

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

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In re :
:
: Chapter 11
AEROCENTURY CORP., *et al.*, :
:
: Case No. 21- 10636 ()
Debtors.¹ :
: (Joint Administration Requested)
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**DECLARATION OF HAROLD M. LYONS IN SUPPORT OF
CHAPTER 11 APPLICATIONS AND FIRST DAY RELIEF**

I, Harold M. Lyons, hereby declare under penalty of perjury, pursuant to section 1746 of title 28 of the United States Code, as follows:

1. I am the Chief Financial Officer, Senior Vice President – Finance, Treasurer, and Secretary of AeroCentury Corp. (“AeroCentury”), one of the above-captioned debtors (the “Debtors”). Additionally, I hold the position of Senior Vice President – Finance with Debtors JetFleet Holding Corp. (“JHC”) and JetFleet Management Corp. (“JMC”). Since 2003, I have been employed by one or more of the Debtors. Beginning in 1992, I have been employed by JMC, which was the third-party management company for Debtor AeroCentury. As discussed below, in October 2018, AeroCentury acquired JMC and its affiliates, at which time I became an officer and employee of AeroCentury. In my various capacities with the Debtors, I have been responsible for overseeing the Debtors’ tax accounting, tax analysis, accounting standards and research, and internal controls compliance under the Sarbanes-Oxley Act. Prior to joining JMC, I was a Manager in the Tax Department of Coopers & Lybrand, Certified Public Accountants, and, before that, I was a Manager in the Tax Department of Arthur Young & Co., Certified Public Accountants.

¹ The Debtors in these chapter 11 cases, along with the last four digits of their federal employer identification number, are: AeroCentury Corp. (3974); JetFleet Holding Corp. (5342); and JetFleet Management Corp. (0929). The Debtors’ mailing address is 1440 Chapin Avenue, Suite 310, Burlingame, CA 94010.



2. I submit this declaration (the “Declaration”) in support of the First-Day Motions (as defined below) and to provide information to the Court and parties in interest regarding the Debtors. Except as otherwise indicated herein, all statements set forth in this Declaration are based upon my personal knowledge, information supplied to me by other members of the Debtors’ management or the Debtors’ professionals, discussions with other employees of the Debtors, my review of relevant documents, or my opinion based upon my experience and knowledge of the Debtors’ operations and financial conditions. If called as a witness, I could and would competently testify to the matters set forth in this Declaration.

3. Today (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101-1532 (the “Bankruptcy Code”), as well as certain motions and other applications (the “First-Day Motions”), with the Court, thereby commencing these chapter 11 cases (the “Chapter 11 Cases”).

4. The Debtors are engaged in the business of investing in used regional aircraft and leasing the aircraft to foreign and domestic regional air carriers. The Debtors’ principal business objective is to acquire aircraft assets and manage those assets in order to provide a return on investment through lease revenue and, eventually, sale proceeds. The Debtors strive to achieve this objective by reinvesting cash flow from operations and using short-term and long-term debt and/or equity financing. The Debtors believe their ability to achieve this objective depends in large part on their success in three areas: (i) asset selection and acquisition, (ii) lessee selection, and (iii) obtaining financing to acquire aircraft and engines.

5. The Debtors hold aircraft for lease or for sale, depending on the arrangement with each particular customer. As of the Petition Date, the Debtors’ aircraft portfolio consists of six aircraft held under operating leases, two aircraft held under financing leases, and five aircraft held

for sale in whole or as parts. Most of the Debtors' aircraft are mid-life regional aircraft, and their globally diverse customer base consists of six airlines operating in five countries: the United States, Canada, Croatia, Norway, and Kenya.

6. The Debtors' bankruptcy cases are largely a result of the COVID-19 pandemic that has affected the entire world. Due to the COVID-19 pandemic, the aircraft industry as a whole has experienced a substantial and sustained decrease in air travel. This downturn has resulted in lower utilization of the Debtors' aircraft assets, which in turn materially and adversely affected the Debtors' businesses, revenues, financial condition, and results of operations.

7. I have reviewed each of the First-Day Motions (including the exhibits and other attachments to such pleadings), and it is my belief that the facts set forth in each are true and correct. The relief sought in the First-Day Motions is necessary to the Debtors' efforts to preserve and maximize the value of their assets for the benefit of the Debtors' estate and creditors. The First-Day Motions are intended to enable the Debtors to operate effectively and efficiently within chapter 11, and to minimize adverse consequences that might otherwise result from the commencement of these Chapter 11 Cases.

8. Part I of this Declaration provides a brief overview of the Debtors' business and the circumstances that prompted the commencement of these Chapter 11 Cases. Part II provides an overview of the Debtors' significant assets and liabilities. Part III addresses the Debtors' strategy to maximize the value of their assets through chapter 11. Finally, Part IV affirms the facts that support the relief requested in the First-Day Motions. The relief requested in the First-Day Motions is narrowly tailored to the Debtors' urgent needs, and that relief is necessary to avoid immediate and irreparable harm.

I. Overview of the Debtors' Business

9. Founded in 1997, the Debtors have historically provided leasing and finance services to regional airlines worldwide.

A. The Debtors' Business

10. The Debtors' aircraft portfolio primarily consists of mid-life regional turboprop and jet aircraft and engines. The Debtors lease their aircraft through operating leases and finance leases to a globally diverse customer base. In addition to leasing activities, the Debtors sell aircraft from their operating lease portfolio to third parties, including other leasing companies, financial services companies, and airlines. The Debtors' operating performance is driven by the composition of their aircraft portfolio, the terms of its leases, the interest rate of their debt, as well as asset sales.

11. As of the Petition Date, the Debtors held the following aircraft subject to operating leases: one Bombardier CRJ900 regional jet, three Bombardier CRJ700 regional jets, and two Bombardier Q400 turboprop aircraft. The Debtors also held two Bombardier DHC-8-300 subject to financing leases. Additionally, as of the Petition Date, the Debtors held the following aircraft for sale in whole or as parts: three Bombardier CRJ900 aircraft, one Bombardier Q300 aircraft, one Bombardier Q400 aircraft, one SAAB 340B Plus aircraft, and one Pratt & Whitney PW150A aircraft.

12. The Debtors typically acquire aircraft in one of three ways. The Debtors may purchase an aircraft already subject to a lease and assume the rights and obligations of the seller, as lessor, under the existing lease. Additionally, the Debtors may purchase an aircraft from an air carrier and lease it back to that same air carrier. Finally, the Debtors 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 Debtors typically do not purchase an asset unless a potential lessee has been identified and has committed to lease the asset.

13. The Debtors generally target used regional aircraft with purchase prices between \$10 million and \$20 million and lease terms of three to ten years. In identifying and selecting assets for acquisition, the Debtors evaluate, among other things, the type of asset, its current price and projected future value, its versatility or specialized uses, the current and projected availability of and demand for that asset, and the type and number of future potential lessees. Because the Debtors have extensive experience in purchasing, leasing and selling used regional aircraft, they believe they have the expertise and industry knowledge to purchase these assets at appropriate prices and maintain an acceptable overall on-lease rate for them.

14. The Debtors typically lease their aircraft to customers pursuant to “triple net leases.” A “triple net lease” is a lease under which, in addition to monthly rental payments, the lessee is generally responsible for the taxes, insurance and maintenance and repair of the aircraft arising from the use and operation of the aircraft during the term of the lease. Accordingly, the Debtors are able to shift much of the burden of maintaining the leased aircraft to the applicable lessees. Further, in order to improve the remarketability of an aircraft after expiration of a lease, the Debtors’ leases generally contain provisions that require lessees to either return the aircraft in a condition that allows the Debtors to expediently re-lease or sell the aircraft, or pay sufficient amounts based on usage under the lease to cover any maintenance or overhaul of the aircraft required to bring the aircraft to such a state.

15. Over the past four years, the Debtors have acquired twelve aircraft: nine of the aircraft were leased to lessees under operating leases (including one non-economic lease of convenience), and three of the aircraft were leased to lessees under financing leases. Additionally,

over the past four years, the Debtors have sold approximately twenty-six aircraft, four aircraft engines, and various aircraft parts.

B. The Debtors' Customers

16. At present, the Debtors lease aircraft to six airlines in five countries. The Debtors locate customers through marketing efforts utilizing website listings, attendance at industry conferences, referrals from existing industry contacts and current customers, and focused advertising. The Debtors' customer base primarily consists of regional commercial aircraft operators located in globally diverse markets and seeking to access aircraft under operating leases.

17. When considering whether to enter into transactions with a lessee, the Debtors generally review the lessee's creditworthiness, growth prospects, financial status and backing; the experience of their management; and the impact of legal and regulatory matters in the lessee's market, all of which are weighed in determining the lease terms offered to the lessee. In addition, it is the Debtors' 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 Debtors' management in many areas of the air carrier industry. Because of their "hands-on" approach to portfolio management, the Debtors believe they are able to enter into transactions with lessees in a wider range of markets than may be possible for traditional, large lending institutions and leasing companies.

C. The Debtors' Recent Financial Performance

18. The Debtors' annual revenue by the end of 2019 was \$43.6 million, which reflected a 61% increase from 2018 annual revenue. The increase was primarily a result of increased maintenance reserves revenue² and a gain on sale of assets in 2019 as opposed to a loss on sale of

² Maintenance reserves are billed monthly to lessees based on asset usage, and are retained by the Debtors at lease end. The maintenance reserves are recorded as revenue at that time, and are not held for the benefit of any party in

assets in 2018, the effects of which were partially offset by decreases in operating and finance lease revenues. Also, operating revenue decreased by 7% in 2019, primarily due to reduced rent income resulting from the early termination of four aircraft leases with one of the Debtors' customers and the sale of an asset in 2019 that had been on lease until the time of sale. These decreases were partially offset by revenue from two aircraft purchased in the second quarter of 2018 and an asset that was on lease in 2019, but off lease in 2018.

19. As of the Debtors' latest SEC filing on September 30, 2020, the Debtors' revenues and other income decreased by 85% in the third quarter of 2020 as compared to the third quarter of 2019. The decrease was primarily due to effects of the novel COVID-19 pandemic on the airline industry. These effects resulted in decreased operating lease and finance lease revenues throughout the second and third quarters of 2020, the effects of which were partially offset by increased gains on sale of assets.

20. Additionally, operating lease revenue decreased by 52% in the third quarter of 2020 as compared to the third quarter of 2019, primarily due to reduced rent income resulting from the early termination of four aircraft leases with one of the Debtors' customers in the third quarter of 2019 and reduced rent for two assets in the 2020 period as a result of lease amendments related to the COVID-19 outbreak. Because the Debtors sold three assets that were subject to direct finance leases during the first quarter of 2020, the Debtors had recorded no finance lease revenue in the third quarter of 2020. Additionally, due to the Debtors' accounting methods for their two sales-type leases, the Debtors realized no lease revenue from those leases in 2020.

trust, escrow, or otherwise. During 2019, the Debtors recorded \$17.0 million of revenue from maintenance reserves, arising from maintenance reserves retained upon the termination of four aircraft leases with one customer.

D. The Debtors' Organizational Structure

21. AeroCentury has been continuously listed on the New York Stock Exchange since January 1998.³

22. In August 2016, AeroCentury formed two wholly-owned subsidiaries, ACY SN 19002 Limited ("ACY 19002") and ACY SN 19003 Limited ("ACY 19003") for the purpose of those entities' acquisition of aircraft using a combination of cash and third-party financing ("UK LLC SPE Financing") separate from AeroCentury's revolving credit facility with MUFG (defined below). Additionally, the AeroCentury is the parent of one domestic special purpose entity, ACY SN 15129 LLC.⁴

23. AeroCentury formed these non-debtor SPEs for the purpose of refinancing four of the Debtors' aircraft using term loans (the "Non-Debtor SPE Loans") with Norddeutsche Landesbank Girozentrale, New York Branch ("Nord"). Until recently, the SPEs owned four aircraft. In December 2019, the SPEs sold the ACY SN 15129 aircraft and repaid the UK LLC SPE Financing using the Non-Debtor SPE Loans.

24. On October 1, 2018, AeroCentury acquired Debtor JHC in a reverse triangular merger (the "Merger") for consideration of approximately \$2.9 million in cash and 129,217 shares of common stock of AeroCentury. JHC is the sole shareholder of Debtor JMC, which is an integrated aircraft management, marketing and financing business that manages and administers the Debtors' portfolio of aircraft assets. Before the Merger, JMC performed these management

³ On December 28, 2020, in light of unusual market activity in the stock of AeroCentury, the New York Stock Exchange temporarily halted trading in AeroCentury's common stock. While AeroCentury does not normally comment on market activity or rumors, AeroCentury advised that it is not aware of any undisclosed material change or development in its business and operations that would account for the unusual market activity in its stock. Upon information and belief, the unusual volume and price action was due to algorithmic trading. The New York Stock Exchange subsequently resumed trading in AeroCentury's common stock.

⁴ AeroCentury was also the parent of two other domestic special purpose entities, ACY 15129 LLC ("ACY 15129") and ACY E-175 LLC ("ACY E-175," and together with ACY 19002, ACY 19003, and ACY 15129, the "SPEs"). However, as described herein, AeroCentury sold its interests in ACY E-175 LLC shortly before the Petition Date.

and administration services pursuant to the terms of a management agreement with AeroCentury. Following the Merger, JMC continued to provide the management and administration services provided under that management agreement. An organizational chart showing the Debtors and non-debtor entities is attached hereto as **Exhibit A**.

II. The Debtors' Capital Structure

25. The Debtors have funded their asset acquisitions primarily through debt financing, supplemented by operating revenue. To that end, on February 19, 2019, AeroCentury entered into the Third Amended and Restated Loan and Security Agreement with a syndicate of lenders (the “**MUFG Lenders**”) and MUFG Union Bank, N.A. (“**MUFG**”) acting as agent. Additionally, the non-debtor SPEs are parties to the Non-Debtor SPE Loans, which are secured by a pledge of the Debtors' equity in the SPEs.

A. The Prepetition Credit Facility

26. The Debtors' primary source of debt financing has been the Prepetition Credit Facility (defined below), which was established pursuant to a revolving credit facility (as amended, restated, and supplemented, the “**Prepetition Revolving Credit Facility**”) with a maximum borrowing amount of \$145,000,000.00. On May 1, 2020, the Debtors and the MUFG Lenders executed an amendment to the Prepetition Revolving Credit Facility to convert the Prepetition Revolving Credit Facility into term loan indebtedness (the “**Prepetition Term Loan**,” and together with the Prepetition Revolving Credit Facility, the “**Prepetition Credit Facility**”). Debtors JHC and JMC are guarantors under the Prepetition Credit Facility. As security for the Prepetition Credit Facility, AeroCentury granted the MUFG Lenders security interests in all presently existing and thereafter acquired or arising assets (the “**Prepetition Collateral**”).

27. On October 30, 2020, Drake Asset Management Jersey Limited (an affiliate of Falko) ("Drake"), through Falko as their loan servicer, purchased all of the indebtedness held by the MUFG Lenders under the Prepetition Credit Facility, totaling approximately \$87.9 million, as well as the swap termination payments owed with respect to such indebtedness. On the same day, AeroCentury entered into Amendment No. 1 to the Prepetition Credit Facility ("Amendment No. 1") with Drake and UMB Bank, N.A. ("UMB"), the replacement administrative agent under the Prepetition Credit Facility, to amend the Prepetition Credit Facility. Amendment No. 1 provided, among other things, the deferral and capitalization of interest payments and the substitution of UMB as the new administrative agent.

28. The Prepetition Term Loan is in the amount of \$83,514,823.64,⁵ and has a maturity date of March 31, 2021. As of the Petition Date, the Debtors owed approximately \$83,164,109.00 million in principal amount and accrued interest under the Prepetition Credit Facility.

B. The Nord Facility

29. On February 8, 2019, the SPEs entered into an agreement with Nord for the Non-Debtor SPE Loans, which provides for six separate term loans with an aggregate principal amount of \$44.3 million. Pursuant to a Security Agreement among the SPEs and a security trustee, and certain pledge agreements, each of the Non-Debtor SPE Loans is secured by, among other things, (i) a first priority security interest in a specific aircraft ("Nord Loan Collateral Aircraft") owned by a Non-Debtor SPE, (ii) the lease for such aircraft, and (iii) a pledge by AeroCentury of its membership interest in each of the Non-Debtor SPEs. The interest rates payable under the Non-Debtor SPE Loans vary by aircraft, and are based on a fixed margin above either 30-day or 3-

⁵ This amount does not take into account capitalized interest for April 2020 which was added to the principal on May 1, 2020. The Term Loan commitment is also subject to increase on account of the payment-in-kind interest that is added to the amount thereof pursuant to the terms of the Prepetition Term Loan.

month LIBOR. The proceeds of the Non-Debtor SPE Loans were used to pay down the Prepetition Credit Facility and pay off the UK LLC SPE Financing. The maturity of each Nord Term Loan varies by aircraft, with the first Nord Term Loan maturing in October 2020 and the last Nord Term Loan maturing in May 2025.

C. The PPP Loans

30. On May 20, 2020, Debtor JMC was granted a loan (the “Initial PPP Loan”) from American Express National Bank in the aggregate amount of \$276,353 pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act, which was enacted on March 27, 2020. The Initial PPP Loan is in the form of a note dated May 18, 2020, matures on April 22, 2022, and bears interest at a rate of 1.00% annually. The Initial PPP Loan is payable in 18 monthly payments commencing on November 20, 2020. Pursuant to the terms of the Paycheck Protection Program and the CARES Act, Debtor JMC used the Initial PPP Loan for qualifying expenses, including employee payroll. Debtor JMC has exhausted the funds from the Initial PPP Loan and has commenced the loan-forgiveness process with the Small Business Administration, and expects that all or a significant portion of the PPP Loan will be forgiven. In February 2020, Debtor JMC was approved for and received a second tranche Paycheck Protection Program loan in the amount of \$170,002 (the “Second PPP Loan,” and together with the Initial PPP Loan, the “PPP Loans”), which the Debtors intend to also use for qualifying expenses in order to qualify for maximum loan forgiveness under the CARES Act. The Second PPP Loan bears interest at a rate of 1.00% annually, and matures on February 11, 2026.

D. Interest Rate Hedging

31. The Debtors were also a party to two fixed pay/receive variable interest rate swaps to mitigate their exposure to variable interest rates under the Non-Debtor SPE Loans debt and a

portion of the Prepetition Credit Facility debt (the “Debtor Swaps”), and certain of the SPEs are parties to six such swap agreements (the “SPE Swaps”). The SPE Swaps provided for reduced notional amounts that mirror the amortization under the Non-Debtor SPE Loans entered into by the SPEs. Two of the SPE Swaps matured in October 2020, and three SPE Swaps have maturities in 2025. The sixth SPE Swap was terminated in the fourth quarter of 2019 in connection with the sale of the related aircraft. However, prior to the Petition Date, the SPE Swaps were sold in connection with the E-175 APA (defined below), and the Debtors do not have any remaining obligations with respect to the SPE Swaps.

32. The Debtor Swaps related to the Debtors’ Prepetition Credit Facility and had notional amounts totaling \$50 million and were to extend through the maturity of the Prepetition Credit Facility in February 2023.

III. The E-175 Sale

33. On March 16, 2021, the Debtors entered into an asset purchase agreement (the “E-175 APA”) with Falko Regional Aircraft Limited (“Falko”) following an extensive pre-petition marketing process led by the Debtors’ Investment banker, B. Riley Financial, Inc. (the “E-175 Sale”). Under the E-175 APA, Falko acquired AeroCentury’s membership interests in ACY E-175, which entity owned three aircraft that served as collateral for the Non-Debtor SPE Loans. In exchange, the Debtors received consideration of \$26,500,000 under the E-175 APA in a combination of cash and assume liabilities, the cash portion of which was used to pay down, in part, the Prepetition Credit Facility (as defined below) and the Debtors retained a portion of the proceeds to fund operation and the Chapter 11 Cases. In addition, Falko purchased the SPE Swaps. As described more fully in the *Declaration of Adam M. Rosen in Support of Bidding Procedures Motion*, filed contemporaneously herewith, the pre-petition E-175 Sale was a result of an

exhaustive and extensive marketing and bidding process, through which the Debtors received various expressions of interest in, and bids for, the ACY E-175 assets. After due deliberation, the board of AeroCentury determined to select Falko as the winning bidder for ACY E-175, and the sale closed on March 16, 2021. As part of the ACY E-175 sale, Falko assumed the Non-Debtor SPE Loan associated with ACY-E17 with the consent of Nord.

IV. Events Leading to the Commencement of the Chapter 11 Cases

34. Due to certain impairment losses and bad debt allowance, AeroCentury was in default under the Prepetition Revolving Credit Facility as of September 30, 2019, including having a deficit in its borrowing base. To provide breathing room while the Debtors recovered from their losses, the Debtors, on the one hand, and MUFG and the MUFG Lenders, on the other hand, executed that certain forbearance agreement dated October 28, 2019 (as amended, the “MUFG Forbearance Agreement”). Among other things, the Forbearance Agreement (i) provided that the MUFG Lenders temporarily forbear from exercising default remedies under the Prepetition Revolving Credit Facility agreement for the specified defaults, (ii) reduced the maximum availability under the Prepetition Revolving Credit Facility to \$85 million and (iii) extended the cure period for the borrowing base deficit from January 13, 2020 to February 12, 2020.

35. The Forbearance Agreement was in effect until December 30, 2019, after which the Debtors and the MUFG Lenders agreed not to further amend the Forbearance Agreement. On February 12, 2020, the MUFG Lenders delivered a Reservation of Rights Letter to the Debtors which contained notice of the failure to cure the borrowing base default by February 12, 2020. On March 16, 2020, the MUFG Lenders delivered a Reservations of Rights Letter to the Debtors that contained notice that the defaults under the Prepetition Revolving Credit Facility constituted a

default under certain swap agreements related to the Prepetition Revolving Credit Facility debt, and the swap agreements for the Prepetition Revolving Credit Facility were terminated.

36. Unfortunately, since early 2020, the ongoing COVID-19 worldwide pandemic has compounded the Debtors' cash flow issues. COVID-19 has had an overwhelming adverse effect on all forms of transportation globally, but most acutely for the airline industry. The combined effect of fear of infection during air travel and international and domestic travel restrictions has caused a dramatic decrease in passenger loads in all areas of the world, not just in those countries with active clusters of COVID-19, as well as in airline ticket net bookings (*i.e.*, bookings made less bookings canceled).

37. For instance, the TSA reported for the month of April 2020, domestic traveler throughput had decreased by more than 95% from April 2019.⁶ The TSA has further reported that for the seven-day period ending August 17, 2020, domestic traveler throughput was more than 70% lower than it was for the same period in 2020.⁷ This led to significant cash flow issues for airlines, including some of the Debtors' customers, and some airlines have been unable to timely meet their obligations under the leases with the Debtors. The COVID-19 pandemic also depressed aircraft demand and value. In turn, the Debtors encountered difficulties liquidating assets, and did not have sufficient cash to pay their prepetition secured debt obligations to regain covenant compliance.

38. As a result of the conversion of the Prepetition Revolving Credit Facility to the Prepetition Term Loan, the Prepetition Credit Facility is no longer a source of acquisition financing. The Prepetition Term Loan establishes certain deadlines for, and contains certain

⁶ See TSA checkpoint travel numbers for 2020 and 2019 (available at <https://www.tsa.gov/coronavirus/passenger-throughput>).

⁷ *Id.*

requirements related to, the achievement of milestones toward execution of the Debtors' strategic alternatives that will enable it to repay the Prepetition Term Loan. As with the Prepetition Revolving Credit Facility, the Prepetition Term Loan is secured by security interests in all of the Prepetition Collateral.

39. On July 8, 2020, the MUFG delivered a reservation of rights letter to the Debtors. The reservation of rights letter contained notice of defaults with respect to two purported failures on the Debtors' parts: (i) the Debtors failed to deliver a lessee acknowledgment of the MUFG Lender's mortgage from one of the Debtors' lessees (which was delayed due to extended negotiations between MUFG and the lessee relating to form of such acknowledgment) and (ii) the failure to make a deferred interest payment as required under the Loan Agreement that was due and payable on the earlier of July 1, 2020 or the date of the sale of a certain aircraft scheduled to be sold upon its return from its lessee (the closing of which has been delayed beyond July 1, 2020).

40. Further, it became apparent that, as a result of the Debtors' defaults under the Prepetition Credit Facility, the Debtors were unlikely to realize their forecasted cash flows in connection with two interest rate swaps with a notional value of \$50 million. In March 2020, the Debtors were notified that the counterparties had terminated the Debtor Swaps and the Debtors became obligated to pay \$3.1 million to the counterparties.

41. After considering all available strategic options, the Debtors and their professional advisors determined that the best course to preserve and maximize the value of the Debtors' enterprises is through a chapter 11 sale process. As noted above, as the world continues to cope with the global COVID-19 pandemic and consumers find ways to protect themselves from the novel coronavirus, the Debtors are hopeful and, in fact, anticipate that the travel industry will rebound and recover.

42. Accordingly, the Debtors have an immediate need for continued access to liquidity to, among other things, maintain business relationships, pay payroll and certain benefits, and satisfy other essential working capital and operational needs, all of which are required to preserve and maintain the Debtors' business value for the benefit of all parties in interest. More specifically, the Debtors require immediate access to the Prepetition Collateral and cash equivalents as requested in the Cash Collateral Motion (as defined below) to satisfy the day-to-day needs of the Debtors' business operations. Access to this liquidity will address any concerns regarding the Debtors' financial health and ability to continue operations in light of these Chapter 11 Cases, and the financial difficulties described herein.

IV. The Chapter 11 Cases

43. Due to their financial difficulties, the Debtors, in consultation with their professional advisors, have diligently evaluated a range of strategic alternatives to address the near-term liquidity challenges created by the COVID-19 pandemic. To address these challenges, the Debtors and their professional advisors, after considering all available strategic options, have determined that the best course of action is to pursue a robust and independent chapter 11 sale process that will preserve and maximize the value of the Debtors' estates, followed by a chapter 11 plan that will contemplate a restructuring of the Debtors' business around their remaining assets, leasing platform, and tax attributes.

44. In October of 2019, the Debtors retained B. Riley Financial, Inc. ("B. Riley") to act as their investment banker in connection with the Debtors' restructuring initiatives. During the lead up to these Chapter 11 Cases, B. Riley acquired significant knowledge of the Debtors' business, including their financial affairs, debt structure, business operations, capital structure, key stakeholders, financing documents, and related matters. In December 2019, the Debtors embarked

on a dual-track process to raise capital and solicit bids to sell some or all of the Debtors' assets. Around the time B. Riley contacted approximately 90 parties and established a data room with over 1,600 documents. While this process was interrupted by the COVID-19 pandemic, the Debtors' competitive prepetition marketing efforts led to the E-175 Sale.

45. To further their value maximizing efforts, the Debtors will continue to work with B. Riley throughout these bankruptcy cases to market and sell their core assets, primarily aircraft. Given the extensive prepetition marketing and engagement with interested parties, the Debtors and their professionals are confident that interested parties will be able to assess the sale opportunity in an expeditious and thorough manner. To achieve this goal, the Debtors have filed a motion seeking approval of bidding procedures, which will establish procedures to pursue a value-maximizing sale of the Debtors' remaining assets in the first approximately 65 days of these Chapter 11 Cases. The bidding procedures are designed to facilitate a competitive auction process and maximize value in the most efficient and expeditious manner possible under the circumstances of these Chapter 11 Cases, while facilitating a transparent and fair sale process where any and all interested bidders may participate

46. Specifically, with respect to the sale of the Debtors' remaining assets, the Debtors with the assistance of B. Riley and the Debtors' other professional advisors, have already engaged in heavily negotiated, good-faith, arm's-length negotiations with the Drake regarding a stalking horse asset purchase agreement for their core assets (the "Stalking Horse Agreement"). As described in the *Rosen Declaration*, the Debtors' entry into the Stalking Horse Agreement permits the Debtors to conduct a value-maximizing sale process that is backstopped by Drake's proposed stalking horse bid. Drake's stalking horse bid is a credit bid in the amount of Drake's secured obligations (as that term is defined in the Stalking Horse Agreement). Significantly, the credit bid

does not include any break-up fee or expense reimbursement, permits competitive bidding on all or some of the Debtors' assets, and establishes a baseline allocation price for the assets subject to the Stalking Horse Agreement. Following the proposed sale to Drake or any other topping bidder, the Debtors intend to restructure their business around their remaining assets, aircraft leasing platform, and tax attributes (to the extent feasible based on the outcome of the proposed marketing process).

IV. The First Day Pleadings

47. Concurrently herewith, the Debtors filed the First-Day Motions seeking relief related to the administration of the Chapter 11 Cases, the Debtors' operations, and their cash and financing needs, to ensure a smooth entry into chapter 11. I am familiar with the contents of each First-Day Motion (including the exhibits to such motions) and believe that the relief sought in each First-Day Motion: (i) will enable the Debtors to operate in chapter 11 with minimal disruptions; (ii) is critical to the Debtors' chapter 11 efforts; (iii) best serves the interests of the Debtors' estates and creditors; and (iv) is necessary to avoid immediate and irreparable harm for the reasons described therein. Further, it is my belief that the relief sought in the First-Day Motions is in each case narrowly tailored and necessary to achieve the goals identified above. A list of the First-Day motions is set forth below:

- a. *Debtors' Motion for an Order, Pursuant to Bankruptcy Rule 1015 and Local Rule 1015-1, Authorizing the Joint Administration of the Debtors' Chapter 11 Cases*
- b. *Application of Debtors for Authorization to Employ and Retain Kurtzman Carson Consultants LLC as Claims and Noticing Agent Effective as of the Petition Date*
- c. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing (a) Continued Use of Cash Management System; (b) Maintenance of Existing Bank Accounts; and (c) Continued Use of Existing Business Forms; and (II) Granting Related Relief*
- d. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtor to Continue Prepetition Insurance Policy and Pay All Prepetition Obligations in*

Respect Thereof, and (II) Authorizing the Banks to Honor Related Checks and Transfers

- e. *Debtors' Motion for Entry of Interim and Final Orders Authorizing (I) The Debtors to Pay Certain Prepetition Taxes and Fees and Related Obligations and (II) Banks to Honor and Process Check and Electronic Transfer Requests Related Thereto*
- f. *Debtors' Motion for Entry of Interim and Final Orders (I) Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness with Respect to Common Stock, and (II) Granting Related Relief*
- g. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay and Honor Certain (a) Prepetition Wages, Benefits, and Other Compensation Obligations, (b) Prepetition Employee Business Expenses, and (c) Workers' Compensation Obligations; (II) Authorizing Banks to Honor and Process Checks and Transfers Related to Such Obligations; and (III) Granting Related Relief*
- h. *Motion for Interim and Final Orders Under 11 U.S.C. §§ 105, 361, 362, 363, and 507, and Bankruptcy Rules 2002, 4001, and 9014 (I) Authorizing Debtor to Use Cash Collateral, (II) Granting Adequate Protection to Secured Lender, and (III) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001(b) (the "Cash Collateral Motion")*

48. The First-Day Motions seek authority to, among other things, continue the use of the Debtors' cash collateral, honor work-force related compensation and benefit obligations, pay certain prepetition claims, and continue the Debtors' cash management system and other operations in the ordinary course of business. The Debtors have narrowly tailored the First-Day Motions to meet the goals of: (i) continuing their operations in chapter 11 with as little disruption and loss of productivity as possible; (ii) maintaining the confidence and support of key customers during the Chapter 11 Cases; and (iii) establishing procedures for the efficient administration of the Chapter 11 Cases.

49. I have reviewed each of the First-Day Motions (including the exhibits thereto), and I believe the facts stated therein to be true and correct to the best of my knowledge, with appropriate

reliance on corporate officers, business records and advisors. I incorporate by reference the factual statements set forth in each of the First-Day Motions as though set forth herein.

50. It is my belief that the relief sought in each of the First-Day Motions is necessary to (a) the success of the Debtors' chapter 11 efforts, (b) avoid immediate and irreparable harm, (c) and the maximization of the value of the Debtors' estates. It is my further belief that, with respect to those First-Day Motions requesting the authority to pay specific prepetition claims or continue selected prepetition programs, the relief requested is essential to the Debtors' chapter 11 efforts and necessary to avoid immediate and irreparable harm to the Debtors' estates. The success of the Chapter 11 Cases depends upon the Debtors' ability to maintain operations in the ordinary course postpetition and maximize estate value. The relief requested in the First-Day Motions is a critical component of maintaining uninterrupted business operations and the confidence of key constituencies necessary to implement a successful sale and restructuring process.

CONCLUSION

51. In conclusion, for the reasons stated herein and in each of the First-Day Motions, I respectfully request that each of the First-Day Motions be granted in its entirety, together with such other and further relief as this Court deems just and proper.

I certify under penalty of perjury that, based upon my knowledge, information and belief as set forth in this Declaration, the foregoing is true and correct.

Executed: March 29, 2021

/s/ Harold M. Lyons
Harold M. Lyons
Chief Financial Officer

EXHIBIT A

Organization Chart

**AeroCentury Corp.
Organization Chart – March 2021**

