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Research Report – Update

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

AeroCentury Corp.

Rating: Speculative Buy

Howard Halpern

March 18, 2010

ACY $19.45 – (NYSE-AMEX)

	2008 A	2009 A	*2010 E*	*2011 E*
Total revenue (millions)	$31.8	$33.6	***$34.0***	***$34.8***
Earnings per share (diluted)	$2.08	$3.62	***$3.71***	***$3.78***

52-Week range	$24.95 – $4.55	Fiscal year ends:	December
Shares outstanding a/o 03/15/10	1.54 million	Lease revenue/share (ttm)	$17.30
Approximate float	1.20 million	Price/Sales (ttm)	1.1X
Market Capitalization	$30 million	Price/Sales (2011)E	1.0X
Book value/share	$26.24	Price/Earnings (ttm)	5.4X
Price/Book	0.7X	Price/Earnings (2011)E	5.1X

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.

<u>Key investment considerations:</u>

We are maintaining our Speculative Buy rating on AeroCentury (NYSE-AMEX: ACY) and raising our 12-month price target to $23.15 per share (prior was $18.80 per share). We raised our price target due to a 7.8% increase in our EPS forecast and applying for the first time, forward P/E multiples for ACY's peer group.

On March 3, 2009, ACY reported 4Q09 revenue increased by $0.5 million to $8.6 million. Net income was $1.9 million or $1.20 per share versus a net loss of $0.2 million or ($0.10) per share. The improvement in year-over-year results was due to a $2 million reduction in maintenance and interest expense.

2009 results beat our revenue and EPS forecasts by $400,000 and $0.41, respectively. Higher lease rates and deferment payments and a reduction in maintenance costs improved per share results.

In January 2010, the IMF issued revised global GDP forecasts. They are forecasting emerging and developing economies' GDP growth of 6.1% and 6.3% for 2010 and 2011, respectively. The International Air Transport Association forecasts worldwide passenger demand growth of 5.6% in 2010, up from its prior 4.5% forecast.

Our 2010 forecast is based on global economic and passenger demand growth and a reduction in the operating expense margin to 87.4% from 92.1% in 2009. For 2010, we project total revenue of $34 million (prior was $33.5 million) and net income of $5.8 million or $3.71 per share (prior was $5.3 million or $3.44 per share).

For 2011, we project revenue of $34.8 million and EPS of $3.78 per share. Our forecast is based on the re-leasing of aircraft, higher lease rates, and global economic growth. We have not included the purchase of aircraft or aircraft engines, which would lend upside potential to our projections.

Please view our Disclosures pages 13 - 15

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Recommendation

We are maintaining our Speculative Buy rating on AeroCentury (NYSE-AMEX: ACY). The company is well positioned to increase both operating lease revenue and net income through 2011. The company should be able to increase lease rates, re-lease aircraft that is scheduled to come off-lease, and use its newly renewed credit facility to purchase additional aircraft.

We are raising our twelve-month price target to $23.15 per share (prior was $18.80 per share, which was surpassed shortly after the March 3, 2010 release of 4Q09 results). Our price target has been raised due in part to a 7.8% increase in our EPS forecast (to $3.71 from $3.44) and applying, for the first time, forward P/E multiples for ACY's peer group (see table below) to our EPS forecast.

The four comparative rental and leasing airline companies we profile, all with larger market capitalizations (vs. ACY), have an aggregate price to (trailing) sales multiple of 1.1X versus 0.9X for AeroCentury.

Name	Symbol	Trade	Market Cap in $mil	EPS Est 2010	EPS Est 2011	P/E 2010 E	P/E 2011 E	Trailing Price/Sales
Aercap Holdings N.V. Ordinary S	AER	11.14	863	1.89	2.00	5.89	5.57	0.9
Aircastle Limited Common Stock	AYR	9.77	760	1.12	1.15	8.72	8.50	1.3
Babcock & Brown Air Limited Ame	FLY	10.08	302	1.10	0.81	9.16	12.44	1.4
Willis Lease Finance Corporatio	WLFC	15.05	151	2.38	2.79	6.32	5.39	1.1
						7.5	8.0	1.1
Company								
AeroCentury Corp.	ACY	19.45	30	3.71	3.78	5.2	5.1	0.9

Source: Yahoo data and Taglich Brothers estimates

Our price target is derived using a 7.8X price-to-earnings multiple, which is the average of the forward P/E multiples for ACY's peers, applied to our earnings per share estimate of $3.71 for the next four quarters. We discounted the result by 20% to account for microcap risk and potential earnings volatility due to the low share count. The result is a twelve-month price target of $23.15 per share, which implies year-ahead stock price appreciation of 19%.

The Company

AeroCentury Corp. based in Burlingame, California, was formed in 1997. ACY leases used commercial turboprop aircraft and equipment (e.g. engines) to foreign and domestic regional air carriers. Operations are managed by an affiliated company in which certain officers of ACY are also officers and significant shareholders.

The company earns a return on acquired aircraft and engines through leases and eventual sale. ACY reinvests cash flow in purchases of more assets that are then leased. As of December 31, 2009, the company's aircraft portfolio consisted of 43 aircraft and three GE CF34-8E aircraft engines (two are on lease until March 31, 2010).

Aircraft by Percentage of Net Book Value

Aircraft Type	# owned	# On Lease
Fokker 100s	7	7
deHavilland DHC-8-300s	8	8
Fokker 50s	14	13
GE CF34-8E engine	3	2
Saab 340Bs	6	6
deHavilland DHC-8-100s	3	3
Saab 340As	2	0
eHavilland DHC-6s	3	3

Source: Company reports – period ended 12/31/09

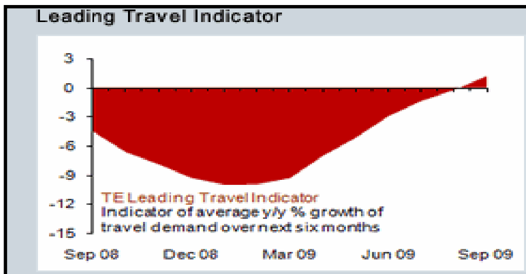
Six of ACY's leases expire during the first half of 2010 and 11 are scheduled to expire in the 2H10. At March 15, 2010, the company had four Fokker 50 aircraft and two Saab 340A aircraft on which leases had expired. ACY is negotiating a lease for the third engine (see table) that was off lease at the end of 2009. Given management's prior experiences it is likely that ACY could experience lower on-lease utilization rates due to longer remarketing times on returned aircraft.

Subsequent to the end of 2009 the following have occurred:

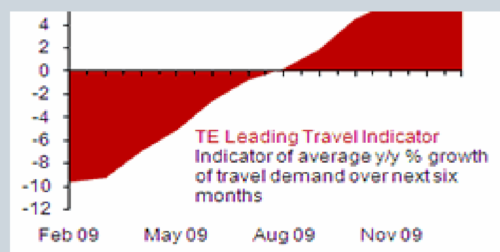
- In March 2010 a Fokker 50 aircraft that was returned in August 2008, was delivered after reaching a new lease agreement on December 15, 2009
- A lease that was due to expire in April 2010 was extended for two years
- Signed a term sheet for its two off-lease Saab 340A aircraft
- In February 2010, the lessee of three Fokker 50 aircraft returned two of them
- In February 2010, the lessee for two additional Fokker 50 aircraft, with leases expiring on March 1, 2010, declared bankruptcy. ACY has taken possession of the aircraft and is investigating its rights related to the cash security deposits and letter of credit
- In January 2010, notice was received from a lessee of a Dash-8-100 aircraft that it sustained significant damage. The insurer deemed the aircraft a total loss and ACY will be getting insurance proceeds (that will exceed net book value of the aircraft) and will be used to acquire a replacement aircraft

Outlook

In its March 2010 newsletter, the Travel Industry Association of America reported travel demand picking up with airline passenger revenue rising by 1.4%, the first year-over-year gain after 14 months of declines. In February 2010, global airline capacity grew by 5% from the prior year. This was the sixth consecutive monthly growth figure.



Source: Tourism Economics



Source: Tourism Economics

The TIA is seeing signs of recovery and predicts more than 15% of US adults are planning to travel on business during the next six months. For 2010, the TIA's is forecasting US domestic business travel volume to increase 2.5%.

The International Air Transport Association (IATA, which represents some 230 airlines comprising 93% of scheduled international air traffic) issued the following revised 2010 forecast in March 2010:

- Worldwide passenger demand, which fell 2.9% in 2009, should increase by 5.6% in 2010. Its prior forecast was a 4.5% increase.
- Premium travel, which is typically slower to recover, appears to be following a cyclical recovery. However, the forecast is still 17% below the 2008 peak.
- Globally, 2010 industry revenue is expected to rise by 9%, reaching $522 billion, up from $479 billion in 2009.

ACY's business is dependent upon general economic conditions and the strength of the travel and transportation industry. The industry is just beginning to recover from a prolonged period of financial difficulty and contraction due to the global recession. Also, financing restrictions caused by the credit crisis and a protracted economic downturn hurt the industry. During periods of economic contraction, carriers generally reduce capacity in response to lower passenger loads. As a result, there is reduced demand for aircraft, and potentially a corresponding decrease in market lease rental rates and aircraft values.

The global economic growth forecasted by the International Monetary Fund (IMF) should support the leasing and rental airline sector. On January 26, 2010, the IMF revised its global GDP forecasts. They are forecasting advanced economies GDP growth of 3.9% and 4.3% for 2010 and 2011, respectively. Emerging and developing economies are forecasted to grow 6.1% and 6.3% for 2010 and 2011, respectively.

IBISWorld predicts that airlines are more likely to lease a greater proportion of aircraft in order to provide flexibility in managing demand. According to IBISWorld, demand for air travel is expected to rise as economic conditions to improve. As disposable incomes and consumer and business confidence rise, people will return to the air for business and leisure travel. IBISWorld forecasts that revenue aircraft miles flown in the US will increase over the five year period ending in 2014. IBISWorld believes this should support positive trends for aircraft leasing services.

Projections

Operations

Our revenue forecast is based on the lease of approximately 42 aircraft and three aircraft engines within the company portfolio (see page two). Except for a lease termination and payment deferrals, ACY has not experienced significant changes in any of its customers' payment timeliness, but has seen some indications of a weakening in the financial condition and operating results of some customers. Mexico in particular has shown market weakness as drug-related violence deters tourism and travel. If the violence in Mexico were to escalate, it is likely to impact ACY's lessees' ability to pay their monthly rent. As of February 2010, ACY's operating lease revenue from Mexican lessees approximates 15% of monthly lease revenue payments.

For 2010, we forecast total revenue of $34 million and net income of $5.9 million or $3.71 per share. We previously estimated total revenue of $33.5 million and net income of $5.3 million or $3.44 per share. Total revenue primarily consists of lease revenue on at least 38 aircraft and two of the GE engines on lease for a major portion of 2010, and maintenance reserves income. We are not including any unusual events (sale/purchase of aircraft) that might contribute to the top line. The company will receive an insurance settlement on a damaged aircraft for an amount estimated to be in excess of book value.

As we expect operating expense trends to improve, our profit expectations have increased. We expect only a nominal increase in total operating expenses of $69,000 with an operating lease revenue increase of 5.7% in 2010. Due to leverage, the operating expense margin will improve to 87.4% from 92.1% in 2009.

For 2011, we project total revenue of $34.8 million and net income of $6 million or $3.78 per share. Operating expense margin should marginally improve to 86.5% from our 2010 forecast of 87.4%. Our forecast is based on modest rental rate increases and at least 39 aircraft and two engines on lease for a majority of the year, and flat operating expenses.

If the company purchases additional aircraft, our forecasts (for 2010 and 2011) will be adjusted to reflect additional aircraft lease revenue. The company has indicated that there are likely to be only a few acquisition opportunities for the first half of 2010. The timing of aircraft returns remains unclear. Until an aircraft is returned, rent is paid by the lessor even if the lease term has expired.

Our estimates for 2010 and 2011 are based in part on:

- Operating lease revenue of $28.6 million and $29.6 million, respectively. Our forecast is based on lease revenue for 38 and 39 aircraft for most of each year, respectively, along with modest increase in most leases
- Interest expense of $5.4 million and $5.8 million, respectively, versus, $5.2 million in 2009. Year-over-year increases reflect improving economic conditions causing upward pressure on variable interest rates
- SG&A expenses (including insurance), of nearly $1.2 million and $1.4 million, respectively, for 2010 and 2011. If the company purchases additional aircraft, expenses could be greater than forecasted
- Management fees and depreciation of $11.4 million and $11.3 million, respectively, for 2010 and 2011

– Maintenance, impairment, and bad debt expenses of $7 million and $7.1 million, respectively, for 2010 and 2011. As aircraft come off lease and are prepared for re-lease, it will cause a quarterly spike in maintenance expense. Our estimates are just an approximation and are subject to revision;
– A tax rate of approximately 35% for both periods

Our forecasts are also based on the following:

– Rent payment deferrals for four lessees totaling approximately $2.3 million, in order to assist certain lessees' difficult financial situations. A majority of the deferrals should be repaid during the 2H10
– A signed term sheet for a 39-month lease to a regional carrier in Argentina of two Saab 340A aircraft. Delivery is expected to in May 2010
– The extension of terms of six leases in 2009 and one in 2010

Finances
For 2010, we project cash throw-off of $14.3 million (versus $16.8 million in 2009) which should allow the company to continue paying down the debt on its credit facility and subordinated notes. In 2009, ACY paid down $17.8 million of debt and borrowed $8 million for the purchase of aircraft engines. We project an increase in 2010 working capital needs of $2 million, as the company will need to support an increase in accounts receivables and a decline in maintenance reserves. Cash generated from operations should approach $12.3 million. Cash at the end of 2010 should increase by $0.3 million to $1.6 million, as we project repayment of $12 million in debt and borrowings of $3 million.

For 2011, we project cash throw-off of $14.9 million, a decrease in working capital needs of $1.1 million, and cash generated from operations of $16 million. The decrease in working capital should result from a decline in accounts receivables. Our projection also reflects repayment of approximately $14.5 million of debt and borrowings of $2 million. We forecast a 2011 increase of $0.5 million in cash to approximately $2.1 million.

Recent Financials

On March 3, 2010, the company reported the following for 2009:

- Operating lease revenue was $27 million versus $24.4 million. Our estimate was $26.5 million
- Total revenue (including maintenance reserves and other) was $33.6 million versus $31.8 million. Our estimate was $33.2 million
- Total operating expense was $24.9 million versus $26.7 million
- Net income was $5.7 million or $3.62 per share versus net income of $3.3 million or $2.08 per share. Our estimate was $5.0 million or $3.21 per share

Revenue in 2009, which included maintenance reserves (non-refundable reserves earned based on lessee aircraft usage) increased by 5.7%. Maintenance reserves decreased to $6.1 million from $7.2 million, due to lower average usage of aircraft by some of the company's lessees and a higher number of off-lease aircraft (we estimate an average of three).

Operating lease revenues grew by 10.7% due to more aircraft available for lease and re-leases of aircraft that were off lease for part of 2008 and the first part of 2009, and re-leases of several aircraft at increased rental rates. Growth occurred in spite of two aircraft (the Saab 340A's) being off lease during a majority of 2009.

Other income increased by $231,000 mainly due to $245,400 of interest income earned on a June 2009 federal $1.6 million tax refund and a gain on an insurance settlement for damage to the company's spare Saab 340A aircraft engine.

2009 expenses decreased by $1.8 million resulting in operating expense margins narrowing to 92.1% from 109.3% in 2008. The decline in operating expenses was due to the following:

- Interest expense decreased by nearly $2 million to $5.2 million due to lower average interest rates on the credit facility and a gain in the fair value related to the company's interest rate swap, offset by an increase in net settlement interest related to the swap and an increase in subordinated notes interest and fee amortization
- SG&A expenses including insurance decreased by $101,000, due to lower audit-related accounting fees
- There was no provision for aircraft impairment in 2009, versus $745,000 impairment last year.

The overall decrease in expenses was partially offset by increases in the following:

- Maintenance expense increased by $0.4 million to $7.1 million due to the net effect of an increase in expense related to off-lease aircraft and a decrease in maintenance performed by lessees using non-refundable reserves
- Depreciation increased by $0.4 million due to purchases of aircraft and aircraft engines in July 2008 and August 2009, as well as changes in residual values for a number of its aircraft
- Management fees increased by $4,000 due to aircraft acquisitions

Operating margin in 2009 expanded to 32% of operating lease revenue from 21% in 2008. The expansion was due to 4Q09 interest expense reduction of $1 million.

Finances
The company's debt to equity ratio of 1.5 versus 7.1 for the industry, indicating that ACY is significantly less leveraged than other rental and leasing services companies.

Working capital needs decreased by $2 million due to increases in accounts receivables and deferred income taxes. Cash throw-off in 2009 totaled $16.8 million and included a June 2009 $1.6 million tax refund. Cash from operations totaled $18.9 million, enabling the company to purchase aircraft and aircraft engines and repay nearly $10 million of its credit facility and notes payable. At December 31, 2009, ACY's cash position decreased by $0.9 million to $1.3 million.

Based upon our forecasts for revenues and expenditures through the end of 2010 and 2011, we believe ACY should have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility and subordinated notes. The company's credit facility is scheduled to be renewed on or before March 31, 2010 on similar terms that have been in place since April 2007.

Future growth will be dependent on the availability of additional financing for acquisitions of leased assets. We project that the aircraft portfolio and renewal of aircraft leases as they come due (during 2010 and 20011) will provide the resources to sustain operation for the foreseeable future.

Credit Facility
At December 31, 2009, the company had outstanding $53.5 million under its $80 million senior revolving credit facility (that matures on March 31, 2010). The weighted average interest rate on the facility at September 30, 2009 and 2008 was 3.06% and 3.42%, respectively. In 2009, the company borrowed $8 million against the facility and repaid slightly more than $12.5 million. The company was in compliance with all covenants.

ACY has received commitments totaling $62.5 million from a new agent bank, as well as other participants, for a new two-year credit facility with a maximum of $110 million. Management anticipates that it will complete the agreements for the new credit facility no later than March 31, 2010.

During April 2007, ACY issued 16% senior unsecured subordinated notes. At December 31, 2009, the carrying amount of the subordinated notes was approximately $9 million (outstanding principal is $9.5 million less unamortized debt discount of approximately $0.5 million) and accrued interest payable was zero. The company was in compliance with all covenants under the subordinated notes agreement.
During December 2007, the company entered into a $20 million interest rate swap, which expired on December 31, 2009.

Competition

The company leases aircraft and aircraft engines to regional commercial aircraft operators. The competition in this market, which is primarily based on price and lease terms, consists of companies that offer financing, including leasing companies, banks and other financial institutions, and aircraft leasing partnerships.

The large participants in the aircraft leasing industry include, GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, Willis Lease Finance Corp. (NasdaqGM: WLFC), AerCap Holdings N.V. (NYSE: AER), Aircastle Limited (NYSE: AYR), Babcock & Brown Air Limited (NYSE: FLY), as well as AIRFUND Corporation (a private company that is a U.S. based commercial aircraft asset manager founded in 1984). All four of the publicly traded companies were profitable in 2009 (generating net income of approximately $19 million, $165 million, $115 million, and $89 million, respectively). AerCap, Aircastle, and Babcock & Brown had year-over-year profit gains, while Willis Lease reported a year-over-year decline in net income.

Risks

In our view, these are the principal risks underlying the stock:

Lessee Credit Risk
The company may be unable to enforce remedies as a result of defaults by its customers on lease obligations. Most of its lessees are small regional passenger airlines, which are more vulnerable than the major airlines.

Interest Rates
The company's credit facility carries a floating interest rate based upon short-term interest rate indices. Also, lease rates typically, but not always, move with interest rates, but market demand for the asset also affects lease rates. Because lease rates are fixed at the origination of leases, interest rate changes during the term of a lease have no effect on existing lease payments. A sharp increase in interest rates would raise interest expense and existing lease payments would be undervalued relative to what the market could bear under an increasing interest rate environment.

Financing
The company's current credit facility expires on March 31, 2010. The new credit facility that management is in negotiations for may not be finalized before March 31, 2010, if certain issues fail to get resolved.

Customer Concentration
For the month of February 2010, ACY's two largest customers located in Mexico and Antigua, accounted for approximately 15% and 13%, respectively, of monthly lease revenue. For 2009, its top five customers accounted for 58% operating lease revenue compared to 64% last year.

Stockholder Rights Plan
In December 2009, board of directors adopted a stockholder rights plan granting a dividend of one stock purchase right for each share of the company's common stock outstanding as of December 18, 2009. The plan is executable upon the acquisition of 15% of the company's outstanding common stock by a person or group. The plan expires on December 1, 2019. If executed because of a proposed acquisition or merger, significant dilution would occur, which would negatively impact earnings per share.

Shareholder Control
Neal Crispin, chairman, president, and principal stockholder, and Toni Perazzo, its CFO (wife of the company's chairman) have combined control of approximately 22% of AeroCentury Inc. common stock. They are potentially able to exercise undue influence on company decisions that may not be in the best interest of average shareholder.

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, during 2007, average daily volume was 33,831 shares traded per day. During 2008, average daily volume decreased to 10,862 shares a day and in 2009 average daily volume decreased further to 6,321 shares a day. On a relative basis, volume for this equity is very small and could lead to price volatility.

AeroCentury Inc.
Consolidated Balance Sheet
(in thousands)

	2008A	2009A	2010E	2011E
ASSETS				
Current assets:				
Cash & Equivalents	$ 2,170	$ 1,253	$ 2,005	$ 2,285
Accounts Receivable	2,023	3,165	3,416	2,873
Tax receivable	1,627	3	-	-
Prepaid Expense & Other	1,001	555	858	1,034
Total current assets	**6,820**	**4,976**	**6,279**	**6,192**
Aircraft & engines, net of depreciation	124,914	127,204	127,000	130,000
Total assets	**$ 131,734**	**$ 132,179**	**$ 133,279**	**$ 136,192**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts Payable and accrued expenses	$ 599	$ 625	$ 575	$ 703
Notes Payable and accrued interest	72,411	62,582	60,250	58,000
Maintenance deposits and accrued costs	8,095	9,913	9,349	9,384
Security deposits	5,499	5,566	5,000	5,500
Prepaid rent	1,073	1,009	750	850
Income taxes payable	52	5	-	-
Total current liabilities	**87,729**	**79,699**	**75,923**	**74,437**
Deferred Income Taxes	9,169	11,988	9,000	10,000
Total Liabilities	**96,898**	**91,687**	**84,923**	**84,437**
Stockholders' equity:				
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2
Paid-in capital	14,780	14,780	14,780	14,780
Retained earnings	20,558	26,215	34,078	37,478
Treasury Stock, at cost	(504)	(504)	(504)	(504)
Total stockholders' equity	**34,835**	**40,493**	**48,356**	**51,756**
Total liabilities and stockholders' equity	**$ 131,734**	**$ 132,179**	**$ 133,279**	**$ 136,192**
SHARES OUT	1,543	1,543	1,543	1,543

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

	2008A	2009A	**2010E**	**2011E**
Revenues:				
Operating lease revenue	$ 24,407	$ 26,462	**$ 28,595**	**$ 29,555**
Maintenance reserves income	7,170	6,207	**5,400**	**5,200**
Gain(loss) on disposal of assets	15	-	**-**	**-**
Other Income	203	488	**-**	**-**
Total Revenues	31,795	33,157	**33,995**	**34,755**
Expenses:				
Management Fees	3,676	3,678	**3,690**	**3,730**
Depreciation	7,223	7,663	**7,680**	**7,600**
Interest	7,154	5,367	**5,375**	**5,760**
SG&A	1,128	965	**1,235**	**1,375**
Maintenance	6,771	7,767	**7,000**	**7,100**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	714	57	**-**	**-**
Total Expenses	26,665	25,497	**24,980**	**25,565**
Operating Income	5,130	7,660	**9,015**	**9,190**
Taxes(Benefit)	1,837	2,688	**3,135**	**3,190**
Tax Rate	*35.82%*	*35.09%*	*34.78%*	*34.71%*
Net Income	$ 3,292	$ 4,972	**$ 5,880**	**$ 6,000**
EPS-fully diluted includes insurance settlement	$ 2.08	$ 3.21	**$ 3.71**	**$ 3.78**
Avg Shares Out-fully diluted	1,585	1,549	**1,586**	**1,586**
Margin Analysis				
Gross margin	88.4%	88.9%	**89.1%**	**89.3%**
Operating margin	16.1%	23.1%	**26.5%**	**26.4%**
NI/Rev	10.4%	15.0%	**17.3%**	**17.3%**
NI/Rent Income	13.5%	18.8%	**20.6%**	**20.3%**
Total Exp/Rev	83.9%	76.9%	**73.5%**	**73.6%**
As Percent of operating lease revenue				
Expenses:				
Management Fees	15.06%	13.90%	**12.90%**	**12.62%**
Depreciation	29.59%	28.96%	**26.86%**	**25.71%**
Interest	29.31%	20.28%	**18.80%**	**19.49%**
SG&A	4.62%	3.65%	**4.32%**	**4.65%**
Total Expenses	109.25%	96.35%	**87.36%**	**86.50%**
Percent Change Year/Year				
Operating lease revenue	25.73%	8.42%	**3.93%**	**2.04%**

AeroCentury Inc.
Quarterly Income Statement
For the Years Ending December 31,
(in thousands)

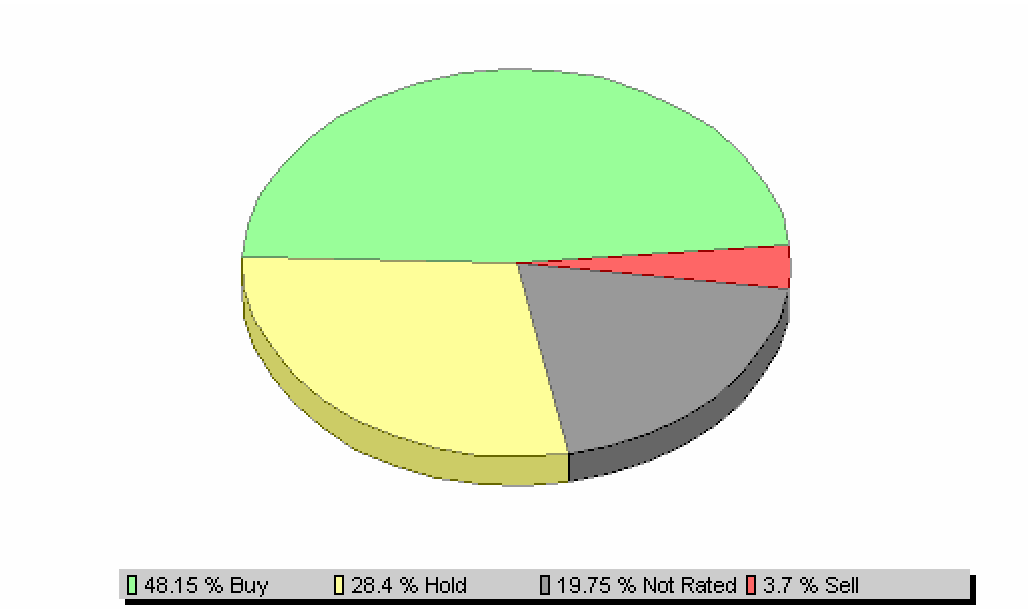
	2008A	Q1 (3/09)A	Q2 (6/09)A	Q3 (9/09) A	Q4 (12/09)A	2009A	Q1 (3/10)E	Q2 (6/10)E	Q3 (9/10) E	Q4 (12/10)E	2010E	Q1 (3/11)E	Q2 (6/11)E	Q3 (9/11) E	Q4 (12/11)E	2011E
Revenues:																
Rent Income	**$ 24,407**	$ 6,469	$ 6,441	$ 6,852	$ 7,283	**$ 27,046**	$ 6,970	$ 6,990	$ 7,265	$ 7,370	**$ 28,595**	$ 7,235	$ 7,335	$ 7,475	$ 7,510	**$ 29,555**
Maintenance reserves income	**7,170**	1,568	1,543	1,597	1,360	**6,068**	1,350	1,350	1,350	1,350	**5,400**	1,300	1,300	1,300	1,300	**5,200**
Gain(loss) on disposal of assets	**15**	-			-	**-**	-	-		-	**-**	-	-	-	-	**-**
Other Income	**203**	6	258	224	(38)	**450**	-	-	-	-	**-**	-	-	-	-	**-**
Total Revenues	**31,795**	8,044	8,241	8,674	8,605	**33,564**	8,320	8,340	8,615	8,720	**33,995**	8,535	8,635	8,775	8,810	**34,755**
Expenses:																
Management Fees	**3,676**	927	913	918	922	**3,681**	915	925	930	920	**3,690**	925	930	940	935	**3,730**
Depreciation	**7,223**	1,908	1,908	1,912	1,916	**7,644**	1,920	1,920	1,920	1,920	**7,680**	1,900	1,900	1,900	1,900	**7,600**
Interest	**7,154**	1,410	1,381	1,276	1,136	**5,202**	1,300	1,325	1,350	1,400	**5,375**	1,385	1,425	1,450	1,500	**5,760**
SG&A includes insurance	**1,128**	351	252	113	311	**1,027**	360	200	200	475	**1,235**	375	250	250	500	**1,375**
Maintenance	**6,771**	1,505	1,710	2,702	1,232	**7,149**	1,750	1,750	1,750	1,750	**7,000**	1,775	1,775	1,775	1,775	**7,100**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	**714**	57	-	-	151	**208**	-	-	-	-	**-**	-	-	-	-	**-**
Total Expenses	**26,665**	6,157	6,164	6,922	5,668	**24,911**	6,245	6,120	6,150	6,465	**24,980**	6,360	6,280	6,315	6,610	**25,565**
					150.90											
Operating Income	**5,130**	1,887	2,077	1,752	2,937	**8,653**	2,075	2,220	2,465	2,255	**9,015**	2,175	2,355	2,460	2,200	**9,190**
Operating Margin	16.13%	23.45%	25.20%	20.20%	34.13%	25.78%	24.94%	26.62%	28.61%	25.86%	26.52%	25.48%	27.27%	28.03%	24.97%	26.44%
Taxes(Benefit)	**1,837**	648	709	606	1,031	**2,996**	725	775	850	785	**3,135**	750	810	860	770	**3,190**
Tax Rate	*35.82%*	*34.36%*	*34.15%*	*34.61%*	*35.12%*	*34.62%*	*34.94%*	*34.91%*	*34.48%*	*34.81%*	*34.78%*	*34.48%*	*34.39%*	*34.96%*	*35.00%*	*34.71%*
Net Income	**$ 3,292**	$ 1,238	$ 1,368	$ 1,146	$ 1,905	**$ 5,657**	$ 1,350	$ 1,445	$ 1,615	$ 1,470	**$ 5,880**	$ 1,425	$ 1,545	$ 1,600	$ 1,430	**$ 6,000**
EPS-fully diluted	**$ 2.08**	$ 0.80	$ 0.89	$ 0.73	$ 1.20	**$ 3.62**	$ 0.85	$ 0.91	$ 1.02	$ 0.93	**$ 3.71**	$ 0.90	$ 0.97	$ 1.01	$ 0.90	**$ 3.78**
Avg Shares	**1,585**	1,543	1,543	1,567	1,586	**1,563**	1,586	1,586	1,586	1,586	**1,586**	1,586	1,586	1,586	1,586	**1,586**
Margin Analysis																
Gross margin	**88.4%**	88.5%	88.9%	89.4%	89.3%	**89.0%**	89.0%	88.9%	89.2%	89.4%	**89.1%**	89.2%	89.2%	89.3%	89.4%	**89.3%**
Operating margins	**21.0%**	23.5%	25.2%	20.2%	34.1%	**32.0%**	24.9%	26.6%	28.6%	25.9%	**26.5%**	25.5%	27.3%	28.0%	25.0%	**26.4%**
NI/Rev	**10.4%**	15.4%	16.6%	13.2%	22.1%	**16.9%**	16.2%	17.3%	18.7%	16.9%	**17.3%**	16.7%	17.9%	18.2%	16.2%	**17.3%**
NI/Rent Income	**13.5%**	19.1%	21.2%	16.7%	26.2%	**20.9%**	19.4%	20.7%	22.2%	19.9%	**20.6%**	19.7%	21.1%	21.4%	19.0%	**20.3%**
Total Exp/Rev	**83.9%**	76.5%	74.8%	79.8%	65.9%	**74.2%**	75.1%	73.4%	71.4%	74.1%	**73.5%**	74.5%	72.7%	72.0%	75.0%	**73.6%**
As Per Cent of Rent Income																
Expenses:																
Management Fees	**15.1%**	14.3%	14.2%	13.4%	12.7%	**13.6%**	13.1%	13.2%	12.8%	12.5%	**12.9%**	12.8%	12.7%	12.6%	12.5%	**12.6%**
Depreciation	**29.6%**	29.5%	29.6%	27.9%	26.3%	**28.3%**	27.5%	27.5%	26.4%	26.1%	**26.9%**	26.3%	25.9%	25.4%	25.3%	**25.7%**
Interest	**29.3%**	21.8%	21.4%	18.6%	15.6%	**19.2%**	18.7%	19.0%	18.6%	19.0%	**18.8%**	19.1%	19.4%	19.4%	20.0%	**19.5%**
SG&A	**4.6%**	5.4%	3.9%	1.7%	4.3%	**3.8%**	5.2%	2.9%	2.8%	6.4%	**4.3%**	5.2%	3.4%	3.3%	6.7%	**4.7%**
Total Expenses	**109.3%**	95.2%	95.7%	101.0%	77.8%	**92.1%**	89.6%	87.6%	84.7%	87.7%	**87.4%**	87.9%	85.6%	84.5%	88.0%	**86.5%**
Percent Change Year/Year																
Rent Income	**25.7%**	9.8%	11.8%	8.0%	13.6%	**10.8%**	7.7%	8.5%	6.0%	1.2%	**5.7%**	3.8%	4.9%	2.9%	1.9%	**3.4%**

AeroCentury Inc.
Annual and Projected
Cash Flow Statement
(in thousands)

	2008A	2009A	2010E	2011E
Cash Flows from Operating Activities				
Net Income	$ 3,293	$ 5,657	$ 5,880	$ 6,000
Loss (gain) on sale of aircraft and aircraft engines	(15)	(75)	-	-
Depreciation	7,222	7,644	7,680	7,700
Provision for impairment in value of aircraft	745	-	-	-
Non-cash interest	1,251	593	500	650
Provision for bad debt	1	209	250	300
Deferred Taxes	1,520	2,818	(2,988)	1,000
	14,018	16,847	11,322	15,650
Changes In:				
Accounts receivable	(376)	(1,104)	(250)	542
Taxes receivable	209	1,624	3	-
Prepaid expenses and other	(112)	(113)	(303)	(177)
Accounts payable and accrued expenses	(104)	(180)	(50)	128
Accrued interest on notes payable	(64)	18	-	-
Maintenance reserves and accrued costs	2,070	1,818	(564)	35
Security Deposits	(198)	67	(566)	500
Prepaid rent	45	(64)	(259)	100
Unearned income	-	-	-	-
Taxes payable	(176)	(47)	(5)	-
Net Changes in Working Capital	1,294	2,019	(1,995)	1,129
Net cash Provided by Operations	15,312	18,867	9,328	16,779
Cash Flows from Investing Activities				
Payments received on note receivable	-	-	-	-
Issuance of note receivable	-	-	-	-
Proceeds from disposal of assets	15	-	-	-
Purchase of aircraft and aircraft engines	(13,930)	(9,902)	(3,000)	(3,000)
Net cash used in Investing	(13,915)	(9,902)	(3,000)	(3,000)
Cash Flows from Financing Activities				
Borrowings under credit facility	12,500	8,000	2,500	
Issuance of notes payable	3,960	-	-	-
Debt issuance costs	286	-	-	-
Repayment of credit facility and note payable	(18,817)	(17,882)	(8,075)	(13,500)
Net cash provided by Financing	(2,071)	(9,882)	(5,575)	(13,500)
Net change in Cash	(674)	(917)	753	279
Cash Beginning of Period	2,843	2,170	1,253	2,005
Cash End of Period	$ 2,170	$ 1,253	$ 2,005	$ 2,285

Price Chart

Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.70%
Hold	1	33.33%
Sell	0	0
Not Rated	0	0

Important Disclosures

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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.

Public Companies mentioned in this report:

AerCap Holdings N.V.	(NYSE: AER)
Aircastle Limited	(NYSE: AYR)
American International Group	(NYSE: AIG)
Babcock & Brown Air Limited	(NYSE: FLY)
CIT Group	(NYSE: CIT)
Tyco Inc.	(NYSE: TYC)
Willis Lease Finance Corp.	(NasdaqGM: WLFC)

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.