

Research Note

Investors should consider this report as only a single factor in making their investment decision.

AeroCentury Corp.

Rating: Neutral

Howard Halpern

March 5, 2007

ACY \$16.10 – (AMEX)

	FY (12/04)A	FY (12/05)A	FY (12/06) A	FY (12/07) E
Revenues (millions)	\$10.90*	\$13.50	\$18.32**	\$16.39
Earnings per share (diluted)	\$0.17	\$0.13	\$0.62	\$0.63

52-Week range	\$22.20 – \$3.70	Fiscal year ends:	December
Shares outstanding <small>a/o 11/13/06</small>	1.61 million	Rent income/shares (ttm)	\$10.05
Approximate float	1.05 million	Price/Sales (ttm)	1.6X
Market Capitalization	\$26 million	Price/Sales (2007)E	1.5X
Est. Book value/share	\$12.47	Price/Earnings (ttm)	26.0X
Price/Book	1.3X	Price/Earnings (2007)E	25.6X

* Includes \$1.748 million gain on disposal of assets ** Includes \$2.387 million gain from non-refundable maintenance reserves

AeroCentury Corp., is engaged in the business of ownership, management, leasing and acquisition of aircraft. The primary focus is on used commercial turboprop aircraft equipment for lease to foreign and domestic regional air carriers.

Key investment considerations:

We are downgrading our rating on shares of AeroCentury (AMEX: ACY) from Speculative Buy to Neutral, pending the release of the Company's 2006 10-K filing, which should occur during the mid-to-latter part of March 2007.

Between January 3, 2007 and February 23, 2007, more than twice the float or 2.975 million shares have changed hands. The heavy volume coincided with upward share price momentum. During the same time period (January 3, 2007 and February 23, 2007), ACY share price was as low as \$6.58 and as high as \$22.20.

We believe price consolidation is likely over the near term. Also, we intend to reevaluate our take on the Company's future with the release of the 10-K filing (which has always included an outlook section), which should give an indication as to the Company's prospects over the next twelve-months.

On February 6, 2007, AeroCentury reported 2006 total revenues of \$18.32 million versus \$13.50 million in the same period last year. Top line results were positively impacted from a gain recorded in other income for each period by \$2.40 million and \$2.16 million, respectively. Net income for the year was \$0.954 million or \$0.62 per diluted share versus net income of \$0.19 million or \$0.13 per diluted share in 2005.

Based on results for 2006 and current operating trends, we are adjusting our forecast for 2007, to total revenue of \$16.39 million and net income of \$0.970 million or \$0.63 per diluted share. Our prior forecast called for total revenue of \$15.588 million and net income of \$0.695 million or \$0.45 per diluted share.

Of note, due to the extremely low share count (1.543 million) a \$0.100 million change in net income equals approximately a change of \$0.06 per diluted share.

**Please view our disclaimer located on page 9.*

Recent Financials

On February 6, 2007, AeroCentury reported full year 2006 total revenue of \$18.322 million versus \$13.499 million in 2005. Operating lease revenue (rent income) improved to \$15.509 million versus \$11.387 million in 2005. The positive change in operating lease revenue versus last year was primarily due to aircraft purchased beginning in April 2005, as well as revenue from two aircraft that were off lease in 2005. The increase was mitigated to some degree by the sale of an aircraft in 2006.

ACY reported that depreciation, management fees, G&A, and insurance expenses for the year increased by approximately \$1.451 million versus 2005. The increase was primarily due to the purchase of aircraft beginning in April 2005, as well as legal expenses associated with the early return of an aircraft and higher accounting fees. In addition, the Company also experienced higher interest expense for the year (resulting from higher market interest rates and average principal balance during the same period last year) of approximately \$1.469 million versus 2005.

Maintenance expenses increased by approximately \$1.205 million compared to the same period last year. According to the earnings press release, in 2006 and 2005, the Company retained approximately \$2.396 million and \$1.902 million respectively, of non-refundable maintenance reserves (recorded as other income). At the same time, in 2006 and 2005, ACY accrued approximately \$2.392 million and \$1.862 million, respectively, of maintenance expense for which it is responsible. The Company also accrued net expense of approximately \$1.112 million and \$0.437 million primarily to prepare several aircraft for re-lease in 2006 and 2005, respectively.

Net income for year was \$0.954 million or \$0.62 per diluted share versus a net income of \$0.193 million or \$0.13 per diluted share 2005.

In comparison, Taglich Brothers' estimates called for total revenue of \$3.935 million and net income of \$0.125 or \$0.09 per diluted share.

Balance Sheet as of December 31, 2006

The Company only provided the following balance sheet data in the earnings press release:

- Total assets increased to \$94.747 million versus \$96.547 million at December 31, 2005;
- Total liabilities increased to \$78.802 million versus \$77.557 million at December 31, 2005; and
- Shareholders' equity increased to \$19.944 million versus \$18.990 million at December 31, 2005.

Recent Developments

On November 30, 2006, the Company announced the purchase and lease of three Saab 340B aircraft. The three Saab 340B aircraft were purchased from a regional bank and subsequently leased to an existing customer, Colgan Air, Inc. Based in Manassas, Virginia, Colgan (a privately held company) offers daily scheduled air service to 52 cities in 13 states and maintains code-share agreements with Continental Airlines, US Airways, and United Express.

Projections and Outlook

Given 2006 full year results, we are revising our forecast for 2007 based on the belief that the Company should be able to maintain a consistent operating trend for the next twelve months (investors should note that individual quarters may show some variation due to the adoption of AUG AIR-1 – see risk section for details). Also supporting our projections for the upcoming year should be ACY having a combination of approximately thirty-three aircraft and one aircraft engine within its portfolio, (our assumption as of December 31, 2006). Also, during November 2006, the Company leased its reserve turboprop engine. Investors should be aware that if any of the leases are not renewed, the Company may be required to make principal repayments under its credit facility due to collateral base covenant restrictions.

We are forecasting for 2007, total revenue of \$16.385 million and net income of \$0.970 million or \$0.63 per diluted share. Our prior expectation was for total revenue of \$15.880 million and net income of \$0.695 million or \$0.45 per diluted share. It is important to note that our total revenue estimate for 2007 only consists of rent income, as we are not forecasting any unusual events that might impact total top line results. Our bottom line estimate includes the following:

- Interest expense of \$5.170 million versus \$4.954 million reported in 2006;
- SG&A expenses, which includes insurance, of \$0.870 million versus \$0.796 million reported in 2006;
- Management fees and depreciation of \$7.930 million versus \$7.730 million reported in 2006;
- Maintenance, impairment, and bad debt expenses of \$0.900 million versus \$3.553 million reported in 2006 (which includes approximately \$2.553 million related to the retention of non-refundable maintenance reserves when two aircraft were returned to the Company at lease end); and
- A tax rate of 36.00% versus 26.02% reported in 2006.

Investors should be aware that if additional purchases of aircraft (i.e., the November 30, 2006 announcement of the purchase of 3 Saab 340B aircraft) are made and the Company is able to re-lease aircraft on a consistent basis, revenues could exceed our expectations for 2007. Of particular note, during November 2005, the Company created a non-recourse special purpose subsidiary that refinanced two DHC-8 aircraft, which had been part of the collateral base for its credit facility. A separate bank at a fixed interest rate of 7.87% provided the \$6.4 million financing.

In general, the specific timing of when aircraft(s) will be returned to the Company remains unclear; however, until an aircraft is returned, rent will be paid by the lessor even if the lease term has expired. In order to obtain re-lease agreements, Management continues to focus its efforts on marketing. In addition, the lessee for two aircraft has given the Company indications that it will return one and extend the lease for the other.

Risks

FASB Staff Position AUG AIR-1

The Company must discontinue the accrue-in-advance method of accounting for planned major maintenance beginning on January 1, 2007. Under the accrue-in-advance method of accounting, the collection of non-refundable maintenance reserves for planned major maintenance and disbursements from reserves to lessees to pay for maintenance performed was reflected only on the Company's balance sheet. Management is still evaluating the impact of the adoption of this new staff position and determining which alternative method of accounting it will use going forward. In any event, the new mandated accounting methods will require receipt of non-refundable maintenance reserves for planned major maintenance from the Company's lessees to be reflected as income on the income statements and release of maintenance reserves to be reflected as an expense when maintenance is actually performed. **Therefore, beginning in the first quarter of 2007, Management believes that the Company's reported net income may be subject to greater fluctuations from quarter to quarter than would have been the case under the current method.** Furthermore, because this guidance must be applied retroactively, the Company anticipates that, beginning with its March 31, 2007 financial reporting requirements, the balance sheet will reflect a catch-up cumulative adjustment to retained earnings as of January 1, 2006, as a result of the change to the new accounting method.

SEC Accounting Bulletin (SAB) 108

On September 13, 2006, the SEC staff issued SAB #108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. Implementing the approach outlined in SAB #108 may require ACY to make significant adjustments in its 2006 annual financial statements. Management believes the impact of adopting SAB #108 will have a material impact on results of operations but will not have a material impact on the Company's financial position.

Credit Facility

Our most recent public information is that at the end of the third quarter of 2006, \$46.996 million was outstanding under the Company's \$55 million credit facility, which means that Management may need to either expand the facility or continue to use special purpose financing in order to increase its aircraft portfolio. As of September 30, 2006, according to the Company's 10-Q it was in compliance with all covenants related to this obligation.

On May 17, 2006, ACY announced that Bridge Bank, N.A. became a new member of the Company's credit facility, which resulted in the facility being increased to \$55.0 million from \$50.0 million.

Special Purpose Financing

The Company owns one deHavilland DHC-8 aircraft that is held in a special purpose subsidiary entity and financed by a lender separate from the credit facility. A balloon principal payment was due during April 2006. The obligation was refinanced and the \$1.650 million is now due October 15, 2009. The note bears interest at an adjustable rate of one-month LIBOR plus 3%.

During November 2005, the Company refinanced two DHC-8 aircraft using bank financing separate from its credit facility. The aircraft were transferred to a special purpose LLC, which borrowed \$6.4 million, due November 10, 2008. The note is collateralized by the aircraft. Payments consist of monthly principal and interest through April 22, 2008, and interest only from April 22, 2008 until the maturity date, when a balloon principal payment is due.

In general, the availability of special purpose financing in the future will depend on:

- The availability of funds to be used for the equity portion of the financing;
- The type of asset being financed;
- The creditworthiness of the underlying lessee; and
- Continued compliance with certain of the Company's credit facility covenants.

Debt Financing

The Company uses its revolving credit facility and special purpose financing to acquire aircraft in order to lease it to a customer. If a customer is unable to make its lease payments (for example, the repossession of aircraft from a Haitian lessee), AeroCentury may not have the ability to repay the debt secured by the aircraft acquired, which means that title to the aircraft would likely be lost in a foreclosure proceeding. It should be noted that money drawn under the credit facility is secured by the Company's existing assets, as well as the assets acquired with each financing. A reduction in the number of aircraft in AeroCentury's portfolio would negatively impact operations.

Competitive Environment

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. The competitive environment may increase if competitors who have traditionally neglected the regional air carrier market begin to focus on that market. In general, competition is largely based on price and lease terms, as well as the entry of new competitors into the market. In addition, those companies with greater access to capital markets could mean fewer acquisition opportunities for ACY 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.

Shares Outstanding

ACY has a limited number of shares outstanding; therefore, any change in the top-line could dramatically impact bottom-line results. Based on the current fully diluted shares outstanding, a \$0.1 million change in net income would result in an approximate \$0.06 per share change in earnings per share.

Customer Concentration

The most recent public information is in the Company's third quarter 10-Q filing, which stated that its five largest customers are located in Belgium, Taiwan, the Caribbean, Norway, and Sweden, and account for approximately 15%, 13%, 12%, 11%, and 10%, respectively, of the Company's monthly lease revenue. Concentration of credit risk with respect to lease receivables will diminish in the future only if the Company is able to lease additional assets or re-lease assets currently on lease to significant customers to new customers.

Economic Factors

The Company's business is dependent on the strength of the Travel and Transportation Industries and on the general level of global economic activity. A February 2007 economic forecast by the Mortgage Bankers Association (is a national association representing the real estate finance industry) calls for Gross Domestic Product (GDP) to grow at an annual rate of approximately 2.9% in 2007. In addition, the Federal Reserve had raised interest rates (by 0.25 basis points) seventeen times since mid 2004, in order to moderate future economic growth. At its August, September, October, and December 2006 meetings, as well as January and February 2007 meetings the Federal Reserve paused and did not raise interest rates. If the economic growth were to stall or slow due to unforeseen events (such as hurricanes and terror attacks) it would likely impact the Travel and Aviation Industries, which in turn could negatively impact the Company's operations.

The Travel Industry Association of America (TIA) is reporting that overall traveler spending by domestic and international visitors increased by approximately 5.6% to \$633.5 billion in 2005, versus an estimated \$600.1 billion in 2004. The TIA was forecasting that number to increase by approximately 4.5% in 2006 to \$662 billion and 5.5% in 2007 to \$698.2 billion.

Leasing

Crucial to the Company's ability to regain profitability and grow revenues is its ability to successfully negotiate lease extensions and re-lease/remarket aircraft. However, factors that may negatively impact the Company's leasing operations include: 1) demand for leasing aircraft and/or the sale of an aircraft; 2) acceptable rates that an aircraft can be leased for; and 3) the cyclical nature of the Air Transportation and Travel Industries.

Reliance on JetFleet Management

AeroCentury relies on JetFleet Management Corp (JMC) to perform management functions under a management agreement. Currently, the agreement is in its ninth year of a 20-year term. Under this agreement, the Company pays an asset-based management fee to JMC.

JMC is not a fiduciary to the Company or its stockholders. The Board of Directors, however, has ultimate control and supervisory responsibility over all aspects of the Company and owes fiduciary duties to the Company and its stockholders. It is important to note that the officers of JMC are also officers of the Company; therefore, if a dispute over obligations between the Company and JMC occurs, a conflict of interests may exist.

Insurance

The Company 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. Additionally, the Company should have some protection through the United States Aviation Act with respect to its aircraft assets. The Company may carry insurance or require a lessee to insure against a risk, there may be certain cases where the loss is not entirely covered by the lessee or its insurance.

Interest Rates

If interest rates were to increase sharply, the Company's near-term operations would likely be negatively impacted in terms of the borrowing required to finance the purchase of assets (i.e. aircraft, engines, etc.). Higher lease rates would over the long-term mitigate the impact of a rapid rise in interest rates.

Valuation Adjustments

The Company continually reviews its asset valuations. It did not make any valuation adjustments during 2003 or 2005. However, in 2004 the Company incurred an impairment charge of \$0.463 million related to one of its leased aircraft. It is important to be aware that any future adjustments, if necessary, would negatively impact future financial results and the collateral available for ACY's credit facility.

Miscellaneous

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

An equity specific concern relates to liquidity. Based on our calculations, average daily-volume for 2004 decreased to 1,261 from 2,660 shares in 2003. Average daily-volume for 2005 increased to 10,992 shares traded a day. During 2006, average daily-volume decreased to 3,494 shares traded a day. However, during the first thirty-four trading days of 2007, average daily volume surged to 82,885 shares traded per day. On a relative basis, volume for this equity is very small. Investors need to be aware that by nature, an equity that lacks liquidity can have significant price volatility.

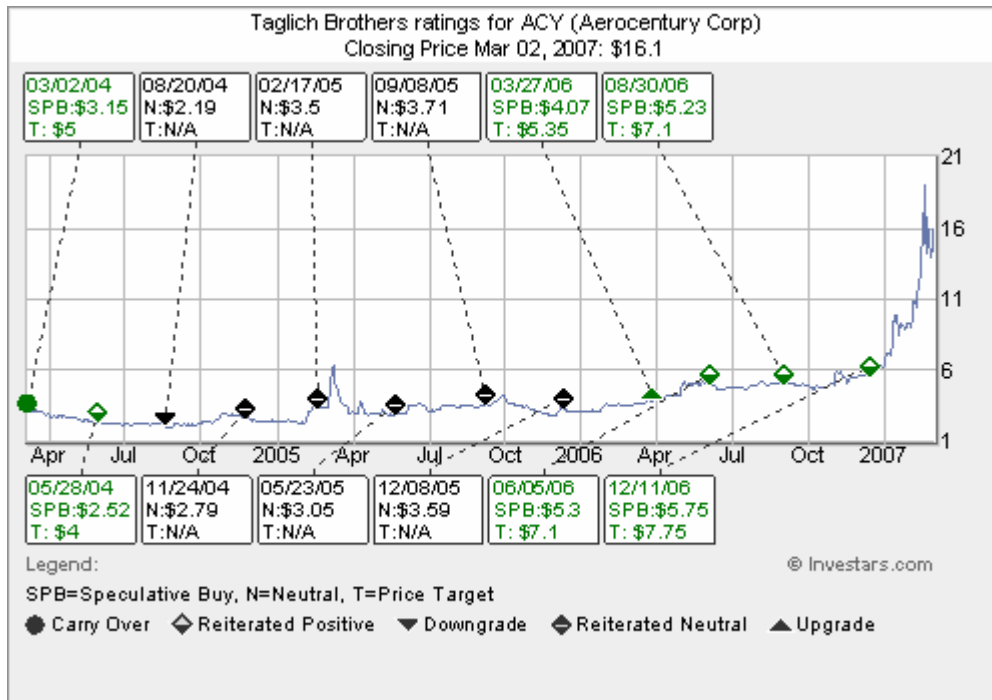
Conclusion

We are downgrading our rating on shares of AeroCentury (AMEX: ACY) from Speculative Buy to Neutral. Our Neutral rating is pending the release of the Company's 10-K filing, which should occur during the mid-to-latter part of March 2007. We intend to reevaluate our take on the Company's future with the release of the 2006 10-K filing, which should give an indication as to the Company's future over the next twelve-months in the filings outlook section.

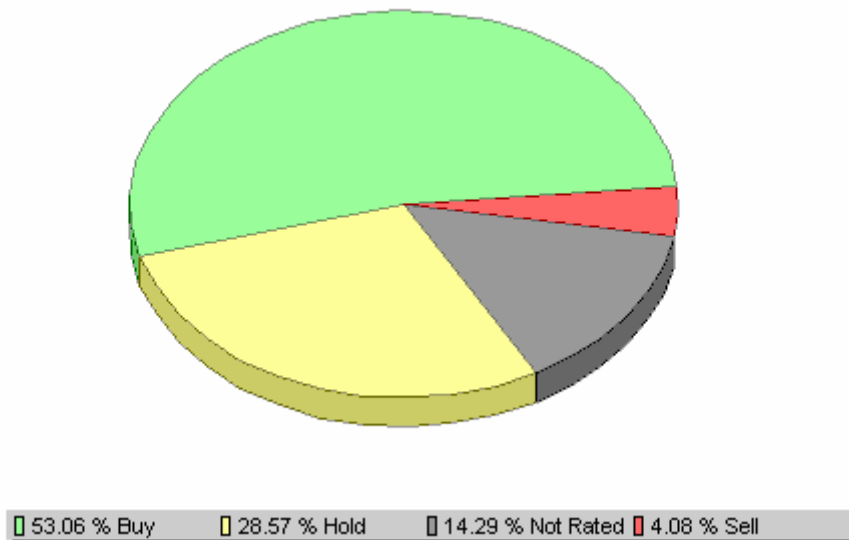
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Investors should be aware that it is still likely that additional financing will be sought to continue building the aircraft portfolio, which has the potential to negatively impact future operations depending on the overall interest rate environment.

AeroCentury Inc.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	6.45%
Hold	1	7.14%
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public Companies mentioned in this report:

American International Group	(NYSE: AIG)
CIT Group	(NYSE: CIT)
Tyco Inc.	(NYSE: TYC)

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I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

AeroCentury Inc.
Consolidated Balance Sheets
(in thousands)

	Dec. '04 Year End	Dec. '05 Year End	Mar. '06 1st Qtr End	Jun. '06 2nd Qtr End	Sept. '06 3rd Qtr End
ASSETS					
Current assets:					
Cash & Equivalents	\$ 2,404	\$ 619	\$ 2,220	\$ 3,420	\$ 3,245
Accounts Receivable	6,455	1,128	736	609	947
Note receivable	295	-	-	-	-
Prepaid Expense & Other	410	1,036	1,088	759	731
Total current assets	9,563	2,783	4,044	4,788	4,923
Aircraft & engines, net of depreciation	72,621	93,763	91,940	91,294	90,045
Total assets	\$ 83,932	\$ 96,547	\$ 97,010	\$ 96,082	\$ 94,968
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts Payable and accrued expenses	\$ 868	\$ 1,175	\$ 974	\$ 575	\$ 897
Notes Payable and accrued interest	48,990	58,337	58,191	57,108	54,813
Maintenance deposits and accrued costs	10,293	13,368	13,481	13,282	13,995
Security deposits	1,775	3,125	3,464	4,087	4,093
Prepaid rent	405	447	704	708	516
Unearned income	3	-	-	-	-
Income Taxes Payable	1,704	48	1	1	10
Total current liabilities	64,037	76,499	76,815	75,761	74,325
Long-Term debt-net of current	-	-	-	-	-
Deferred Income Taxes	1,098	1,057	1,100	1,140	1,243
Total Liabilities	65,134	77,557	77,915	76,902	75,568
Stockholders' equity:					
Common stock, par value \$0.01; authorized 10,000,000 shares;	2	2	2	2	2
Paid-in capital	13,821	13,821	13,821	13,821	13,821
Retained earnings	5,478	5,671	5,776	5,862	6,081
Accumulated deficit	-	-	-	-	-
Treasury Stock, at cost	(504)	(504)	(504)	(504)	(504)
Total stockholders' equity	18,797	18,990	19,095	19,181	19,400
Total liabilities and stockholders' equity	\$ 83,932	\$ 96,547	\$ 97,010	\$ 96,082	\$ 94,968
SHARES OUT	1,607	1,607	1,607	1,607	1,607

AeroCentury Inc.
Annual Income Statement
For the Years Ended December 31,
(in thousands)

	<u>FY2004A *</u>	<u>FY2005A</u>	<u>FY2006A</u>	<u>FY2007E</u>
Revenues:				
Rent Income	\$ 8,996	\$ 11,387	\$ 15,509	\$ 16,385
Gain(loss) on disposal of assets	1,748	(48)	409	-
Other Income	<u>160</u>	<u>2,161</u>	<u>2,404</u>	<u>-</u>
Total Revenues	10,904	13,499	18,322	16,385
Expenses:				
Management Fees	1,988	2,340	2,750	2,810
Depreciation	3,555	4,031	4,980	5,120
Interest	2,421	3,485	4,954	5,170
SG&A	887	826	796	870
Maintenance	847	2,299	3,504	900
Provision for impairment in value of aircraft and Bad Debt Expense	<u>803</u>	<u>180</u>	<u>49</u>	<u>-</u>
Total Expenses	10,501	13,160	17,032	14,870
 Operating Income	 <u>403</u>	 <u>339</u>	 <u>1,290</u>	 <u>1,515</u>
<i>Operating Margin</i>	3.70%	2.51%	7.04%	9.25%
Taxes(Benefit)	<u>137</u>	<u>146</u>	<u>336</u>	<u>545</u>
<i>Tax Rate</i>	33.90%	43.10%	26.02%	35.97%
 Net Income	 <u>\$ 266</u>	 <u>\$ 193</u>	 <u>\$ 954</u>	 <u>\$ 970</u>
EPS-fully diluted includes insurance settlement	<u>\$ 0.17</u>	<u>\$ 0.13</u>	<u>\$ 0.62</u>	<u>\$ 0.63</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>
 Margin Analysis				
Gross Profit	8,916	11,160	15,572	13,575
GPM	81.8%	82.7%	85.0%	82.9%
NI/Rev	2.4%	1.4%	5.2%	5.9%
NI/Rent Income	3.0%	1.7%	6.2%	5.9%
Total Exp/Rev	96.3%	97.5%	93.0%	90.8%
 As Per Cent of Rent Income				
Expenses:				
Management Fees	22.10%	20.55%	17.73%	17.15%
Depreciation	39.51%	35.40%	32.11%	31.25%
Interest	26.91%	30.60%	31.94%	31.55%
SG&A	9.86%	7.26%	5.13%	5.31%
Total Expenses	116.73%	115.57%	109.82%	90.75%
 Percent Change Year/Year				
Rent Income	2.61%	26.58%	36.20%	5.65%

*Excluding unusual charges for maintenance, bad debt, legal fees, and impairment of leased aircraft, as well as a gain from the disposal of assets, we estimate a net loss of approximately \$0.077 million or (\$0.05) per share.

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2005
(in thousands)

	<u>(3/05)Q1A</u>	<u>(6/05)Q2A</u>	<u>(9/05)Q3A</u>	<u>(12/05)Q4A</u>	<u>FY2005A</u>
Revenues:					
Rent Income	\$ 2,522	\$ 2,738	\$ 2,956	\$ 3,170	\$ 11,387
Gain(loss) on disposal of assets	(60)	-	-	11	(48)
Other Income	<u>78</u>	<u>16</u>	<u>0</u>	<u>2,066</u>	<u>2,161</u>
Total Revenues	<u>2,540</u>	<u>2,755</u>	<u>2,957</u>	<u>5,248</u>	<u>13,499</u>
Expenses:					
Management Fees	544	567	594	634	2,340
Depreciation	925	980	1,030	1,096	4,031
Interest	763	817	877	1,028	3,485
SG&A	231	212	205	179	826
Maintenance	17	34	169	2,079	2,299
Provision for impairment in value of aircraft and bad debt expense	<u>12</u>	<u>88</u>	<u>-</u>	<u>79</u>	<u>180</u>
Total Expenses	<u>2,492</u>	<u>2,698</u>	<u>2,876</u>	<u>5,094</u>	<u>13,160</u>
Operating Income	<u>48</u>	<u>57</u>	<u>81</u>	<u>153</u>	<u>339</u>
<i>Operating Margin</i>	1.89%	2.05%	2.74%	2.92%	2.51%
Taxes(Benefit)	<u>8</u>	<u>10</u>	<u>29</u>	<u>98</u>	<u>146</u>
<i>Tax Rate</i>	17.16%	17.68%	35.63%	64.10%	43.10%
Net Income	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 52</u>	<u>\$ 55</u>	<u>\$ 193</u>
EPS-fully diluted	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.04</u>	<u>\$ 0.13</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>
Margin Analysis					
Gross Profit	1,996	2,188	2,362	4,614	11,160
GPM	78.6%	79.4%	79.9%	87.9%	82.7%
NI/Rev	1.6%	1.7%	1.8%	1.0%	1.4%
NI/Rent Income	1.6%	1.7%	1.8%	1.7%	1.7%
Total Exp/Rev	98.1%	97.9%	97.3%	97.1%	97.5%
As Per Cent of Rent Income					
Expenses:					
Management Fees	21.59%	20.71%	20.11%	19.99%	20.55%
Depreciation	36.69%	35.80%	34.84%	34.55%	35.40%
Interest	30.25%	29.84%	29.66%	32.43%	30.60%
SG&A	9.16%	7.74%	6.92%	5.63%	7.26%
Total Expenses	98.83%	98.53%	97.27%	160.68%	115.57%
Percent Change Year/Year					
Rent Income	22.42%	21.29%	31.61%	30.37%	26.58%

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2006
(in thousands)

	<u>(3/06)Q1A</u>	<u>(6/06)Q2A</u>	<u>(9/06)Q3A</u>	<u>(12/06)Q4A</u>	<u>FY2006A</u>
Revenues:					
Rent Income	\$ 3,701	\$ 3,834	\$ 3,920	\$ 4,054	\$ 15,509
Gain(loss) on disposal of assets	-	409		-	409
Other Income	<u>2,387</u>	<u>4</u>	<u>10</u>	<u>4</u>	<u>2,404</u>
Total Revenues	6,088	4,247	3,930	4,058	18,322
Expenses:					
Management Fees	698	685	678	688	2,750
Depreciation	1,230	1,231	1,248	1,271	4,980
Interest	1,164	1,251	1,272	1,267	4,954
SG&A	244	174	178	199	796
Maintenance	2,554	779	222	(51)	3,504
Provision for impairment in value of aircraft and bad debt expense	<u>49</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49</u>
Total Expenses	5,939	4,121	3,598	3,374	17,032
Operating Income	<u>149</u>	<u>126</u>	<u>332</u>	<u>683</u>	<u>1,290</u>
<i>Operating Margin</i>	2.45%	2.97%	8.44%	16.83%	7.04%
Taxes(Benefit)	<u>44</u>	<u>40</u>	<u>113</u>	<u>139</u>	<u>336</u>
<i>Tax Rate</i>	29.54%	32.04%	33.94%	20.29%	26.02%
Net Income	<u>\$ 105</u>	<u>\$ 86</u>	<u>\$ 219</u>	<u>\$ 544</u>	<u>\$ 954</u>
EPS-fully diluted	<u>\$ 0.07</u>	<u>\$ 0.06</u>	<u>\$ 0.14</u>	<u>\$ 0.35</u>	<u>\$ 0.62</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>
Margin Analysis					
Gross Profit	5,390	3,561	3,251	3,369	15,572
GPM	88.5%	83.9%	82.7%	83.0%	85.0%
NI/Rev	1.7%	2.0%	5.6%	13.4%	5.2%
NI/Rent Income	2.8%	2.2%	5.6%	13.4%	6.2%
Total Exp/Rev	97.6%	97.0%	91.6%	83.2%	93.0%
As Per Cent of Rent Income					
Expenses:					
Management Fees	18.86%	17.87%	17.31%	16.98%	17.73%
Depreciation	33.24%	32.10%	31.83%	31.35%	32.11%
Interest	31.46%	32.64%	32.44%	31.25%	31.94%
SG&A	6.60%	4.54%	4.55%	4.92%	5.13%
Total Expenses	160.48%	107.48%	91.78%	83.24%	109.82%
Percent Change Year/Year					
Rent Income	46.77%	40.00%	32.59%	27.87%	36.20%

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2007
(in thousands)

	<u>(3/07)Q1E</u>	<u>(6/07)Q2E</u>	<u>(9/07)Q3E</u>	<u>(12/07)Q4E</u>	<u>FY2007E</u>
Revenues:					
Rent Income	\$ 4,065	\$ 4,085	\$ 4,105	\$ 4,130	\$ 16,385
Gain(loss) on disposal of assets	-	-	-	-	-
Other Income	-	-	-	-	-
Total Revenues	<u>4,065</u>	<u>4,085</u>	<u>4,105</u>	<u>4,130</u>	<u>16,385</u>
Expenses:					
Management Fees	695	700	705	710	2,810
Depreciation	1,280	1,280	1,280	1,280	5,120
Interest	1,285	1,290	1,295	1,300	5,170
SG&A	210	215	220	225	870
Maintenance	<u>225</u>	<u>225</u>	<u>225</u>	<u>225</u>	<u>900</u>
Total Expenses	<u>3,695</u>	<u>3,710</u>	<u>3,725</u>	<u>3,740</u>	<u>14,870</u>
Operating Income	<u>370</u>	<u>375</u>	<u>380</u>	<u>390</u>	<u>1,515</u>
<i>Operating Margin</i>	9.10%	9.18%	9.26%	9.44%	9.25%
Taxes(Benefit)	<u>135</u>	<u>135</u>	<u>135</u>	<u>140</u>	<u>545</u>
<i>Tax Rate</i>	36.49%	36.00%	35.53%	35.90%	35.97%
Net Income	<u>\$ 235</u>	<u>\$ 240</u>	<u>\$ 245</u>	<u>\$ 250</u>	<u>\$ 970</u>
EPS-fully diluted	<u>\$ 0.15</u>	<u>\$ 0.16</u>	<u>\$ 0.16</u>	<u>\$ 0.16</u>	<u>\$ 0.63</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>
Margin Analysis					
Gross Profit	3,370	3,385	3,400	3,420	13,575
GPM	82.9%	82.9%	82.8%	82.8%	82.9%
NI/Rev	5.8%	5.9%	6.0%	6.1%	5.9%
NI/Rent Income	5.8%	5.9%	6.0%	6.1%	5.9%
Total Exp/Rev	90.9%	90.8%	90.7%	90.6%	90.8%
As Per Cent of Rent Income					
Expenses:					
Management Fees	17.10%	17.14%	17.17%	17.19%	17.15%
Depreciation	31.49%	31.33%	31.18%	30.99%	31.25%
Interest	31.61%	31.58%	31.55%	31.48%	31.55%
SG&A	5.17%	5.26%	5.36%	5.45%	5.31%
Total Expenses	90.90%	90.82%	90.74%	90.56%	90.75%
Percent Change Year/Year					
Rent Income	9.84%	6.55%	4.72%	1.88%	5.65%