Research Report – Update

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

AeroCentury Corp.

Rating: Neutral

Howard Halpern
March 30, 2007

ACY $15.31 – (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	$0.53	***$0.62***

52-Week range	$24.50 – $3.95	Fiscal year ends:	December
Shares outstanding a/o 11/13/06	1.61 million	Rent income/shares (ttm)	$10.05
Approximate float	1.05 million	Price/Sales (ttm)	1.5X
Market Capitalization	$25 million	Price/Sales (2007)E	1.4X
Book value/share	$12.67	Price/Earnings (ttm)	28.9X
Price/Book	1.2X	Price/Earnings (2007)E	24.7X

*** 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.

<u>Key investment considerations:</u>

We are reiterating our Neutral rating on shares of AeroCentury (AMEX: ACY). We believe it is prudent see how the adoption of FASB Staff Position AUG AIR-1 will impact operating results prior to committing investment capital.

Beginning in Q1 2007, the Company adopted AUG AIR-1; therefore, it must discontinue the accrue-in-advance method of accounting for planned major maintenance. The Company's adoption of AUG AIR-1 will require the accrual of non-refundable maintenance reserves as income and performance of maintenance work as an expense. Management believes that reported net income maybe subject to greater fluctuations from quarter-to-quarter as compared to historic results.

Investors need to be aware that the Company's longer term viability will depend upon its ability to renew its credit facility at its expiration (October 31, 2007) with the existing or replacement lenders, or to refinance the credit facility using equity or alternative debt financing.

On March 15, 2007, ACY filed its 10-K and reported 2006 total revenues of $18.32 million versus $13.50 million. 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. According to the 10-K filing, net income for the year was $0.817 million or $0.53 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 $0.952 million or $0.62 per diluted share. Our prior forecast called for total revenue of $16.39 million and net income of $0.970 million or $0.63 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 11.***

The Company

AeroCentury Corp. (AMEX: ACY), based in Burlingame, California, was formed in 1997. ACY is engaged in the business of ownership, management, leasing, and acquisition of turboprop aircraft and engines. The primary focus is on used commercial turboprop aircraft equipment for lease to foreign and domestic regional air carriers.

The Company's mission is to increase stockholder value by acquiring aircraft assets and managing those assets in order to provide a return on investment through lease revenue and the eventual sale of the asset. Management believes it can achieve the Company's mission by reinvesting cash flow, as well as successfully executing on asset selection, lessee selection, and obtaining acquisition financing.

Of note, as of December 31, 2006, all of the Company's aircraft (36) were on lease. Also, during November 2006, the Company leased its reserve turboprop engine.

Recent Developments

The following occurred during January 2007: 1) the lease for one of the Company's DHC-6 aircraft was extended through April 30, 2009; and 2) the Company and the lessee of its two Saab 340A aircraft, which have leases expiring in May and July 2008, began discussing the early return of the aircraft based on the lessee's anticipated financial difficulties.

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.

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.

According to the Company's 2006 10-K filing, net income for year was $0.817 million or $0.53 per diluted share versus a net income of $0.193 million or $0.13 per diluted share 2005. Investors should note that on February 6, 2007, the Company issued and earnings release in which it was stated that net income for 2006 was $0.954 million or $0.62 per diluted share. However, on March 9, 2006, the Company issued a correction to net income since during the course of preparing its 2006 annual report Management determined that the results announced in February incorporated an inaccurate tax provision. The correct results are reflected in the Company's 2006 10-K filing.

In comparison, Taglich Brothers' estimates called for total revenue of $18.199 million and net income of $0.555 million or $0.36 per diluted share.

Balance Sheet as of December 31, 2006

The Company only provided the following balance sheet data:

- Total assets increased to $98.505 million versus $96.547 million at December 31, 2005;
- Total liabilities increased to $78.157 million versus $77.557 million at December 31, 2005; and
- Shareholders' equity increased to $20.348 million versus $18.990 million at December 31, 2005.

The Company ended 2006 with cash and cash equivalents of $3.384 million versus $0.619 million at December 31, 2005. Total outstanding notes payable and accrued interest declined to $57.907 million versus $58.337 million at the end of fiscal 2005.

On November 10, 2005, an agreement was reached to renew the maturity date of the Company's $50.0 million credit facility until October 31, 2007. In connection with the renewal of the facility, certain financial covenants were modified. The applicable margin will range between 275 to 325 basis points above LIBOR based on certain financial ratios. In May 2006, 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. During 2006, the Company repaid $3.0 million of the outstanding principal under it credit facility. At the end of the fourth quarter of 2006, $50.896 million was outstanding under the credit facility. As of December 31, 2006, according to the Company's 10-K filing, the Company was in compliance with all covenants under its credit facility.

Investors should be aware that during November 2005, the Company refinanced two DHC-8 aircraft that were part of its credit facility collateral base, using bank financing separate from its credit facility. The aircraft were transferred to AeroCentury V LLC, a special purpose LLC, which borrowed $6.4 million at a fixed interest rate of 7.87% and is due November 10, 2008. The note is collateralized by the aircraft of this new non-recourse subsidiary (which means that if a default were to occur it would not impact ACY's base business). Repayments of this financing consists of monthly principal and interest payments through April 22, 2008, interest only from April 22, 2008 until the maturity date, and a balloon principal payment due at maturity. According to the 2006 10-K filing, the balance of the note payable at December 31, 2006 was $5.421 million and ACY was in compliance with all covenants related to this obligation.

In April 2006, the Company refinanced a note obligation for an aircraft previously owned by AeroCentury II LLC, using bank financing from another lender. The aircraft was transferred to AeroCentury VI LLC, a special purpose LLC, which borrowed $1.650 million due October 15, 2009. The note bears interest at an adjustable rate of one-month LIBOR plus 3%. The note is collateralized by the aircraft and the Company's interest in AeroCentury VI LLC. Payments due under the note consist of monthly principal and interest through April 20, 2009, interest only from April 20, 2009 until the maturity date, and a balloon principal payment due on the maturity date. If the aircraft lease agreement is terminated on April 15, 2008 pursuant to a lessee early termination option, the note will be due October 15, 2008, and the interest only period will be from April 20, 2008 through October 15, 2008. According to the 2006 10-K filing, the balance of the note payable at December 31, 2006 was $1.421 million and ACY was in compliance with all covenants related to this obligation.

Management believes that the Company will have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility. Their belief is based on each advance on its credit facility being able to fund a portion of a new acquisition of an asset subject to a lease with the lease revenue expected to be greater than the incremental increase in required for interest payments arising from the advance. However, future growth is likely to depend on the availability of such additional financing for acquisitions of leased assets.

Competitive Environment

The Company targets regional commercial aircraft operators that are seeking to lease aircraft under an operating lease. The competition in this market, which is primarily based on price and lease terms, comes from 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 International Lease Finance Corp., a subsidiary of American International Group (NYSE: AIG), the CIT Group (NYSE: CIT), GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, and Willis Lease Finance Corp. (NasdaqGM: WLFC).

Impacting the leasing of aircraft for all industry participants had been relatively low interest rates, which caused lease rates to decline upon the releasing of an aircraft. Since mid-2004, interest rates have trended higher as reflected by seventeen 25 basis points increases in interest rates, by the Federal Reserve. However, that may have come to an end in August 2006, when the Federal Reserve began to pause its consecutive streak of interest rate hikes. Only time will tell whether the Federal Reserve will resume its previous 25 basis point increases in interest rates.

According to the Travel Industry Association of America (TIA), after years of little travel volume growth combined with significantly lower travel spending, 2005 was the year of recovery the industry has been awaiting. It was the first year since 2000 that all travel industry sectors experience increased demand. The TIA is reporting that overall traveler spending by domestic and international visitors increased by 7.7% to $653.8 billion in 2005, versus an estimated $606.9 billion in 2004. The TIA is forecasting that number to increase by approximately 7.5% in 2006 to $702.5 billion and 5.3% in 2007 to $739.6 billion.

Outlook and Projections

Given 2006 full year results and review of the 10-K filing, 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 vary significantly due to the adoption of AUG AIR-1). Beginning in Q1 2007, the Company adopted AUG AIR-1; therefore, it must discontinue the accrue-in-advance method of accounting for planned major maintenance. AUG AIR-1 will require the accrual of maintenance work in connection with the release of maintenance reserves to be reflected as an expense when maintenance is actually performed. Management believes that reported net income maybe subject to greater fluctuations from quarter-to-quarter as compared to historic results.

Supporting our projections for the upcoming year should be ACY having a combination of approximately thirty-six aircraft and one aircraft engine within its portfolio, (as of December 31, 2006). Also, during November 2006, the Company leased its reserve turboprop engine. In January 2007, ACY and the lessee of the Company's two Saab 340A aircraft, which have leases expiring in May and July 2008, began discussing the early return of the aircraft based on the lessee's anticipated financial difficulties. Also, the Company is seeking re-lease or sale opportunities for these assets and the next scheduled expiration of one of the Company’s aircraft leases is in April 2007 (Management expects it to be extended at that time). In general, 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 $0.952 million or $0.62 per diluted share. Our prior expectation was for total revenue of $16.385 million and net income of $0.970 million or $0.63 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 37.16% versus 36.63% reported in 2006.

Investors should be aware that if additional purchases of 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. AUG AIR-1 allows major maintenance activities to be accounted for in one of three ways: 1) the built-in overhaul method, 2) the deferral method, or 3) the direct expensing method. Management evaluated the impact of the adoption of this new staff position and determined that, going forward, it will use the direct expensing method, under which actual costs incurred are expensed directly. This will require the accrual of non-refundable maintenance reserves from the Company's lessees for planned major maintenance to be reflected as income and performance of maintenance work in connection with the re-lease of maintenance reserves to be reflected as an expense (when maintenance is actually performed). Since the total amount of maintenance reserves accrued in any given period usually exceeds the amount of maintenance expense, it is likely that the Company's net income under the new accounting method will be higher than it would have been under the previous method. **In addition, because the net effect of income from maintenance reserves and maintenance expense in any given period will vary, it is likely that the new accounting method will result in uneven effects on the Company's results of operations.**

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". SAB #108 is effective for fiscal years ending after November 15, 2006. In the course of evaluating balance sheet amounts Management under SAB #108, identified the following adjustments as of January 1, 2006, as a result of:

- Non-refundable maintenance reserves received at the time four aircraft were purchased in 1999, which should have been treated as a tax basis reduction rather than a liability for maintenance reserves, a net decrease to the Company's deferred tax liability in the amount of $0.269 million;
- Funds received from the seller when the Company purchased an aircraft in 2004, which should have been treated as a reduction in the purchase price rather than as a liability for maintenance reserves and incorrect tax treatment of a portion of maintenance reserves as non-refundable instead of refundable, a decrease of $0.288 million to both the cost basis of the Company's aircraft and maintenance reserves and accrued costs, a decrease of $0.034 million in accumulated depreciation, an increase of $0.012 million in accounts receivable, and an increase of $0.015 million in deferred tax liabilities; and
- Reversal of tax liabilities due to a lower anticipated state tax rate than was provided for at the time of the Company's incorporation, a decrease of $0.137 million to deferred tax liabilities;

- Incorrect treatment of interest related to maintenance reserves for one aircraft as additional reserves rather than income, a decrease of $0.103 million to refundable maintenance reserves.

These amounts were recorded in immaterial amounts prior to 2006; however, using the dual evaluation approach prescribed by SAB 108, correction of the above amounts would be material to current year earnings. These adjustments resulted in a net addition to retained earnings in the amount of $0.541 million.

Credit Facility
At December 31, 2006, $50.896 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 December 31, 2006, according to the Company's 10-K it was in compliance with all covenants related to this obligation.

Investors need to be aware that the Company's longer term viability will depend upon its ability to renew its credit facility at its expiration (October 31, 2007) with the existing or replacement lenders, or to refinance the credit facility using equity or alternative debt financing.

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: 1) the availability of funds to be used for the equity portion of the financing; 2) the type of asset being financed; 3) the creditworthiness of the underlying lessee; and 4) 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, 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 Company's 2006 10-K filing, stated that its six largest customers are located in Belgium, Taiwan, the Caribbean, Norway, the United States, and Sweden, account for approximately 14%, 12%, 12%, 11%, 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 March 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, February, and March 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.

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.

International Risks
The Company has focused on leases in overseas markets, which may present somewhat different risks than those with domestic lessees. Foreign laws, regulations and judicial procedures may be more or less protective of lessor rights than those which apply in the United States. Also, the Company could experience collection or repossession problems related to the enforcement of its lease agreements under foreign local laws and the remedies in foreign jurisdictions.

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 two months of 2007, average daily volume surged to 90,953 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.

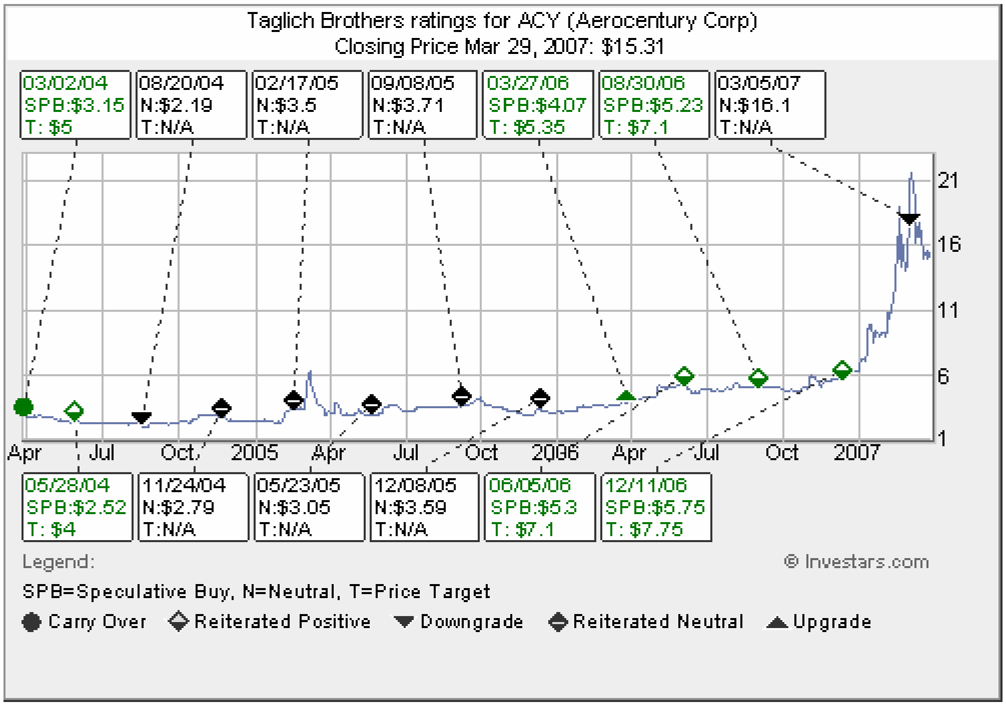
Conclusion

We reiterate our Neutral rating on shares of AeroCentury (AMEX: ACY). We believe it is prudent see how the adoption of FASB Staff Position AUG AIR-1 will impact operating results

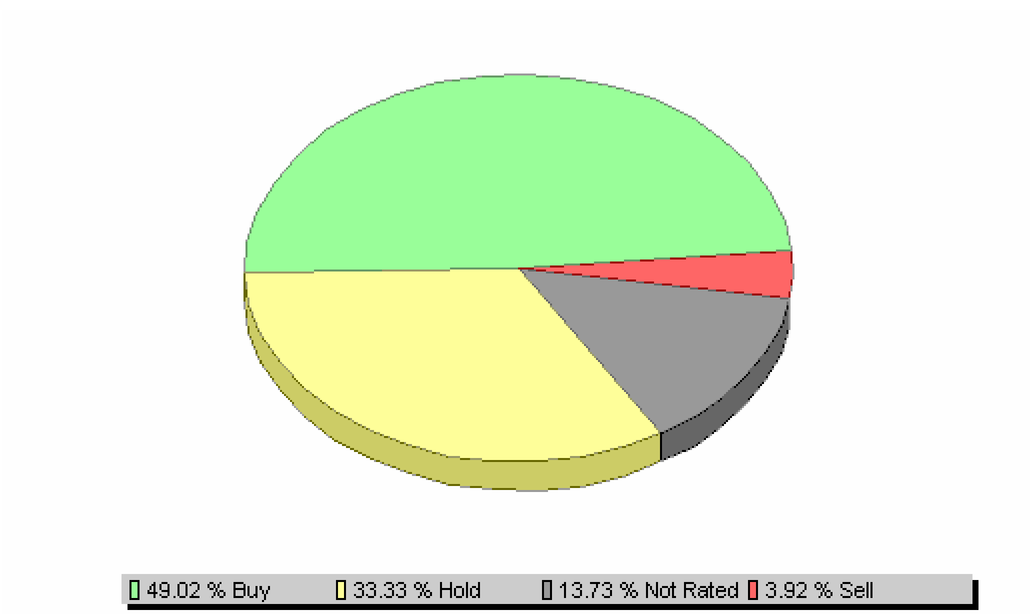
Beginning in Q1 2007, the Company adopted AUG AIR-1; therefore, it must discontinue the accrue-in-advance method of accounting for planned major maintenance. The Company's adoption of AUG AIR-1 will require the accrual of non-refundable maintenance reserves as income and performance of maintenance work as an expense. Management believes that reported net income maybe subject to greater fluctuations from quarter-to-quarter as compared to historic results.

Also, investors need to be aware that the Company's longer term viability will depend upon its ability to renew its credit facility at its expiration (October 31, 2007) with the existing or replacement lenders, or to refinance the credit facility using equity or alternative debt financing.

Between January 3, 2007 and March 29, 2007, nearly 5.1X the float or 5.356 million shares have changed hands. The heavy volume coincided with upward share price momentum. During the same time period (January 3, 2007 and March 29, 2007), ACY share price was as low as $6.58 and as high as $24.50. We believe price consolidation is likely to occur over the near term.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7.14%
Hold	0	0
Sell	0	0
Not Rated	0	0

<u>Meaning of Ratings</u>

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)

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	Dec. '06 Year End
ASSETS			
Current assets:			
Cash & Equivalents	$ 2,404	$ 619	$ 3,384
Accounts Receivable	6,455	1,128	864
Note receivable	295	-	-
Prepaid Expense & Other	410	1,036	582
Total current assets	**9,563**	**2,783**	**4,830**
Aircraft & engines, net of depreciation	72,621	93,763	93,675
Total assets	**$ 83,932**	**$ 96,547**	**$ 98,505**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts Payable and accrued expenses	$ 868	$ 1,175	$ 351
Notes Payable and accrued interest	48,990	58,337	57,907
Maintenance deposits and accrued costs	10,293	13,368	14,111
Security deposits	1,775	3,125	4,187
Prepaid rent	405	447	474
Unearned income	3	-	-
Income Taxes Payable	1,704	48	-
Total current liabilities	**64,037**	**76,499**	**77,030**
Long-Term debt-net of current	-	-	-
Deferred Income Taxes	1,098	1,057	1,127
Total Liabilities	**65,134**	**77,557**	**78,157**
Stockholders' equity:			
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2
Paid-in capital	13,821	13,821	13,821
Retained earnings	5,478	5,671	7,029
Accumulated deficit	-	-	-
Treasury Stock, at cost	(504)	(504)	(504)
Total stockholders' equity	**18,797**	**18,990**	**20,348**
Total liabilities and stockholders' equity	**$ 83,932**	**$ 96,547**	**$ 98,505**
SHARES OUT	1,607	1,607	1,607

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

	FY2004A *	FY2005A	FY2006A	**FY2007E**
Revenues:				
Rent Income	$ 8,996	$ 11,387	$ 15,509	**$ 16,385**
Gain(loss) on disposal of assets	1,748	(48)	409	**-**
Other Income	160	2,161	2,404	**-**
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	803	180	49	**-**
Total Expenses	10,501	13,160	17,032	**14,870**
Operating Income	403	339	1,290	**1,515**
Operating Margin	3.70%	2.51%	7.04%	9.25%
Taxes(Benefit)	137	146	472	**563**
Tax Rate	*33.90%*	*43.10%*	*36.63%*	*37.16%*
Net Income	$ 266	$ 193	$ 817	**$ 952**
EPS-fully diluted includes insurance settlement	$ 0.17	$ 0.13	$ 0.53	**$ 0.62**
Avg Shares Out-fully diluted	1,543	1,543	1,543	**1,543**
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%	4.5%	**5.8%**
NI/Rent Income	3.0%	1.7%	5.3%	**5.8%**
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%	31.95%	**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)

	(3/05)Q1A	(6/05)Q2A	(9/05)Q3A	(12/05)Q4A	FY2005A
Revenues:					
Rent Income	$ 2,522	$ 2,738	$ 2,956	$ 3,170	$ 11,387
Gain(loss) on disposal of assets	(60)	-	-	11	(48)
Other Income	78	16	0	2,066	2,161
Total Revenues	2,540	2,755	2,957	5,248	13,499
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	12	88	-	79	180
Total Expenses	2,492	2,698	2,876	5,094	13,160
Operating Income	48	57	81	153	339
Operating Margin	1.89%	2.05%	2.74%	2.92%	2.51%
Taxes(Benefit)	8	10	29	98	146
Tax Rate	*17.16%*	*17.68%*	*35.63%*	*64.10%*	*43.10%*
Net Income	$ 40	$ 47	$ 52	$ 55	$ 193
EPS-fully diluted	$ 0.03	$ 0.03	$ 0.03	$ 0.04	$ 0.13
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	1,543
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)

	(3/06)Q1A	(6/06)Q2A	(9/06)Q3A	(12/06)Q4A	FY2006A
Revenues:					
Rent Income	$ 3,701	$ 3,834	$ 3,920	$ 4,054	$ 15,509
Gain(loss) on disposal of assets	-	409		-	409
Other Income	2,387	4	10	4	2,404
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	49	-	-	-	49
Total Expenses	5,939	4,121	3,598	3,374	17,032
Operating Income	149	126	332	683	1,290
Operating Margin	2.45%	2.97%	8.44%	16.83%	7.04%
Taxes(Benefit)	44	40	113	275	472
Tax Rate	*29.54%*	*32.04%*	*33.94%*	*40.32%*	*36.63%*
Net Income	$ 105	$ 86	$ 219	$ 408	$ 817
EPS-fully diluted	$ 0.07	$ 0.06	$ 0.14	$ 0.26	$ 0.53
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	1,543
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%	10.0%	4.5%
NI/Rent Income	2.8%	2.2%	5.6%	10.1%	5.3%
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%	31.95%
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)

	(3/07)Q1E	(6/07)Q2E	(9/07)Q3E	(12/07)Q4E	FY2007E
Revenues:					
Rent Income	$ 4,065	$ 4,085	$ 4,105	$ 4,130	$ 16,385
Gain(loss) on disposal of assets	-	-		-	-
Other Income	-	-	-	-	-
Total Revenues	4,065	4,085	4,105	4,130	16,385
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	225	225	225	225	900
Total Expenses	3,695	3,710	3,725	3,740	14,870
Operating Income	370	375	380	390	1,515
Operating Margin	9.10%	9.18%	9.26%	9.44%	9.25%
Taxes(Benefit)	138	140	142	143	563
Tax Rate	*37.30%*	*37.33%*	*37.37%*	*36.67%*	*37.16%*
Net Income	$ 232	$ 235	$ 238	$ 247	$ 952
EPS-fully diluted	$ 0.15	$ 0.15	$ 0.15	$ 0.16	$ 0.62
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	1,543
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	5.7%	5.8%	5.8%	6.0%	5.8%
NI/Rent Income	5.7%	5.8%	5.8%	6.0%	5.8%
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%

AeroCentury Inc.
Cash Flow Statement
(in thousands)

	FY2004A	FY2005A	FY2006A
Cash Flows from Operating Activities			
Net Income	$ 266	$ 193	$ 817
Loss (gain) on sale of aircraft and aircraft engines	(1,748)	48	(409)
Depreciation	3,555	4,031	4,980
Provision for impairment in value of aircraft	657	12	49
Deferred Taxes	(1,687)	(40)	461
	1,043	4,244	5,898
Changes In:			
Accounts receivable	(5,096)	(85)	227
Reversal of allowance on note receivable	(11)	(4)	-
Prepaid expenses and other	290	(626)	454
Accounts payable and accrued expenses	384	512	(824)
Accrued interest on notes payable	131	104	(224)
Maintenance reserves and accrued costs	1,556	3,075	1,512
Security Deposits	344	1,350	1,063
Prepaid rent	206	42	27
Unearned income	3	(3)	-
Taxes payable	1,704	(1,656)	(48)
Net Changes in Working Capital	(489)	2,710	2,187
Net cash Provided by Operations	554	6,954	8,085
Cash Flows from Investing Activities			
Payments received on note receivable	91	210	-
Issuance of note receivable	(375)	-	-
Proceeds from disposal of assets	7,321	9,035	1,056
Purchase of aircraft and aircraft engines	(22,001)	(27,226)	(6,171)
Net cash used in Investing	(14,964)	(17,982)	(5,115)
Cash Flows from Financing Activities			
Issuance of notes payable	14,700	23,191	5,550
Repayment of note payable	(7,335)	(13,948)	(5,756)
Net cash provided by Financing	7,365	9,243	(206)
Net change in Cash	(7,045)	(1,785)	2,765
Cash Beginning of Period	9,449	2,404	619
Cash End of Period	$ 2,404	$ 619	$ 3,384