of assets has historically generated revenues which have more than covered the Company's cash expenses, which consist mainly of maintenance expense, financing interest payments, management fees, professional fees and insurance.

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The Company's management fees are based upon the size of the asset pool. The majority of the maintenance expense incurred by the Company during 2004 was either paid in cash during the year or will be paid during 2005. As the Company has continued to use acquisition debt financing under its revolving credit facility, which expires on October 31, 2005, interest expense has become an increasingly larger portion of the Company's expenses. However, each advance on the credit facility funds the acquisition of an asset subject to a lease, and the lease revenue expected to be received with respect to the asset is greater than the incremental increase in required interest payments arising from such advance. 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 aircraft 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 be sufficient to cover maintenance expenses, interest expense, management fees, professional fees and insurance and provide excess cash flow. This, of course, is dependent upon the Company being able to extend its credit facility beyond the October 31, 2005 expiration. The Company expects to be able to obtain such facility at market terms.

Competition

The Company competes for customers, who generally are regional commercial aircraft operators that are seeking to lease aircraft under an operating lease, with other leasing companies, banks, financial institutions, and aircraft leasing partnerships. Management believes that competition may increase if competitors who have traditionally neglected the regional air carrier market begin to focus on that market. Because competition is largely based on price and lease terms, the entry of new competitors into the market, 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 new acquisitions as well as renewals of existing leases or new leases of existing aircraft, all of which could lead to lower revenues 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 the regional air carrier market. Management believes that the Company also has a competitive advantage because JMC has developed a reputation as a global participant in the aircraft leasing market.

Dependence on Significant Customers

For the year ended December 31, 2004, the Company had four significant customers, which accounted for 24%, 16%, 11% and 10%, respectively, of lease revenue. Concentration of credit risk with respect to lease receivables will diminish in the future if the Company is able to lease additional assets or re-lease assets currently on lease to significant customers to new customers.

Employees

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

Item 2. Description of Property.

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As of December 31, 2004, 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 a management agreement with JMC, all office facilities are provided by JMC.

At December 31, 2004, the Company owned eight deHavilland DHC-8s, one deHavilland DHC-7, three deHavilland DHC-6s, one Fairchild Metro III, two Shorts SD 3-60s, ten Fokker 50s, two Saab 340As and one turboprop engine.

Item 3. Legal Proceedings.

The Company is not involved in any material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

The shares of the Company's Common Stock are traded on the American Stock Exchange ("AMEX") under the symbol "ACY."

Market Information

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

Period	High	Low

Fiscal year ended December 31, 2004:		
Fourth Quarter	\$3.20	\$2.41
Third Quarter.....	2.45	2.05
Second Quarter.....	3.14	2.32
First Quarter.....	3.65	3.00
Fiscal year ended December 31, 2003:		
Fourth Quarter.....	3.57	2.90
Third Quarter.....	4.95	2.99
Second Quarter.....	5.45	2.80
First Quarter.....	3.50	2.57

On March 10, 2005, the closing stock sale price on the AMEX was \$5.12 per share.

Number of Security Holders

According to the Company's transfer agent, the Company had approximately 1,800 stockholders of record as of March 11, 2005. Because many shares are held by brokers and other institutions on behalf of stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders.

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Dividends

No dividends have been declared or paid to date. The Company does not intend to declare or pay dividends in the foreseeable future, and intends to re-invest any earnings into acquisition of additional revenue generating aircraft equipment.

Stockholder Rights Plan

In April 1998, in connection with the adoption of a stockholder rights plan, the Company filed a Certificate of Designation detailing the rights, preferences and privileges of a new Series A Preferred Stock. Pursuant to the plan, the Company issued rights to its stockholders of record as of April 23, 1998, giving each stockholder the right to purchase one one-hundredth of a share of Series A Preferred Stock for each share of Common Stock held by the stockholder. Such rights are exercisable only under certain circumstances in connection with a proposed acquisition or merger of the Company.

Item 6. Management's Discussion and Analysis or Plan of Operation.

Overview

The Company is a lessor of turboprop aircraft and engines which are used by customers pursuant to triple net operating leases. 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 owned equipment that comes off lease. The Company is subject to the credit risk of its lessees, both as to collection of rent and to performance by the lessees of obligations for maintaining the aircraft. Since lease rates for assets in the Company's portfolio generally decline as the assets age, the Company's ability to maintain revenue and earnings over the medium and long term is dependent upon the Company's ability to grow its asset portfolio.

The Company's principal expenditures are for interest costs on its financing, management fees, and maintenance of its aircraft assets. Maintenance expenditures are generally incurred only when aircraft are off lease, are being prepared for re-lease, or require maintenance in excess of lease return conditions.

The most significant non-cash expenses include accruals of maintenance costs to be borne by the Company and aircraft depreciation, both of which are the result of significant estimates. Maintenance expenses are estimated and accrued based upon utilization of the aircraft. Depreciation is recognized based upon the estimated residual value of the aircraft at the end of their estimated lives. Deviation from these estimates could have a substantial effect on the Company's cash flow and profitability.

Critical Accounting Policies

In response to the Securities and Exchange Commission's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company has identified the most critical accounting policies upon which its financial status depends. It determined the critical policies by considering those that involve the most complex or subjective decisions or assessments. The Company identified these policies to be those related to valuation of aircraft, depreciation, maintenance reserves and accrued costs, and lease rental revenue recognition.

a. Use of Estimates

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In preparing its financial statements, as well as in evaluating future cash flow, the Company makes significant estimates, including the residual values of the aircraft, the useful lives of the aircraft, the amount and timing of cash flow associated with each aircraft that are used to evaluate impairment, if any, accrued maintenance costs in excess of amounts received from lessees, and amounts recorded as bad debt allowances. Actual results will likely vary from estimates.

The Company continually evaluates both short and long term maintenance expected to be required for each of its aircraft, including the estimated cost thereof, and compares it to the maintenance reserves established for each aircraft.

With respect to estimated maintenance costs, the Company has found its accruals to be generally accurate. Nevertheless, the Company has incurred significant maintenance expense in connection with aircraft which were returned early during the last two years in a condition worse than required by the lease. Specifically, the Company incurred maintenance expense of approximately \$442,000 and \$1,864,000 in connection with the early return of aircraft in 2004 and 2003, respectively.

b. Impairment of Long-lived Assets

The Company periodically reviews its portfolio of assets for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." Such review necessitates estimates of current market values, re-lease rents, residual values and component values. The estimates are based on currently available market data and third-party appraisals and are subject to fluctuation from time to time. The Company initiates its review periodically, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Recoverability of an asset is measured by comparison of its carrying amount to the expected future undiscounted cash flows (without interest charges) that the asset is expected to generate. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Significant management judgment is required in the forecasting of future operating results which are used in the preparation of projected undiscounted cash flows and should different conditions prevail, material write downs may occur. In accordance with its periodic review of its portfolio of assets for impairment, during the third quarter of 2004, the Company recorded a provision for impairment of approximately \$463,000 for one of its aircraft, based on the Company's cash flow analysis and third party appraisals. In addition, during the fourth quarter of 2004, the Company recorded an impairment charge of approximately \$193,000 for another aircraft, based on the estimated net sales proceeds pursuant to an agreement to sell the aircraft in early 2005.

c. Depreciation Policies

The Company's interests in aircraft and aircraft engines are recorded at cost, which includes acquisition costs. Depreciation is computed using the straight-line method over the aircraft's estimated economic life (generally assumed to be twelve years from the date of acquisition), to an estimated residual value based on appraisal.

d. Maintenance Reserves and Accrued Costs

Maintenance costs under the Company's triple net leases are generally the responsibility of the lessees. Maintenance reserves and accrued costs in the accompanying balance sheet include refundable and non-refundable maintenance

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payments received from lessees. The Company periodically reviews maintenance reserves for each of its aircraft for adequacy in light of the number of hours flown, airworthiness directives issued by the manufacturer or government authority, and the return conditions specified in the lease, as well as the condition of the aircraft upon return or inspection. As a result of such review, if it is probable that the Company has incurred costs for maintenance in excess of amounts received from lessees, the Company accrues its share of costs for work to be performed.

e. Revenue Recognition

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. If the Company deems a portion of operating lease revenue as potentially uncollectible, the Company records an allowance for doubtful accounts.

Results of Operations

a. Revenues

Operating lease revenue was approximately \$232,000 higher in 2004 versus 2003, primarily because of the combined effect of increased lease revenue from aircraft purchased during 2004 and the re-lease of an aircraft which had been off-lease during 2003. These increases, totaling approximately \$1,358,000, more than offset a decrease in operating lease revenue of approximately \$1,126,000 resulting from lower lease rates for several aircraft in 2004 and a portion of 2003 and the effect of aircraft off lease during the year 2004.

Gain on sale of aircraft and aircraft engines was approximately \$1,748,000 for the year ended December 31, 2004 as a result of the sale of a pool of twenty-four turboprop engines and the sale of an additional engine, which resulted in gains of approximately \$1,727,000 and \$172,000, respectively. These gains were partially offset by a \$151,000 loss on sale of a deHavilland DHC-7 aircraft. There were no sales in 2003.

Other income was approximately \$15,000 higher in 2004 than in 2003, primarily as a result of payments received on one of the Company's notes receivable, which was signed in the third quarter of 2003. The Company holds the note as part of a settlement agreement in connection with a lessee default in 2003. At the time the note was signed, the Company fully reserved the balance due. Accordingly, all payments it received in late 2003 and the first nine months of 2004 were recorded as income. At September 30, 2004, based on the payment history to date, the Company reversed a portion of the allowance, which decreased it to 50% of the note balance. However, based on recent experience, the Company has a more pessimistic evaluation of the debtor's intention to make future payments and, therefore, the Company increased the allowance to 100% of the remaining note balance at December 31, 2004 and reversed approximately \$111,000 of income recognized in the third quarter. In January 2005, the Company sent a default notice to the debtor.

b. Expense items

Depreciation was approximately \$194,000 higher in 2004 versus 2003 and management fees, which are calculated on the net book value of the aircraft owned by the Company, were approximately \$78,000 higher in 2004, primarily because of the purchase of aircraft in 2004, the effect of which was partially

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offset by sales of assets during 2004.

Interest expense was approximately \$480,000 higher in 2004 versus 2003 primarily as a result of higher average interest rates arising from changes in the Company's credit facility pricing in August 2003 and higher market interest rates upon which the revolving credit facility variable interest rates are based, the effect of which was partially offset by a lower average principal balance in 2004.

Maintenance expense was approximately \$1,245,000 lower in 2004 compared to 2003 because, even though the Company incurred maintenance expense in connection with the early return of two aircraft in 2004 and incurred additional expenses in connection with: (i) its periodic review of the adequacy of its maintenance reserves and (ii) off-lease aircraft in 2004, the total of those amounts was less than the maintenance expense incurred in connection with a lessee default in 2003.

During 2004, the Company recorded an impairment charge of approximately \$463,000 for one of its aircraft, based on the Company's cash flow analysis and third party appraisals. In addition, the Company recorded an impairment charge of approximately \$193,000 for another aircraft, based on the estimated net sales proceeds pursuant to an agreement to sell the aircraft in early 2005.

Professional fees and general and administrative expenses were approximately \$10,000 higher in 2004 versus 2003, primarily as a result of higher accounting fees and fees paid in connection with the collection of amounts due under one of the Company's notes receivable. These increases were partially offset by lower legal fees related to the renewal of the Company's credit facility and re-lease of aircraft during 2004.

Insurance expense was approximately \$35,000 higher in 2004 versus 2003 primarily as a result of the Company having to provide owner coverage for more off-lease aircraft-days in 2004. This increase was partially offset by lower rates per dollar of coverage in 2004 versus 2003.

Bad debt expense was approximately \$753,000 lower in 2004 versus 2003 because, during 2003, the Company recorded bad debt expense of approximately \$650,000 for all rent and maintenance reserves owed by a lessee which defaulted on its payment obligations under leases for two aircraft and \$250,000 to establish an allowance related to amounts due from another lessee for rent and maintenance necessary to meet the return conditions under its lease. In 2004, the Company recorded bad debt expense of approximately \$147,000 for rent and reserves in connection with the early return of two aircraft by a lessee.

The Company's effective tax rates in 2004 and 2003 were approximately 34% and 37%, respectively. Since the Company incurred a loss for the year ended December 31, 2003, the recognition of the tax benefits related to the reduced state tax rates increased the Company's tax benefit from the loss and its effective tax rate for that year. Conversely, the Company had income for the year ended December 31, 2004, and the recognition of tax benefits related to the reduced state tax rates decreased the Company's effective tax rate for the year.

Liquidity and Capital Resources

The Company is currently financing its assets primarily through credit facility borrowings, special purpose financing and excess cash flow.

- (a) Credit facility

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In August 2003, the Company reached agreement with its lenders to renew the credit facility through August 31, 2004. In January 2004, a third bank was added to the Company's credit facility participant group. The new participant agreed to finance \$10 million, bringing the Company's credit facility limit to \$50 million. The facility bore interest, at the Company's option, at either (i) prime plus a margin of 50 to 150 basis points or (ii) LIBOR plus a margin of 275 to 375 basis points. Both the prime and LIBOR margins were determined by certain financial ratios. In 2004, the facility was renewed through October 31, 2005. The renewal agreement also revised certain pricing and covenant provisions and waived noncompliance with two covenants at September 30, 2004. In connection with the renewal, the LIBOR margin was set at 375 basis points through March 31, 2005, after which a margin of 275 to 375 basis points will be determined by certain financial ratios.

During 2004, the Company repaid a total of \$7,050,000 of the outstanding principal under its credit facility. In accordance with the agreement for the credit facility, the Company must maintain compliance with certain financial covenants. As of December 31, 2004, \$46,805,000 was outstanding under the credit facility and interest of \$286,630 was accrued. The Company was in compliance with all covenants as of that date and is currently in compliance. Based on its current projections, the Company believes it will continue to be in compliance with all covenants of its credit facility, but there can be no assurance of such compliance. See "Factors That May Affect Future Results - 'Credit Facility Obligations' and 'Risks of Debt Financing'," below.

The Company's interest expense in connection with the credit facility generally moves up or down with prevailing interest rates, as the Company has not entered into any interest rate hedge transactions for the credit facility indebtedness. Because aircraft owners seeking financing generally can obtain financing through either leasing transactions or traditional secured debt financings, prevailing interest rates are a significant factor in determining market lease rates, and market lease rates generally move up or down with prevailing interest rates, assuming supply and demand of the desired equipment remain constant. However, because lease rates for the Company's assets typically are fixed under existing leases, the Company normally does not experience any positive or negative impact in revenue from changes in market lease rates due to interest rate changes until existing leases have terminated.

The Company's longer term viability will depend upon its ability to renew the credit facility at its October 2005 expiration with the existing or replacement lenders, or to refinance the credit facility using equity or alternative debt financing. Management expects the credit facility to be renewed on market terms; however, there is no assurance that the Company will be able to achieve either alternative prior to the currently scheduled expiration. In addition, the Company will need additional financing for acquisitions of leased assets, which will be necessary to offset the anticipated decreased lease rates which will result from future re-leases of the Company's current portfolio.

If the Company is not able to renew the credit facility for the full outstanding amount, and cannot find suitable alternative financing, it may be required to make a principal repayment of the outstanding balance, or that portion of the balance for which replacement financing is not obtained. The Company does not have sufficient cash reserves to make a repayment of a significant portion of the outstanding credit facility indebtedness and would be forced to sell assets in order to raise funds to make such repayment. Such sales would likely not be on favorable terms to the Company as the full market value of the assets sold may not be realized by the Company in order to expedite the consummation of the sales.

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Even if the Company is able to successfully sell a portion of its assets and use the proceeds to repay the credit facility, if a renewed or replacement facility is not obtained, the Company's future ability to acquire assets would be significantly impaired, as the credit facility is the Company's primary means of financing acquisitions and no other sources of acquisition financing are immediately available. Thus the renewal or replacement of the Company's credit facility in an amount equal to or greater than the current \$50 million limit will be critical to the Company's future operations.

(b) Special purpose financing

In September 2000, the Company acquired a deHavilland DHC-8 aircraft using cash and bank financing separate from its credit facility. The financing resulted in a note obligation in the amount of \$3,575,000, due April 15, 2006, which bears interest at the rate of one-month LIBOR plus 3%. The note is collateralized by the aircraft and is non-recourse to the Company. Payments due under the note consist of monthly principal and interest and a balloon principal payment due on the maturity date. The financing also provides for a six month remarketing period at the expiration or early termination of the lease. Payments due on the financing are reduced during this remarketing period and the balloon principal payment is deferred to the end of the six month period. The balance of the note payable at December 31, 2004 was \$1,895,700 and interest of \$2,280 was accrued. The Company was in compliance with all covenants of this note obligation as of that date and is currently in compliance.

The availability of special purpose financing in the future will depend on several factors including (1) the availability of funds to be used for the equity portion of the financing, (2) the type of asset being financed and (3) the creditworthiness of the underlying lessee. The availability of funds for the equity portion of the financing will be dependent on the Company's cash flow, as discussed in "Cash Flow," below.

(c) Cash flow

The Company's primary source of revenue is lease rentals of its aircraft assets. It is the Company's policy to monitor each lessee's needs in periods before leases are due to expire. If it appears that a customer will not be renewing its lease, the Company immediately initiates marketing efforts to locate a potential new lessee or purchaser for the aircraft. The goal of this procedure is to reduce the time that an asset will be off lease. The Company's aircraft are subject to leases with varying expiration dates through July 2009.

Management believes that the Company will have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility, based upon (i) its estimates of future revenues and expenditures and (ii) the expectation that the credit facility will be renewed on or before expiration. The Company's expectations concerning such cash flows are based on existing lease terms and rents, as well as numerous estimates, including (i) rents on assets to be re-leased, (ii) sale proceeds of certain assets currently under lease, (iii) the cost and anticipated timing of maintenance to be performed and (iv) acquisition of additional aircraft and the lease thereof at favorable lease terms. While 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. Among the more significant external factors outside the Company's control that could have an impact on the accuracy of cash flow assumptions are (i) an increase in interest rates that negatively affects the Company's GAAP profitability and causes the Company to violate covenants of its credit facility, requiring repayment of some or all of the amounts outstanding under its credit facility, (ii) lessee non-performance or non-compliance with lease obligations (which may affect credit facility collateral limitations as well as revenue and expenses) and (iii) an unexpected deterioration of demand for aircraft equipment.

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(i) Operating activities

The Company's cash flow from operations for the year ended December 31, 2004 versus 2003 decreased by approximately \$2,746,000. The change in cash flow is a result of changes in several cash flow items during the period, including principally the following:

Lease rents, maintenance reserves and security deposits

Lease revenue, net of approximately \$279,000 written off to bad debt expense in 2003, and \$210,000 and \$346,000 deferred to future years in 2004 and 2003, respectively, was approximately \$647,000 higher in 2004 than in 2003, due primarily to the effect of increased lease revenue from aircraft purchased during 2004, which was partially offset by the effect of lower lease rates for several aircraft and the effect of aircraft off lease during 2004. In addition, the Company received approximately \$103,000 more of cash payments for deferred rent during 2004 compared to 2003. In December 2004, it also received \$165,000 for rent due in January 2005. It is expected that rental rates on aircraft to be re-leased will continue to decline, so that, absent additional acquisitions by the Company, aggregate lease revenues for the current portfolio can be expected to decline over the long term.

Payments received from lessees for maintenance reserves increased by approximately \$1,288,000 in 2004 versus 2003, reflecting principally an increase in the number of aircraft owned by the Company, an increase in usage by lessees, and reserves received from the seller of the aircraft purchased by the Company in July 2004. Security deposits collected from lessees increased by approximately \$367,000 in 2004 primarily as a result deposits received in connection with the Company's acquisitions during the year, net of deposits refunded to lessees at lease expiration or applied to past due amounts.

Expenditures for maintenance

Expenditures for maintenance were approximately \$123,000 more in 2004 than in 2003 primarily as a result of the payment of a portion of maintenance accruals recorded in 2003 in connection with the return of three aircraft from a lessee declared in default of its obligations.

Aircraft insurance

Expenditures for aircraft insurance increased by approximately \$129,000 during 2004 compared to 2003, primarily as a result of higher prepayments, which are based on the Company's estimated off-lease aircraft at the time of the policy's renewal in April of each year. Actual insurance expense depends on the aircraft which are off lease in any given period.

Expenditures for interest

Expenditures for interest expense increased by approximately \$192,000 in 2004 versus 2003, primarily as a result of pricing changes in the Company's credit facility in the third quarter of 2003 and higher market interest rates. Interest expenditures in future periods will be a product of prevailing interest rates and the outstanding principal balance on financings, which may be influenced by future acquisitions and/or required repayments resulting from changes in the collateral base.

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Income taxes

Current income tax payments decreased by approximately \$180,000, as a result of decreased annualized estimated taxable income resulting from increased depreciation on aircraft acquired in 2004, increased interest deductions primarily as a result of higher average interest rates noted above, and increased maintenance expense related to off-lease aircraft. The effect of these items was partially offset by a decrease in bad debt expense from year to year.

The sale of a pool of twenty-four turboprop engines at the end of 2004 increased the Company's taxable income and consequently increased current year tax expense by approximately \$1,704,000. Payment for the increased tax expense will occur in 2005.

(ii) Investing activities

The increase in cash flow used for investing activities in 2004 versus 2003 was primarily due to the Company's purchase of aircraft in 2004 versus no purchases in 2003.

(iii) Financing activities

The Company borrowed \$14,700,000 on its credit facility to fund the purchase of aircraft in 2004 versus no such borrowings in 2003. The Company repaid approximately \$4,680,000 more of its outstanding debt in 2004 than it repaid in 2003. The net effect of the Company's borrowing activities resulted in an increase in cash provided by financing activities of approximately \$10,020,000 from year to year.

Outlook

The Company continually monitors the financial condition of its lessees in order to minimize the likelihood of significant defaults. In particular, the Company is currently monitoring the performance of two lessees with a total of three aircraft under lease. These leases were recently amended to defer a portion of rent and maintenance reserves payments due during the second half of 2004 to 2005. Any weakening in the aircraft industry may also affect the performance of lessees that currently appear creditworthy. See "Factors that May Affect Future Results - General Economic Conditions," below.

Although the Company purchased seven aircraft in 2004, additional acquisitions of leased assets will be necessary to offset the anticipated decreased lease rates which will most likely result from future re-leases of the Company's current portfolio. The Company's banks have not yet approved one of the 2004 acquisitions for inclusion in the credit facility borrowing base. Until such approval, the Company's ability to borrow is more limited than it otherwise would be, which will adversely affect both the Company's results and its covenant compliance. The Company expects the lenders to approve inclusion of this aircraft in the borrowing base in the second quarter of 2005.

The Company periodically reviews its portfolio of assets for impairment, based on the Company's cash flow analysis and third party appraisals. Any future adjustments, if necessary, would negatively affect the Company's financial results and the collateral available for the Company's credit facility. In addition, the Company's periodic review of the adequacy of its maintenance reserves, as well as routine and manufacturer-required maintenance for any off-lease aircraft, may result in changes to estimated maintenance expense, further reducing earnings.

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As a result of depreciation and borrowing base restrictions with respect to aircraft having leases expiring in 2005, the Company may be required to make principal repayments under its credit facility. A focus of the Company, therefore, continues to be re-leasing aircraft that come off lease to limit the amount of any required repayment. Management believes that the Company will have sufficient cash to fund any required repayments resulting from scheduled lease expirations.

During 2004, the former lessee of one of the Company's aircraft signed a note in the amount of approximately \$625,000 for rent and maintenance in excess of the security deposit which was held by the Company. Previously, the Company had recorded a \$250,000 allowance against the amount receivable and believes this allowance is adequate to cover any shortfall in payment under the note. The Company has received the first three payments due under the note. Based on the debtor's continued payments, the Company may reverse a portion of the allowance in the future.

Factors that May Affect Future Results

Term of Credit Facility. As discussed in "Liquidity and Capital Resources -- Credit Facility" above, the term of the credit facility was extended for one year, until October 31, 2005. The Company's longer term viability will depend upon its ability to renew the credit facility at its October 2005 expiration with the existing or replacement lenders, or to refinance the credit facility using equity or alternative debt financing. There is no assurance that the Company will be able to achieve either alternative prior to the currently scheduled expiration of the credit facility on October 31, 2005. In addition, the Company will need additional financing for acquisitions of leased assets, which will be necessary to offset the anticipated decreased lease rates which will result from future re-leases of the Company's current portfolio.

If the Company is not able to renew the credit facility for the full outstanding amount, and cannot find suitable alternative financing, it may be required to repay the outstanding balance, or that portion of the balance for which replacement financing is not obtained. The Company does not have sufficient cash reserves to make a repayment of a significant portion of the outstanding credit facility indebtedness and would be forced to sell assets in order to raise funds to make such repayment. Such sales would likely not be on favorable terms to the Company as the full market value of the assets sold may not be realized by the Company in order to expedite the consummation of the sales.

In any event, if a renewed or replacement facility is not obtained, the Company's future ability to acquire assets will be significantly impaired, as the credit facility is the Company's primary means of financing acquisitions and no other sources of acquisition financing are immediately available. Thus the renewal or replacement of the Company's credit facility in an amount equal or greater than the current \$50 million limit will be critical to the Company's asset and revenue growth. The approval of the banks for the inclusion of the aircraft purchased by the Company in July 2004 in the credit facility collateral base will be a critical factor in the Company's ability to acquire additional assets in the short term. If such approval is not received, it is likely the Company will not be able to acquire any assets unless the credit facility is increased. See "Outlook," above.

Credit Facility Obligations. The Company is obligated to make repayment of principal under the credit facility in order to maintain certain debt ratios with respect to its assets in the borrowing base. Assets that come off lease and remain off-lease for a period of time are removed from the borrowing base. The

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Company believes it will have sufficient cash funds to make any payment that arises due to borrowing base limitations caused by assets scheduled to come off lease in the near term. The Company's belief is based on certain assumptions regarding renewal of existing leases, a lack of extraordinary interest rate increases, continuing GAAP profitability, no lessee defaults or bankruptcies, and certain other matters that the Company deems reasonable in light of its experience in the industry. There can be no assurance that the Company's assumptions will prove to be correct. If the assumptions are incorrect (for example, if an asset in the collateral base unexpectedly goes off lease for an extended period of time) and the Company has not obtained an applicable waiver or amendment of applicable covenants from its lenders to deal with the situation, the Company may have to sell a significant portion of its portfolio in order to maintain compliance with covenants or face default on its credit facility.

Concentration of Lessees and Aircraft Type. As a result of a December 2004 acquisition, and sales of assets in 2004, the Company's largest customer, a Taiwanese carrier, currently accounts for approximately 39% of the Company's monthly lease revenue. The Company's two largest customers together (the Taiwanese lessee and a Swedish lessee) currently account for approximately 55% of the Company's monthly lease revenue. A lease default by or collection problems with one of these customers could have a disproportionate negative impact on the Company's financial results, 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. Such concentration of lessee credit risk will diminish in the future only if the Company is able to lease additional assets to new lessees.

The acquisition of four Fokker 50 aircraft and three DHC-8 aircraft in 2004 made these two aircraft types the dominant aircraft types in the portfolio, constituting 10 and 8, respectively, of the 27 aircraft and representing 38% and 47%, respectively, based on book value. As a result, a change in the desirability and availability of either or both of these types of aircraft, which would in turn affect valuations of such aircraft, would have a disproportionately large impact on the Company's portfolio value. Such aircraft type concentration will diminish if the Company acquires additional assets of other types. Conversely, acquisition of additional Fokker 50 or DHC-8 aircraft will increase the Company's risks related to its concentration of those aircraft types.

Increased Compliance Costs. Due to new Sarbanes-Oxley requirements applicable to the Company by December 2006 relating to internal controls and auditors' responsibilities to review and opine on those controls, the Company anticipates that the fees and expenses in connection with audit services are likely to significantly increase. The increase will generally arise from increased auditor responsibilities as well as an increased scope of examination of the Company which will broaden to include the Company's internal controls. Audit fees are expected to increase by approximately 100% and there may be additional costs arising from mandated testing of internal controls that will begin to take place in 2005 and be performed on a continual basis thereafter. The exact amount of these costs can only be determined as the Company proceeds further with its analysis of current internal controls. The Company, however, anticipates that it will have sufficient funds to pay for the increased compliance cost.

Risks of Debt Financing. The Company's use of acquisition financing under its credit facility and its special purpose financings subject the Company to increased risks of leveraging. If, due to a lessee default, the Company is unable to repay the debt secured by the aircraft acquired, then the Company could lose title to the acquired aircraft in a foreclosure proceeding. With

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respect to the credit facility, the loans are secured by the Company's existing assets as well as the specific assets acquired with each financing. In addition to payment obligations, the credit facility also requires the Company to comply with certain financial covenants, including a requirement of positive quarterly earnings, interest coverage and net worth ratios. Any default under the credit facility, if not waived by the lenders, could result in foreclosure upon not only the asset acquired using such financing, but also the existing assets of the Company securing the loan.

General Economic Conditions. The Company's business is dependent upon general economic conditions and the strength of the travel and transportation industry. The industry recently experienced a severe cyclical downturn which began in 2001. This downturn was exacerbated by the terrorist attacks of September 11, 2001 and a reduction in airline passenger loads caused by Severe Acute Respiratory Syndrome ("SARS") in 2002. As a result, there was an overall significant reduction in air travel and less demand for aircraft capacity by the major air carriers. There are signs that the industry is beginning to recover from the downturn, but it is unclear whether any recovery will be a sustained one. Any recovery could be stalled or reversed by any number of events or circumstances, including the global economy slipping back into recession, or specific events related to the air travel industry, such as further weakening of the air carrier or travel industries as a result of terrorist attacks, or an increase in operational or labor costs. Recent spikes in oil prices, if they persist, may have a particularly deleterious effect on airline revenue and increase the likelihood of weakening results for airlines that have not hedged aircraft fuel costs, and in the most extreme cases, may initiate or accelerate the failure of many already marginal carriers.

Since regional carriers are generally not as well-capitalized as major air carriers, any economic setback in the industry may result in the increased possibility of an economic failure of one or more of the Company's lessees, particularly since many carriers are undertaking expansion of capacity to accommodate the recovering air passenger traffic. If lessees experience financial difficulties, this could, in turn, affect the Company's financial performance.

During any periods of economic contraction, carriers generally reduce capacity, in response to lower passenger loads, and as a result there is a reduced demand for aircraft and a corresponding decrease in market lease rental rates and aircraft values. This reduced market value for aircraft could affect the Company's results if the market value of an asset or assets in the Company's aircraft portfolio falls below book value, and the Company determines that a write-down of the value on the Company's balance sheet is appropriate. Furthermore, as older leases expire and are replaced by lease renewals or re-leases at decreasing lease rates, the lease revenue of the Company on its 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 specific regions of the world exclusively. As the Company's portfolio is not entirely globally diversified, a localized downturn in one of the key regions in which the Company leases aircraft (e.g., Europe or Asia) could have a significant adverse impact on the Company.

Interest Rate Risk. The Company's current credit facility and special purpose subsidiary indebtedness carry a floating interest rate based upon either the lender's prime rate or a floating LIBOR rate. Lease rates, generally, but not always, move with interest rates. Because lease rates are fixed at the origination of leases, interest rate increases during the term of a lease have no effect on existing lease 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 lower net earnings.

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The Company has not hedged its interest rate obligations. Consequently, if an interest rate increase were great enough, the Company might not be able to generate sufficient lease revenue to meet its interest payment and other obligations and comply with the net earnings covenant of its credit facility.

Leasing Risks. The Company's successful negotiation of lease extensions, re-leases and sales may be critical to its ability to achieve its financial objectives, and involves a number of risks. Demand for lease or purchase of the assets depends on the economic condition of the airline industry which is, in turn, sensitive to general economic conditions. The ability to remarket equipment at acceptable rates may depend on the demand and market values at the time of remarketing. The Company anticipates that the bulk of the equipment it acquires will be used aircraft equipment. The market for used aircraft is 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, increased fuel costs, the number of new aircraft on order and the number of aircraft coming off-lease. The Company's expected concentration in a limited number of airframe and aircraft engine types (generally, turboprop equipment) subjects the Company to economic risks if those airframe or engine types should decline in value. If "regional jets" were to be used on short routes previously served by turboprops, even though regional jets are more expensive to operate than turboprops, the demand for turboprops could lessen. This could result in lower lease rates and values for the Company's existing turboprop aircraft.

Lessee Credit Risk. If a customer defaults upon its lease obligations, the Company may be limited in its ability to enforce remedies. Most of the Company's lessees are small regional passenger airlines, which may be even more sensitive to airline industry market conditions than the major airlines. As a result, the Company's inability to collect rent under a lease or to repossess equipment in the event of a default by a lessee could have a material adverse effect on the Company's revenue. If a lessee that is a certified U.S. airline is in default under the lease and seeks 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 for a period of 60 days. After the 60-day period has passed, the lessee must agree to perform the obligations and cure any defaults, or the Company will have the right to repossess the equipment. This procedure under the Bankruptcy Code has been subject to significant recent litigation, however, and it is possible that the Company's enforcement rights may be further adversely affected by a declaration of bankruptcy by a defaulting lessee. Most of the Company's lessees are foreign and not subject to U.S. bankruptcy laws but there may be similar applicable foreign bankruptcy debtor protection schemes available to foreign carriers.

Risks Related to Regional Air Carriers. Because the Company has concentrated its existing leases and intends to concentrate on future leases to regional air carriers, it is subject to certain risks. Some of the lessees in the regional air carrier market are companies that are start-up, low capital, low margin operations. Often, the success of such carriers is dependent upon arrangements with major trunk carriers, which may be subject to termination or cancellation by such major carrier. These types of lessees result in a generally higher lease rate on aircraft, but may entail higher risk of default or lessee bankruptcy. The Company evaluates the credit risk of each lessee carefully, and attempts to obtain a third party guaranty, letters of credit or other credit enhancements, if it deems them necessary. There is no assurance, however, that such enhancements will be available or that if obtained they will fully protect the Company from losses resulting from a lessee default or bankruptcy. Also, a

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significant area of growth of this market is in areas outside of the United States, where collection and enforcement are often more difficult and complicated than in the United States.

Reliance on JMC. All management of the Company is performed by JMC under a management agreement which is in the eighth year of a 20-year term and provides for an asset-based management fee. JMC is not a fiduciary to the Company or its stockholders. The Company's Board of Directors has ultimate control and supervisory responsibility over all aspects of the Company and owes fiduciary duties to the Company and its stockholders. While JMC may not owe any fiduciary duties to the Company by virtue of the management agreement, the officers of JMC are also officers of the Company, and in that capacity owe fiduciary duties to the Company and the stockholders by virtue of holding such offices with the Company. In addition, certain officers of the Company hold significant ownership positions in JMC and the Company.

The JMC 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. All of the officers of JMC are also officers of the Company, and certain directors of the Company are also directors of 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.

JMC has acted as management company for two other aircraft portfolio owners, JetFleet III, which raised approximately \$13,000,000 from investors, and AeroCentury IV, Inc. ("AeroCentury IV"), which raised approximately \$5,000,000 from investors.

In the first quarter of 2002, AeroCentury IV defaulted on certain obligations to noteholders. In June 2002, the indenture trustee for AeroCentury IV's noteholders repossessed AeroCentury IV's assets and took over management of AeroCentury IV's remaining assets. JetFleet III defaulted on its Bond obligation of \$11,076,350 in May 2004. The indenture trustee for JetFleet III bondholders repossessed JetFleet III's unsold assets in late May 2004.

Ownership Risks. Most of the Company's portfolio is leased under operating leases, where the terms of the leases are less than the entire anticipated useful life of an asset. The Company's ability to recover its purchase investment in an asset subject to an operating lease is dependent upon the Company's ability to profitably re-lease or sell the asset after the expiration of the initial lease term. Some of the factors that have an impact on the Company's ability to re-lease or sell include worldwide economic conditions, general aircraft market conditions, regulatory changes that may make an asset's use more expensive or preclude use unless the asset is modified, changes in the supply or cost of aircraft equipment and technological developments which cause the asset to become obsolete. In addition, a successful investment in an asset subject to an operating lease depends in part upon having the asset returned by the lessee in serviceable condition as required under the lease. If the Company is unable to remarket its aircraft equipment on favorable terms when the operating leases for such equipment expire, the Company's business, financial condition, cash flow, ability to service debt and results of operations could be adversely affected.

Furthermore, during the ownership of an asset, an asset impairment charge against the Company's earnings may result from the occurrence of unexpected adverse changes that impact the Company's estimates of expected cash flows generated from such asset. The Company periodically reviews long-term assets for

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impairments, in particular, when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value. The Company may be required to recognize asset impairment charges in the future as a result of a prolonged weak economic environment, challenging market conditions in the airline industry or events related to particular lessees, assets or asset types.

International Risks. The Company has focused on leases in overseas markets, which the Company believes present opportunities. Leases with foreign lessees, however, may present somewhat different credit risks than those with domestic lessees.

Foreign laws, regulations and judicial procedures may be more or less protective of lessor rights than those which apply in the United States. The Company could experience collection or repossession problems related to the enforcement of its lease agreements under foreign local laws and the remedies in foreign jurisdictions. The protections potentially offered by Section 1110 of the Bankruptcy Code do not apply to non-U.S. carriers, and applicable local law may not offer similar protections. 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.

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. On the other hand, a foreign economy may remain strong even though the U.S. economy does not. A foreign economic downturn may impact a foreign lessee's ability to make lease payments, even though the U.S. and other economies remain stable. Furthermore, 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. 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 lease payments, increasing the risk of default of that lessee, particularly if its revenue is primarily derived in the local currency.

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, 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 other 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 and more experience than the Company. However, 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 is characterized by

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transaction sizes of less than \$10 million and lessee credits that may be strong, but are generally unrated, is not well served by the Company's larger competitors in the aircraft industry. JMC has developed a reputation as a global participant in this segment of the market, and the Company believes that JMC's reputation will benefit the Company. There is, however, no assurance that the lack of significant competition from the larger aircraft leasing companies will continue or that the reputation of JMC 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. Further, some protection may be provided by the United States Aviation Act with respect to the Company's aircraft assets. It is, however, not clear to what extent such statutory protection would be available to the Company, and the United States Aviation Act may not apply to aircraft operated in foreign countries. Also, although the Company's leases generally require a lessee to insure against likely risks, there may be certain cases where the loss is not entirely covered by the lessee or its insurance. Though this is a remote possibility, an uninsured loss with respect to the equipment, or an insured loss for which insurance proceeds are inadequate, would result in a possible loss of invested capital in and any profits anticipated from, such equipment, as well as a potential claim directly against the Company.

Possible Volatility of Stock Price. The market price of the Company's common stock could be subject to fluctuations in response 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, some of which may be unrelated to the Company's performance. Also, because the Company has a relatively small capitalization of approximately 1.5 million shares, there is a correspondingly limited amount of trading of the Company's shares. Consequently, a single or small number of trades could result in a market fluctuation not related to any business or financial development concerning the Company.

Item 7. Financial Statements.

(a) Financial Statements and Schedules

(1) Financial statements for the Company:

Report of Independent Registered Accounting Firm,
PricewaterhouseCoopers LLP
Consolidated Balance Sheet as of December 31, 2004
Consolidated Statements of Operations for the Years Ended
December 31, 2004 and 2003
Consolidated Statements of Stockholders' Equity for the Years
Ended December 31, 2004 and 2003
Consolidated Statements of Cash Flows for the Years Ended
December 31, 2004 and 2003
Notes to Financial Statements

(2) Schedules:

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

Report of Independent Registered Accounting Firm

To the Stockholders of AeroCentury Corp.:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of AeroCentury Corp. and subsidiary at December 31, 2004, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2003 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing 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. An audit 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

San Francisco, California
March 7, 2005

AeroCentury Corp.
Consolidated Balance Sheet

ASSETS

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	December 31, 2004 ----
Assets:	
Cash and cash equivalents	\$ 2,403,630
Accounts receivable	6,455,250
Notes receivable, net of allowance for doubtful accounts of \$623,690	294,590
Aircraft and aircraft engines held for lease, net of accumulated depreciation of \$14,702,340	72,621,330
Aircraft and aircraft engines held for sale, net of accumulated depreciation of \$3,523,640	1,746,860
Prepaid expenses and other	409,870

Total assets	\$ 83,931,530 =====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Liabilities:	
Accounts payable and accrued expenses	\$ 868,120
Notes payable and accrued interest	48,989,610
Maintenance reserves and accrued costs	10,292,520
Security deposits	1,775,290
Prepaid rent	404,930
Unearned income	2,590
Deferred taxes	1,097,580
Taxes payable	1,703,710

Total liabilities	65,134,350 -----
Stockholders' equity:	
Preferred stock, \$.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	-
Common stock, \$.001 par value, 3,000,000 shares authorized, 1,606,557 shares issued and outstanding	1,610
Paid in capital	13,821,200
Retained earnings	5,478,440

Treasury stock at cost, 63,300 shares	19,301,250 (504,070)

Total stockholders' equity	18,797,180 -----
Total liabilities and stockholders' equity	\$ 83,931,530 =====

The accompanying notes are an integral part of these statements.

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AeroCentury Corp.
Consolidated Statements of Operations

	For the Years En 2004 -----
Revenues:	
Operating lease revenue	\$ 8,995,720
Gain on sale of aircraft and aircraft engines	1,748,140
Other income	159,980

	10,903,840

Expenses:	
Depreciation	3,554,620
Interest	2,420,580
Management fees	1,988,290
Maintenance	846,660
Provision for impairment in value of aircraft	656,650
Professional fees and general and administrative	582,870
Insurance	304,450
Bad debt expense	146,750

	10,500,870

Income/(loss) before taxes	402,970
Tax provision/(benefit)	136,600

Net income/(loss)	\$ 266,370
	=====
Weighted average common shares outstanding	1,543,257
	=====
Basic earnings/(loss) per share	\$ 0.17
	=====

The accompanying notes are an integral part of these statements.

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AeroCentury Corp.
 Consolidated Statements of Stockholders' Equity
 For the Years Ended December 31, 2004 and 2003

	Common Stock -----	Paid-in Capital -----	Retained Earnings -----	Treasury Stock -----
Balance, December 31, 2002	\$ 1,610	\$ 13,821,200	\$ 6,552,370	\$ (504,070)
Net loss	----- -	----- -	----- (1,340,300)	----- -
Balance, December 31, 2003	\$ 1,610	\$ 13,821,200	\$ 5,212,070	\$ (504,070)
Net income	----- -	----- -	----- 266,370	----- -
Balance, December 31, 2004	\$ 1,610 =====	\$ 13,821,200 =====	\$ 5,478,440 =====	\$ (504,070) =====

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
 Consolidated Statements of Cash Flows

	For the Years En 2004 -----
Operating activities:	
Net income/(loss)	\$ 266,370
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:	
Gain on sale of aircraft and aircraft engines	(1,748,140)

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Depreciation	3,554,620
Provision for impairment in value of aircraft	656,650
Deferred taxes	(1,686,870)
Change in operating assets and liabilities:	
Accounts receivable	(5,095,550)
Reversal of allowance on note receivable	(10,750)
Prepaid expenses and other	289,590
Accounts payable and accrued expenses	383,730
Accrued interest on notes payable	131,310
Maintenance reserves and accrued costs	1,556,460
Security deposits	343,740
Prepaid rent	206,170
Unearned income	2,590
Taxes payable	1,703,710

Net cash provided by operating activities	553,630
Investing activities:	
Payments received on note receivable	90,950
Issuance of note receivable	(374,790)
Proceeds from disposal of assets	7,320,660
Purchase of aircraft and aircraft engines	(22,000,540)

Net cash (used)/provided by investing activities	(14,963,730)
Financing activities:	
Issuance of notes payable	14,700,000
Repayment of notes payable	(7,334,900)

Net cash provided/(used) by financing activities	7,365,100
Net (decrease)/increase in cash and cash equivalents	(7,045,000)
Cash and cash equivalents, beginning of period	9,448,630

Cash and cash equivalents, end of period	\$ 2,403,630
	=====

During the years ended December 31, 2004 and 2003, the Company paid interest totaling \$2,289,530 and \$1,969,950, respectively, and income taxes totaling \$1,080 and \$181,530, respectively.

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

1. Organization and Summary of Significant Accounting Policies
 - (a) Basis of Presentation

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AeroCentury Corp. ("AeroCentury"), a Delaware corporation, uses leveraged financing to acquire leased aircraft assets. The Company purchases used regional aircraft on lease to foreign and domestic regional carriers. Financial information for AeroCentury and its wholly-owned subsidiary, AeroCentury Investments II LLC ("AeroCentury II LLC") (collectively, the "Company"), is presented on a consolidated basis. All intercompany balances and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents/Deposits

The Company considers highly liquid investments readily convertible into known amounts of cash, with original maturities of 90 days or less, as cash equivalents. Because the Company's leases do not restrict the Company's use of such amounts, cash previously reported as deposits, representing cash balances held related to maintenance reserves and security deposits, has been reclassified to cash and cash equivalents.

(c) Aircraft and Aircraft Engines Held For Lease and Held for Sale

The Company's interests in aircraft and aircraft engines are recorded at cost, which includes acquisition costs. Depreciation is computed using the straight-line method over the aircraft's estimated economic life (generally assumed to be twelve years from the date of acquisition), to an estimated residual value based on appraisal. The Company's aircraft and aircraft engines which are held for sale are not subject to depreciation.

(d) Impairment of Long-lived Assets

The Company periodically reviews its portfolio of assets for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." Such review necessitates estimates of current market values, re-lease rents, residual values and component values. The estimates are based on currently available market data and are subject to fluctuation from time to time. The Company initiates its review periodically, whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. Recoverability of an asset is measured by comparison of its carrying amount to the expected future undiscounted cash flows (without interest charges) that the asset is expected to generate. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. Significant management judgment is required in the forecasting of future operating results which are used in the preparation of projected undiscounted cash flows and, should different conditions prevail, material write downs may occur.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

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

(e) Loan Commitment and Related Fees

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To the extent that the Company is required to pay loan commitment fees and legal fees in order to secure debt, such fees are amortized over the life of the related loan.

(f) Maintenance Reserves and Accrued Costs and Security Deposits

Maintenance costs under the Company's triple net leases are generally the responsibility of the lessees. The accompanying balance sheet reflects liabilities for maintenance reserves and accrued costs, which include refundable and non-refundable maintenance payments received from lessees, as well as security deposits received from lessees. At December 31, 2004, the Company had accrued liabilities for refundable maintenance reserves of \$445,800, non-refundable maintenance reserves of \$8,817,580 and security deposits of \$1,775,290.

Maintenance reserves which are refundable to the lessee at the end of the lease may be retained by the Company if such amounts are necessary to meet the return conditions specified in the lease and, in some cases, to satisfy any other payments due under the lease.

Non-refundable maintenance reserves received by the Company are accounted for as a liability until the aircraft has been returned at the end of the lease, at which time the Company evaluates the adequacy of the remaining reserves in light of maintenance to be performed as a result of hours flown. At that time, any excess is recorded as income. When an aircraft is sold, any excess non-refundable maintenance reserves are recorded as income.

The Company periodically reviews maintenance reserves for adequacy in light of the number of hours flown, airworthiness directives issued by the manufacturer or government authority, and the return conditions specified in the lease, as well as the condition of the aircraft upon return or inspection. As a result of such review, when it is probable that the Company has incurred costs for maintenance in excess of amounts received from lessees, the Company accrues its share of costs for work to be performed as a result of hours flown. At December 31, 2004, the Company had accrued maintenance costs, in excess of reserve amounts received under the leases, of approximately \$1,029,140 related to several of its aircraft.

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.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

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

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(g) Income Taxes

The Company follows the liability method of accounting for income taxes. Under the liability method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in the tax rates is recognized in income in the period that includes the enactment date.

(h) Revenue Recognition

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. If the Company deems a portion of operating lease revenue as potentially uncollectible, the Company records an allowance for doubtful accounts.

(i) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 most significant estimates with regard to these financial statements are the residual values of the aircraft, the useful lives of the aircraft, the amount and timing of cash flow associated with each aircraft that are used to evaluate impairment, if any, accrued maintenance costs in excess of amounts received from lessees, and the amounts recorded as bad debt allowances.

(j) Comprehensive Income

The Company does not have any comprehensive income other than the revenue and expense items included in the consolidated statements of income. As a result, comprehensive income equals net income/(loss) for the years ended December 31, 2004 and 2003.

(k) Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 is effective for guarantees issued or modified after December 31, 2002. The Company had one guarantee, which was issued prior to December 31, 2002. During the second quarter of 2003, the Company recorded a liability for the maximum obligation it had assumed under this guarantee and wrote off the related receivable. During the fourth quarter of 2003, the vendor waived the amount due, and the Company reversed its accrual.

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Notes to Consolidated Financial Statements
December 31, 2004

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

(k) Recent Accounting Pronouncements (continued)

In January 2003, the FASB issued interpretation FIN No. 46, Consolidation of Variable Interest Entities ("FIN 46"), which was subsequently revised in December 2003 ("FIN 46R"). FIN 46R requires a variable interest entity to be consolidated by a company if that company is the primary beneficiary of the entity. A company is a primary beneficiary if it is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46R also requires disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. FIN 46R was applicable immediately to variable interest entities created after January 31, 2003, and is effective for all other existing entities in financial statements for periods ending after December 15, 2004. Certain of the disclosure requirements apply in all financial statements issued after December 31, 2003, regardless of when the variable interest entity was established. The Company has no interest in any variable interest entity and, therefore, the full adoption of FIN 46R had no effect on the Company's consolidated financial condition or results of operations.

SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, was effective for activities that were initiated after December 31, 2002. SFAS 146 addresses significant issues regarding the recognition, measurement and reporting of costs that are associated with exit and disposal activities, including restructuring activities that were previously accounted for under Emerging Issues Task Force ("EITF") No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The adoption of SFAS 146 had no effect on the Company's consolidated financial condition or results of operations.

SFAS 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equities, addresses how to classify and measure certain financial instruments with characteristics of both liabilities (or an asset in some circumstances) and equity. SFAS 150 requirements apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. It requires that all instruments with characteristics of both liabilities and equity be classified as a liability and remeasured at fair value on each reporting date. SFAS 150 was effective immediately for all financial instruments entered into or modified after May 31, 2003, and for the first interim period beginning after June 15, 2003 for all other instruments. The adoption of SFAS 150 had no effect on the Company's consolidated financial condition or results of operations.

SFAS 153, Exchanges of Nonmonetary Assets, addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the full adoption of SFAS 153 to have an impact on the Company's consolidated financial statements or results

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of operations.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

2. Aircraft and Aircraft Engines Held for Lease

At December 31, 2004, the Company owned eight deHavilland DHC-8s, three deHavilland DHC-6s, two Shorts SD 3-60s, ten Fokker 50s, two Saab 340As, one Fairchild Metro III and one turboprop engine which are held for lease. During 2004, the Company acquired four Fokker 50 aircraft with lease terms varying between 18 and 30 months and three deHavilland DHC-8 aircraft with lease terms of 36 months. The Company sold a deHavilland DHC-7 aircraft, resulting in a loss of approximately \$151,000, a pool of twenty-four turboprop engines, resulting in a gain of approximately \$1,727,000 and another spare engine, resulting in a gain of approximately \$172,000. The Company also extended the leases for several of its aircraft. In addition, the leases for two of the Company's Fokker 50 and one of its Shorts SD 3-60 aircraft were amended to defer a portion of rent and maintenance reserves payments due during the second half of 2004 to 2005.

At December 31, 2004, the following aircraft and one spare turboprop engine were off lease:

During the second quarter of 2004, the lessee of the Fairchild Metro III aircraft filed for bankruptcy protection in Canada, at which time the lessee owed maintenance reserves of \$11,320 attributable to periods before the filing date. The Company and the lessee subsequently agreed to terminate the lessee's obligation to pay rent as of September 30, 2004 and the lessee returned the aircraft to the Company. The Company holds a security deposit of \$25,890 from the lessee. The Company is seeking re-lease or sale opportunities for this aircraft.

During the third quarter, the Company and the lessee of the Company's two Saab 340A aircraft reached an agreement for the lessee to return the aircraft to a maintenance facility, in return for which ACY released the lessee from its obligations under the leases. The Company wrote off approximately \$147,000 of rent receivable and approximately \$33,000 of prepaid legal expenses which would have been amortized over the remainder of the leases. In addition, approximately \$390,000 was accrued for estimated maintenance to be performed to ready the aircraft for re-lease. The Company is seeking re-lease or sale opportunities for these aircraft, as well as the off lease turboprop engine.

The Company is seeking re-lease or sale opportunities for one of its Shorts SD 3-60 aircraft.

In accordance with its periodic review of its portfolio of assets for impairment, the Company recorded a provision for impairment of approximately \$463,000 for one of its aircraft, based on the Company's cash flow analysis and third party appraisals.

3. Aircraft and Aircraft Engines Held for Sale

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At December 31, 2004, the Company owned a deHavilland DHC-7, which is included in the Caribbean segment in Note 4. During the fourth quarter of 2004, the Company agreed to sell the aircraft in early 2005. At December 31, 2004, the Company recorded an impairment charge of approximately \$193,000 for the aircraft, which included estimated maintenance and other estimated sales-related costs. As discussed in Note 11, the aircraft was sold in February 2005.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

4. Operating Segments

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

Approximately 10% and 11% of the Company's operating lease revenue was derived from lessees domiciled in the United States during 2004 and 2003, 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 leased aircraft equipment, grouped by domicile of the lessee:

	Operating Lease Revenue for the	
	Years Ended December 31,	
	2004	2003
	----	----
Asia	\$ 3,703,150	\$ 3,094,620
Europe and United Kingdom	2,577,450	2,331,360
Caribbean	1,180,780	1,250,670
United States and Canada	1,043,830	1,082,220
South America	490,510	1,005,170
	-----	-----
	\$ 8,995,720	\$ 8,764,040
	=====	=====

Net Book Value at
December 31,

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2004

Asia	\$	33,539,660
Europe and United Kingdom		20,011,180
Caribbean		15,309,560
South America		4,532,790
United States and Canada		975,000

	\$	74,368,190
		=====

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

5. Concentration of Credit Risk

Financial instruments which 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.

For the year ended December 31, 2004, the Company had four significant customers, which accounted for 24%, 16%, 11% and 10%, respectively, of lease revenue. For the year ended December 31, 2003, the Company had two significant customers, which accounted for 22% and 11%, respectively, of lease revenue.

At December 31, 2004, the Company had one significant receivable, which accounted for 85% of the Company's total receivables. The receivable, which was related to the sale of an engine portfolio in late 2004, was collected in January 2005.

As of December 31, 2004, minimum future operating lease revenue payments receivable under noncancelable leases were as follows:

Year		
2005	\$	9,062,380
2006		5,188,300
2007		3,844,150
2008		766,650
2009		239,400

	\$	19,100,880
		=====

6. Notes Receivable

During the third quarter of 2003, the Company's two DHC-7 aircraft were returned to the Company by a defaulted lessee, and a settlement agreement was

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reached with the lessee in the amount of \$500,000. The lessee paid \$20,000 to the Company at the time of the settlement and signed a note in the amount of \$480,000. At that time, the Company fully reserved the balance due. Accordingly, all payments received in 2003 and the first nine months of 2004 were recorded as income. At September 30, 2004, based on the payment history to date, the Company reversed a portion of the allowance, which decreased it to 50% of the note balance. However, based on recent experience, the Company's evaluation of the debtor's intention to make future payments has changed, and the Company increased the allowance to 100% of the remaining note balance at December 31, 2004. As discussed in Note 11, in January 2005, the Company sent a default notice to the debtor and subsequently filed a lawsuit against the debtor.

The lease for one of the Company's aircraft expired in September 2002, but the lessee was obligated under the lease to continue to pay rent until certain return conditions were met. The Company and the lessee agreed to certain terms and conditions regarding the return of the aircraft and the amounts owed by the lessee. Although the Company held a security deposit from this lessee, the amount of the deposit was not sufficient to pay the rent accrued through the return date and reimburse the Company for maintenance work which was performed to meet the return conditions of the lease. During 2004, the lessee signed a note in the amount of approximately \$625,000, to be paid in 18 monthly installments. The Company had previously recorded a \$250,000 allowance against the amount receivable and believes that such allowance is adequate to cover any shortfall in payment under the note.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

7. Notes Payable and Accrued Interest

(a) Credit facility

In August 2003, the Company reached agreement with its lenders to renew the credit facility through August 31, 2004. In January 2004, a third bank was added to the Company's credit facility participant group. The new participant agreed to finance \$10 million, bringing the Company's credit facility limit to \$50 million. The facility bore interest, at the Company's option, at either (i) prime plus a margin of 50 to 150 basis points or (ii) LIBOR plus a margin of 275 to 375 basis points. Both the prime and LIBOR margins were determined by certain financial ratios. In 2004, the facility was renewed through October 31, 2005. The renewal agreement also revised certain pricing and covenant provisions and waived noncompliance with two covenants at September 30, 2004. In connection with the renewal, the LIBOR margin was set at 375 basis points through March 2005, after which a margin of 275 to 375 basis points will be determined by certain financial ratios.

During 2004, the Company repaid a total of \$7,050,000 of the outstanding principal under its credit facility. In accordance with the agreement for the credit facility, the Company must maintain compliance with certain financial covenants, such as a requirement for bank approval of new leases and a net worth ratio. As of December 31, 2004, the Company was in compliance with all covenants, \$46,805,000 was outstanding under the credit facility, and interest of \$286,630 was accrued.

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The Company's longer term viability will depend upon its ability to renew the credit facility at its October 2005 expiration with the existing or replacement lenders, or to refinance the credit facility using equity or alternative debt financing. Management expects the credit facility to be renewed on market terms; however, there is no assurance that the Company will be able to achieve either alternative prior to the currently scheduled expiration.

If the Company is not able to renew the credit facility for the full outstanding amount, and cannot find suitable alternative financing, it may be required to make a principal repayment of the outstanding balance, or that portion of the balance for which replacement financing is not obtained. The Company does not have sufficient cash reserves to make a repayment of a significant portion of the outstanding credit facility indebtedness and would be forced to sell assets in order to raise funds to make such repayment. Such sales would likely not be on favorable terms to the Company as the full market value of the assets sold may not be realized by the Company in order to expedite the consummation of the sales.

Even if the Company is able to successfully sell a portion of its assets and use the proceeds to repay the credit facility, if a renewed or replacement facility is not obtained, the Company's future ability to acquire assets would be significantly impaired, as the credit facility is the Company's primary means of financing acquisitions and no other sources of acquisition financing are immediately available. Thus the renewal or replacement of the Company's credit facility in an amount equal to or greater than the current \$50 million limit will be critical to the Company's future operations.

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

7. Notes Payable and Accrued Interest (continued)

(b) Special purpose financing

In September 2000, the Company acquired a deHavilland DHC-8 aircraft using cash and bank financing separate from its credit facility. The financing resulted in a note obligation, as amended, in the amount of \$3,575,000, due April 15, 2006, which bears interest at the rate of one-month LIBOR plus 3%. The note is collateralized by the aircraft and is non-recourse to the Company. Payments due under the note consist of monthly principal and interest and a balloon principal payment due on the maturity date. The financing also provides for a six month remarketing period at the expiration or early termination of the lease. Payments due on the financing are reduced during this remarketing period and the balloon principal payment is deferred to the end of the six month period. The balance of the note payable at December 31, 2004 was \$1,895,700 and interest of \$2,280 was accrued. As of December 31, 2004, the Company was in compliance with all covenants of this note obligation.

8. Stockholder Rights Plan

In 1998, in connection with the adoption of a stockholder rights plan, the Company filed a Certificate of Designation, setting forth the rights,

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preferences and privileges of a new Series A Preferred Stock. Pursuant to the plan, the Company issued rights to its stockholders, giving each stockholder the right to purchase one one-hundredth of a share of Series A Preferred Stock for each share of Common Stock held by the stockholder. Such rights are exercisable only under certain circumstances concerning a proposed acquisition or merger of the Company.

9. Income Taxes

The items comprising income tax expense/(benefit) are as follows:

	For the Years Ended 2004 -----
Current tax provision:	
Federal	\$ 1,725,900
State	97,570

Current tax provision	1,823,470

Deferred tax benefit:	
Federal	(1,622,060)
State	(64,810)

Deferred tax benefit	(1,686,870)

Total provision/(benefit) for income taxes	\$ 136,600
	=====

AeroCentury Corp.
Notes to Consolidated Financial Statements
December 31, 2004

9. Income Taxes (continued)

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

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For the Years Ended
2004

Income tax provision/(benefit) at statutory federal income tax rate	\$ 137,010
State tax provision/(benefit), net of federal benefit	4,960
Tax rate differences	(5,370)

Total income tax provision/(benefit)	\$ 136,600
	=====

Tax rate differences result from a decrease in the Company's effective state tax rate due to changes in state apportionment percentages.

Temporary differences and carry-forwards that give rise to a significant portion of deferred tax assets and liabilities as of December 31, 2004 are as follows:

Deferred tax assets:	
Bad debt allowance	\$ 212,150
Deferred maintenance	501,180
Maintenance reserves	2,835,700
Prepaid rent and other	138,340

Deferred tax assets	3,687,370
Deferred tax liabilities:	
Depreciation on aircraft and aircraft engines	(4,565,880)
Unearned income	(48,070)
Other	(171,000)

Net deferred tax liabilities	\$ (1,097,580)
	=====

No valuation allowance is deemed necessary, as the Company anticipates generating adequate future taxable income to realize the benefits of all deferred tax assets on the balance sheet.

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements
December 31, 2004

10. Related Party Transactions

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Since the Company has no employees, 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. JMC may also receive an acquisition fee for locating assets for the Company, provided that the aggregate purchase price, including chargeable acquisition costs and any acquisition fee, does not exceed the fair market value of the asset based on appraisal, and a remarketing fee in connection with the sale or re-lease of the Company's assets. The management fees, acquisition fees and remarketing fees may not exceed the customary and usual fees that would be paid to an unaffiliated party for such

services. The Company recorded management fees of \$1,988,290 and \$1,909,850 during the years ended December 31, 2004 and 2003, respectively. The Company paid acquisition fees totaling \$800,000 to JMC in 2004, in connection with the Company's purchase of seven aircraft. Because the Company did not acquire any aircraft during 2003, no acquisition fees were paid to JMC for this period. In 2004, the Company recorded remarketing fees totaling \$275,500 to JMC in connection with the sale of an aircraft, a spare engine and a pool of twenty-four of the Company's turboprop engines. No remarketing fees were paid to JMC during the 2003.

11. Subsequent Events

In the first quarter of 2005, as a result of a late payment and subsequent non-payment on one of the Company's notes receivable, and the Company's evaluation of the debtor's intention to make future payments, the Company sent a default notice to the debtor and subsequently filed a lawsuit against the debtor.

In February 2005, the Company sold its deHavilland DHC-7 aircraft and recognized an additional loss of approximately \$60,000, which was incurred subsequent to December 31, 2004. In connection with the sale, the Company paid a remarketing fee of \$49,650 to JMC.

Item 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 8A. Controls and Procedures

Quarterly evaluation of the Company's Disclosure Controls and Internal Controls. As of the end of the period covered by this report, the Company evaluated the effectiveness of the design and operation of its "disclosure controls and procedures" ("Disclosure Controls"), and its "internal control over financial reporting" ("Internal Controls"). This evaluation (the "Controls Evaluation") was done under the supervision and with the participation of management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Rules adopted by the SEC require that in this section of the Report the Company present the conclusions of the CEO and the CFO about the effectiveness of our Disclosure Controls and Internal Controls based on and as of the date of the Controls Evaluation.

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CEO and CFO Certifications. Attached as exhibits to this report are two separate forms of "Certifications" of the CEO and the CFO. The first form of Certification is required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certification"). This section of the report is the information concerning the Controls Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Disclosure Controls and Internal Controls. Disclosure Controls are procedures that are designed with the objective of ensuring 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 Securities and Exchange Commission's ("SEC") rules and forms. Disclosure Controls are also designed with the objective of ensuring 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. Internal Controls are procedures which are designed with the objective of providing reasonable assurance that (1) the Company's transactions are properly authorized; (2) the Company's assets are safeguarded against unauthorized or improper use; and (3) the Company's transactions are properly recorded and reported, all to permit the preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles.

Limitations on the Effectiveness of Controls. The Company's management, including the CEO and CFO, does not expect that its Disclosure Controls or its Internal Controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation. The CEO/CFO evaluation of the Company's Disclosure Controls and the Company's Internal Controls included a review of the controls objectives and design, the controls implementation by the company and the effect of the controls on the information generated for use in this report. In the course of the Controls Evaluation, we sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation will be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in the Company's quarterly reports on Form 10-QSB and annual report on Form 10-KSB. The Company's Internal Controls are also evaluated on an ongoing basis by other personnel in the Company's finance organization and by the Company's independent auditors in connection with their audit and review activities. The overall goals of these various evaluation activities are to monitor the Company's Disclosure Controls and the Company's Internal Controls and to make modifications as necessary; the

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Company's intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

Among other matters, the Company sought in its evaluation to determine whether there were any "significant deficiencies" or "material weaknesses" in the Company's Internal Controls, or whether the Company had identified any acts of fraud involving personnel who have a significant role in the Company's Internal Controls. This information was important both for the Controls Evaluation generally and because item 5 in the Section 302 Certifications of the CEO and CFO require that the CEO and CFO disclose that information to the Audit Committee of the Company's Board and to the Company's independent auditors and to report on related matters in this section of the Report. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions"; these are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. The Company also sought to deal with other controls matters in the Controls Evaluation, and in each case if a problem was identified, the Company considered what revision, improvement and/or correction to make in accordance with our on-going procedures.

In accordance with SEC requirements, the CEO and CFO note that there has been no significant change in Internal Controls that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our Internal Controls.

Conclusions. Based upon the Controls Evaluation, the Company's CEO and CFO have concluded that, subject to the limitations noted above, the Company's Disclosure Controls are effective to ensure that material information relating to the Company and its consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when periodic reports are being prepared, and that the Company's Internal Controls are effective to provide reasonable assurance that the Company's consolidated financial statements are fairly presented in conformity with generally accepted accounting principles.

Item 8B. Other Information

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

Information relating to our board of directors and executive officers, including the independence of the audit committee and audit committee financial expert, will be incorporated by reference from the Company's definitive proxy statement ("the "2005 Proxy Statement") for its annual stockholders' meeting to be held on April 28, 2005 in the section entitled "Information Regarding the Company's Directors and Officers."

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

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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 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, we intend to make such public disclosure on our website in accordance with SEC rules.

On September 2, 2004, Neal D. Crispin (President & Chairman) purchased 1,000 shares of Common Stock on the open market. Although a Form 4 was timely filed for Mr. Crispin, a corresponding Form 4 showing a single increase in the indirect beneficial ownership of his spouse, Toni M. Perazzo (Director, Sr. Vice President-Finance and Secretary), was not timely filed due to an inadvertent clerical error, but was subsequently filed.

Item 10. Executive Compensation.

Incorporated by reference to the section of the 2005 Proxy Statement entitled "Information Regarding the Company's Directors and Officers -- Employee Compensation."

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Incorporated by reference to the section of the 2005 Proxy Statement entitled "Security Ownership of Certain Beneficial Owners and Management."

Item 12. Certain Relationships and Related Transactions.

Incorporated by reference to the section of the 2005 Proxy Statement entitled "Related Party Transactions."

Item 13. Exhibits.

(a) Exhibits

- 3.1 Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.08 to the registration statement on Form S-4/A filed with the Securities and Exchange Commission on July 24, 1997.
- 3.2 Form of Certificate of Amendment of Certificate of Incorporation of the Company, incorporated by reference to Exhibit 3.07 to the registration statement on Form S-4/A filed with the Securities and Exchange Commission on June 10, 1997.
- 3.3 Amended and Restated Bylaws of the Company dated January 22, 1999, incorporated by reference to Exhibit 3.1 to the Report on Form 10-KSB for the fiscal year ended December 31, 1998.
- 3.4 Certificate of Designation of the Company dated April 15, 1998, incorporated by reference to Exhibit 3.2 to the Report on Form 10-KSB for the fiscal year ended December 31, 1998.
- 3.5 Amended and Restated Stockholder Rights Agreement,

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dated January 22, 1999, incorporated by reference to Exhibit 1 to Form 8-A/A filed with the Securities and Exchange Commission on February 4, 1999.

- 4.1 Reference is made to Exhibit 3.5.
- * 10.1 Employment Agreement between the Company and Neal D. Crispin, dated April 24, 2003, incorporated by reference to Exhibit 10.1 to the Report on Form 10-KSB for the fiscal year ended December 31, 2003.
- *10.2 Employment Agreement between the Company and Marc J. Anderson, dated April 24, 2003, incorporated by reference to Exhibit 10.2 to the Report on Form 10-KSB for the fiscal year ended December 31, 2003.
- 10.3 Credit Agreement between First Union National Bank and the Company, dated June 30, 1998, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 1998.
- 10.4 Form of Indemnity Agreement between the Company and each of its directors and officers, incorporated by reference to Exhibit 10.03 to the Report on Form 10-KSB for the fiscal year ended December 31, 1997.
- 10.5 Amended and Restated Management Agreement, dated April 23, 1998, between the Company and JetFleet Management Corp., incorporated by reference to Exhibit 10.5 to the Report on Form 10-KSB for the fiscal year ended December 31, 1999.
- 10.6 Certificate of Designation of the Company dated April 15, 1998, incorporated by reference to exhibit 3.2 to Report on Form 10-KSB for the fiscal year ended December 31, 1998.
- 10.7 Amended and Restated Credit Agreement, dated June 28, 2000, between the Company and National City Bank, as agent, and California Bank & Trust and Sanwa Bank California, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on July 21, 2000.
- 10.8 Amendment to Amended and Restated Credit Agreement, between National City Bank, as agent, and California Bank & Trust and United California Bank, dated March 7, 2002, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on March 12, 2002.
- 10.9 Second Amendment to Amended and Restated Credit Agreement between National City Bank, as agent, and California Bank & Trust and Bank of the West, Successor in Interest to United California Bank, formerly known as Sanwa Bank California, dated January 1, 2003, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the

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Securities and Exchange Commission on February 20, 2003.

- 10.10 Third Amendment to Amended and Restated Credit Agreement between National City Bank, as agent, and California Bank & Trust and Bank of the West, Successor in Interest to United California Bank, formerly known as Sanwa Bank California, dated , dated June 28 2003, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on July 1, 2003.
- 10.11 Fourth Amendment to Amended and Restated Credit Agreement between National City Bank, as agent, and California Bank & Trust, dated August 28 2003, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on August 28, 2003.
- 10.12 Fifth Amendment to Amended and Restated Credit Agreement between National City Bank, as agent, and California Bank & Trust and Bank of the West, Successor in Interest to United California Bank, formerly known as Sanwa Bank California, dated as of August 28, 2003, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on October 1, 2003.
- 10.13 Sixth Amendment to Amended and Restated Credit Agreement between National City Bank, as agent, and California Bank & Trust and Bank of the West, Successor in Interest to United California Bank, formerly known as Sanwa Bank California, dated January 2, 2004, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2004.
- 10.14 Seventh Amendment to Amended and Restated Credit Agreement between the Company, National City Bank, as agent, and National City Bank, California Bank & Trust California Bank & Trust and First Bank dba First Bank & Trust, as lenders, dated August 30, 2004, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on August 31, 2004
- 10.15 Eighth Amendment to Amended and Restated Credit Agreement between the Company, National City Bank, as agent, and National City Bank, California Bank & Trust California Bank & Trust and First Bank dba First Bank & Trust, as lenders, dated October 28, 2004, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2004.
- 10.16 Ninth Amendment to Amended and Restated Credit Agreement between the Company, National City Bank, as

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agent, and National City Bank, California Bank & Trust California Bank & Trust and First Bank dba First Bank & Trust, as lenders, dated November 4, 2004, incorporated by reference to Exhibit 10.1 to the Report on Form 8-K filed with the Securities and Exchange Commission on November 8, 2004.

- 10.17 Aircraft Purchase and Sale Agreements between AeroCentury Corp. and UNI Airways Corporation, dated December 3, 2004.
- 21 Subsidiaries of the Company.
- 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.

* Indicates management contract or compensatory plan or arrangement.

Item 14. Principal Accountant Fees and Services.

Incorporated by reference to the section of the 2005 Proxy Statement entitled "Information Regarding Auditors - Audit Fees."

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant has caused this Report on Form 10-KSB to be signed on its behalf by the undersigned, thereunto duly authorized on March 11, 2005.

AEROCENTURY CORP.

By: /s/ Toni M. Perazzo

Toni M. Perazzo

Title: Senior Vice President-Finance and
Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears

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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-KSB 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.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 11, 2005.

Signature	Title
/s/ Neal D. Crispin ----- Neal D. Crispin	Director, President and Chairman of the Board of Directors of the Registrant (Principal Executive Officer)
/s/ Toni M. Perazzo ----- Toni M. Perazzo	Director, Senior Vice President-Finance and Secretary of the Registrant (Principal Financial and Accounting Officer)
/s/ Marc J. Anderson ----- Marc J. Anderson	Director, Chief Operating Officer, Senior Vice President
/s/ Thomas G. Hiniker ----- Thomas G. Hiniker	Director
/s/ Thomas W. Orr ----- Thomas W. Orr	Director
/s/ Evan M. Wallach ----- Evan M. Wallach	Director