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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

ACY $5.04 – (AMEX)

April 6, 2009

	FY (12/06) A	FY (12/07) A	FY (12/08) A	***FY (12/09) E***
Total revenue (millions)	$18.84*	$23.85	$31.80	***$31.85***
Earnings per share (diluted)	$0.65	$2.36	$2.08	***$1.88***

52-Week range	$18.40 – $3.15	Fiscal year ends:	December
Shares outstanding a/o 03/13/09	1.54 million	Lease revenue/share (ttm)	$15.40
Approximate float	1.08 million	Price/Sales (ttm)	0.3X
Market Capitalization	$8 million	Price/Sales (2009)E	0.3X
Book value/share	$22.57	Price/Earnings (ttm)	2.4X
Price/Book	0.2X	Price/Earnings (2009)E	2.7X

*** 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 maintaining our Speculative Buy rating on shares of AeroCentury (AMEX: ACY) and reducing our twelve-month price target to $9.50 per share from $13.10 per share. The price target is based on our operating lease revenue and earnings per share estimates over the next four quarters and a relative analysis of price to sales and earnings. The change in our price target is primarily the result of a reduction in our EPS forecast for 2009 (approximately 46%), which is the result of increased operating expenses.

On March 6, 2009, ACY reported fourth quarter 2008 total revenue of $8.051 million versus $7.191 million. Net loss for the quarter was $0.160 million or ($0.10) per share versus net income of $1.124 million or $0.69 per diluted share in the same period last year.

It should be noted that during the fourth quarter, the Company recorded an impairment provision of $0.745 million for one of its off-lease aircraft, also contributing to the loss were higher year-over-year depreciation, maintenance, and interest cost of approximately $1.673 million.

Based on comments in ACY's 2008 10K filing, recent operating lease revenue trends, and overall expense trends, we are adjusting our forecasts for 2009. Our revised forecast calls for total revenue of $31.850 million (prior was $32.650 million) and net income of $2.985 million or $1.88 per diluted share (prior was $5.475 million or $3.48 per diluted share). The reduced net income level is based on increasing operating expenses of approximately $2.870 million versus our prior forecast. Maintenance and interest cost are the two primary areas that we believe needed to be increased versus our prior forecast, primary due to our interpretation of statements made in the Company's 2008 10K filing.

****Please view our disclaimer located on page 15.***

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 business is managed by JetFleet Management Corp., pursuant to a management agreement between ACY and JetFleet Management (an integrated aircraft management, marketing and financing business and a subsidiary of JetFleet Holding Corp.). Investors should note that certain officers of ACY are also officers of JetFleet Management and JetFleet Holding and hold significant ownership positions in those entities.

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.

Assets are acquired in one of three ways:

- Purchase of an asset that is already subject to a lease; thereby assuming the rights and obligations of the seller, as lessor under the existing lease;
- Purchase of an asset from an air carrier and leaseback to that seller; and
- Purchase of an asset from a seller and then immediately enter into a new lease for the aircraft with a third party lessee. According to the Company, in this case it typically does not purchase an asset unless a potential lessee has been identified and has committed to lease the aircraft.

Investors should be aware that the Company generally targets used regional aircraft and engines with purchase prices between $1 million and $10 million, and lease terms less than five years. Also, in order to improve the remarket-ability of an aircraft after expiration of the lease, the Company focuses on having lease provisions for its aircraft that contain maintenance payments and return conditions (such that when the lessee returns the aircraft, the Company receives the aircraft in a condition that allows for it to re-leased or sold in a timely fashion). In addition, the Company examines the creditworthiness of a potential lessee (in terms of their short- and long-term growth prospects, financial status, as well as the impact of pending regulation or de-regulation of the lessee's market).

Of note, as of December 31, 2008, the Company's aircraft portfolio (see table below) consisted of 43 aircraft and one turboprop engine:

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

Source: 2008 10K Filing

As noted above, two Saab 340As and one Fokker 50s aircraft were off lease as of December 31, 2008. Also, one turboprop engine owned by ACY was off lease at the end of 2008. Management is seeking re-lease or sale opportunities for these aircraft.

The 2008 10K filing stated that ten of ACY's leases expire in 2009. Management believes that it will be successful in extending the leases for a majority of the aircraft, given preliminary indication from current lessees.

Recent Developments

During January 2009, the following occurred:

- The Company terminated its lease for a Saab 340B with an Australian lessee due to payment default and other breaches under the lease. It should be noted that the lease was scheduled to expire during March 2009. ACY's 2008 10K stated that it is likely to incur significant expense to repossess the aircraft and prepare it for remarketing during 2009. This is due to the fact that the lessee ceased operations and is being dissolved under its local insolvency laws. The Company will file a claim for its unpaid obligations and other expenses arising from the lessee's breach but does not anticipate a significant monetary recovery. The aircraft will require approximately $1.2 million of maintenance to prepare it for re-lease. According to the 10K filing, the Company believes that it will be able to complete such maintenance and find a new customer for the aircraft during 2009. Management has not publicly stated the amount of the unpaid obligations and other expenses it is seeking.

During February 2009, the following occurred:

- The Company and the lessee of two of its aircraft agreed to defer a portion of the rent and maintenance reserves due from the lessee. The deferral is to be paid in four monthly installments beginning in March 2009.

Recent Financials

On March 6, 2009, ACY reported full year 2008 total revenue of $31.795 million versus $23.850 million in the same period last year. Investors should be cognizant that both periods reflect the adoption of AUG AIR-1, Accounting for Planned Major Maintenance Activities (the period last year was restated to conform to current period results). Maintenance reserves income revenue (introduced as a line item during the first quarter of 2007 and is comprised of non-refundable reserves which are earned based on lessee aircraft usage) resulted from the adoption of AUG AIR-1. On a year-over-year basis, it increased to $7.169 million from $4.310 million in 2007. The increase resulted from the acquisition of aircraft in 2007.

Operating lease revenue during 2008, improved to $24.407 million versus $19.412 million in the same period last year. The positive change in operating lease revenue ($4.995 million) versus 2007 was primarily due to a $6.348 million increase in operating lease revenue from aircraft purchased during 2007 and 2008, as well as re-leases at increased rental rates for several aircraft. Mitigating the operating lease revenue increase was aircraft off lease (approximately 4) during all or part of 2008.

ACY reported that depreciation, management fees, G&A, insurance expenses, and bad debt for 2008 increased by approximately $2.155 million versus 2007. The increase was primarily due to higher depreciation and management fees. Depreciation increased by approximately $1.608 million, primarily due to the purchase of aircraft during 2007 and 2008. Management fees increased by approximately $0.659 million resulting from aircraft acquisitions (of note, these fees are calculated on the net book value of the aircraft owned by the Company), which to some degree were offset by the effect of depreciation on the net book value of the Company's aircraft. G&A and insurance also increased by approximately $0.306 million primarily due to higher accounting and legal fees, as well as having more aircraft off lease in 2008.

Interest expense increased by approximately $0.894 million in 2008 compared to the same period last year. The Company incurred approximately $1.780 million more in interest expense related to its credit facility and subordinated notes in 2008 compared to 2007 as a result of a higher principal balance and amortization of fees. During 2008, ACY recorded $0.233 million of net settlement interest related to the interest rate swap, which was entered into on December 31, 2007. ACY also recorded a loss in fair value of $0.496 million related to the interest rate swap compared to a loss of $0.150 million in 2007. Mitigating the increases to some extent was $1.410 million less interest related to the Company's credit facility debt in 2008 compared to 2007 as a result of lower average interest rates. The Company also recorded $0.055 million less in unused commitment and renewal fees related to its credit facility, subordinated notes and special purpose financing debt in 2008, compared to 2007 primarily as a result of lower average unused balances.

According to the Company's 2008 10K filing, the weighted average interest rate on its credit facility was 3.42% versus 7.77% during 2007.

Maintenance expenses increased by approximately $4.377 million in 2008 compared to 2007. According to the Company's 2008 10K filing, operations are dependent on the aggregate amount of the maintenance claims submitted by lessees for reimbursement and expenses incurred in connection with off-lease aircraft; therefore, the increase resulted from higher total lessee claims. The increase resulted from higher total lessee work incurred in 2008, as well as an increase in expense related to off-lease aircraft.

As a result of the Company's SFAS 144 analysis as of December 31, 2008, the Company recorded an impairment provision of $0.745 million for one of its off-lease aircraft. The provision was based on the difference between the net book value and the fair value at that date. No impairment provision was recorded in 2007.

For 2008 and 2007, the Company's effective tax rate was 35.82% and 29.49%, respectively. The higher tax rate in 2008 versus 2007 resulted from the recognition of the effect of a difference for GAAP and tax purposes in the valuation of warrants issued in connection with the Company's issuance of the subordinated notes and the recognition in 2007 of tax benefits associated with a decision to amend its tax returns to claim foreign tax credits rather than deduct foreign taxes for several prior years (this lowered the effective rate in 2007).

In comparison, Taglich Brothers' estimates called for total revenue of $31.839 million and net income of $4.467 million or $2.81 per share.

Balance Sheet as of December 31, 2008
The Company provided the following balance sheet data:

- Total assets were $131.734 million versus $126.653 million at December 31, 2007;
- Total liabilities were $96.898 million versus $94.513 million at December 31, 2007; and
- Shareholders' equity stood at $34.835 million versus $32.140 million at December 31, 2007.

The Company ended 2008 with cash and cash equivalents of $2.170 million versus $2.843 million at December 31, 2007. Total outstanding notes payable and accrued interest increased to $72.411 million versus $73.075 million at the end of 2007.

At December 31, 2008, the Company had outstanding $58.096 million under its $80 million senior revolving credit facility (the maturity date of the facility is March 31, 2010). Investors should note that the potential exists to increase the maximum amount available under the revolving credit facility to $110 million. According to the 2008 10K filing, the weighted average interest rate on the facility at December 31, 2008 and 2007 was 3.42% and 7.77%, respectively. During 2008, the Company borrowed $12.5 million and repaid $14.0 million of the outstanding principal under its credit facility and was in compliance with all covenants under its credit facility.

During April 2007, ACY entered into a Securities Purchase Agreement (SPA), which allowed for the issuance of 16% senior unsecured subordinated notes, with an aggregate principal amount of up to $28 million. The subordinated notes will be due December 30, 2011. On April 17, 2007 (the closing date), $10 million of the notes were sold at 99% of the face amount. During July 2008, the Company and noteholders agreed to amend the agreement in order to reduce the maximum amount of subordinated notes to be issued under the Agreement from $28 million to $14 million and to reduce the number of shares of the Company's common stock issuable upon exercise of the warrants issued from 171,473 to 81,224. The amendment also provided for the refund to the Company of certain fees paid at the initial closing of the agreement, as well as a portion of the unused commitment fees paid to the noteholders through June 30, 2008 and revised certain prepayment provisions of the agreement. The net proceeds from the $4.0 million of subordinated notes that were issued in the second and final installment pursuant to the amendment were used to repay a portion of the Company's credit facility debt.

Investors should note that future acquisitions are most likely to be financed from funds available under the credit facility.

As of December 31, 2008, the carrying amount of the subordinated notes was approximately $12.834 million (outstanding principal amount of $14.0 million less unamortized debt discount of approximately $1.166 million) and accrued interest payable was zero. As of December 31, 2008, 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, under which ACY committed to make or receive a net settlement for the difference in interest receivable computed monthly on the basis of 30-day LIBOR and interest payable monthly on the basis of a fixed rate of 4.04% per annum. The swap is designed to economically hedge $20 million of the Company's interest rate exposure over its term (two years) by fixing the net interest payable over the period. At December 31, 2008, the Company recognized a $0.496 million liability for the swap on its balance sheet (in the notes payable and accrued interest line item). The Company also recognized a net settlement amount of $0.233 million as a component of interest expense. **Market expectation of increasing interest rates will tend to decrease the fair value of the swap, and expectation of decreasing interest rates will tend to increase the fair value of the swap.**

Investors should be aware that the Company, until August 2008, had two special purpose financings in connection with AeroCentury V LLC and AeroCentury VI LLC. During April 2008, the Company repaid the outstanding principal of $4.110 million owed by AeroCentury V LLC under its special purpose financing and paid a prepayment penalty of $0.008 million. Also, during August 2008, the Company transferred ownership of the two aircraft that served as collateral for the financing from AeroCentury V LLC to AeroCentury Corp., at which time the aircraft became eligible as collateral under the Credit Facility. On August 25, 2008, AeroCentury V LLC was dissolved. AeroCentury VI LLC is a special purpose limited liability company, 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 and is non-recourse to AeroCentury Corp. 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. During 2008, $0.361 million of principal was repaid on the note. The principal amount owed under the note at December 31, 2008 was $0.748 million. As of December 31, 2008 the Company was in compliance with all covenants of the note obligation.

Management believes that the Company will have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility and subordinated notes based upon their own estimates of future revenues and expenditures. 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 will be dependent on the availability of such additional financing for acquisitions of leased assets. We believe based on the Company's history and current financial position that it has enough resources to sustain operation for the foreseeable future.

Competitive Landscape

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, GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, Willis Lease Finance Corp. (NasdaqGM: WLFC), AerCap Holdings N.V. (NYSE: AER), 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). Of the latter two publicly traded companies, one was profitable during the fourth quarter of 2008 (generating net income of $9.4 million) while the other experienced a quarterly net loss of $19.0 million.

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 had been awaiting. It was the first year since 2000 that all travel industry sectors experience increased demand. The TIA is reporting (during February 2009) that overall traveler spending by domestic and international visitors increased by 6.4% to $695.8 billion in 2006, versus $653.9 billion in 2005. The TIA had estimated (during October 2008) that number increased by approximately 6.0% in 2007 to $737.8 billion (actual numbers have not been released yet) and is estimated to have grown by 5.7% in 2008 to $779.8 billion (given TIA's February 2009 report). The TIA's February 2009 forecast calls for a decline of 6.7% in 2009 to $727.4 billion.

The International Air Transport Association (IATA, which represents some 230 airlines comprising 93% of scheduled international air traffic) issued on December 9, 2008, the following in its 2009 forecast:

- Worldwide passenger traffic is expected to decline by 3% following growth of 2% during 2008. It is important to note that this will be the first decline since the 2.7% drop experienced during 2001;
- This could be the worst revenue environment in 50 years; and
- North America will likely be the only region that could make money.

Outlook and Projections

Based on comments in ACY's 2008 10K filing, a review of fourth quarter and second half results, and the expectation of higher than previously anticipated expenses (i.e., maintenance and interest), we are revising our forecast for 2009.

We believe that supporting our operating lease revenue projections for 2009 should be a combination of approximately 43 aircraft and one aircraft engine within its portfolio (see table on page two that shows 40 of the 43 aircraft are on lease as of as of December 31, 2008). In the Company's 10K filing, it stated that as of December 31, 2008, minimum future operating lease revenue payments receivable under non-cancelable leases amount to $23.993 million for 2009.

We are forecasting for 2009, total revenue of $31.850 million and net income of $2.985 million or $1.88 per diluted share. Our prior expectation was for total revenue of $32.650 million and net income of $5.475 million or $3.48 per diluted share. It is important to note that our total revenue estimate for 2009 primarily consists of operating lease revenue (upon which we estimate 40 aircraft will be on lease for a major portion of 2009) and maintenance reserves income, as we are not forecasting any unusual events (sale of aircraft) that might also impact total top line results. Our bottom line expectations have been reduced from our prior expectations, primarily due to increasing the amount ACY is likely to expend on maintenance and interest. **We have increased those two expense lines (combined) by approximately $2.870 million, primarily as a result of under estimating those two expense items for the fourth quarter of 2008 by approximately 25%, as well as commentary in the Company's 2008 10K filing relating to maintenance requirements in order to re-lease aircraft that are currently off lease.**

We continue to believe that any impact on ACY's operations is likely to be modest given the economic recession that officially began at the end of 2007 and appears to be persistent. Our belief is based on the way aircraft are acquired by the Company:

- **Purchase of an asset that is already subject to a lease;**
- **Purchase of an asset from an air carrier and leaseback to that seller; and**
- **Purchase of an asset from a seller and then immediately enter into a new lease for the aircraft with a third party lessee. According to the Company, in this case it typically does not purchase an asset unless a potential lessee has been identified and has committed to lease the aircraft.**

We believe that this provides minimal risk to the Company's operations over the near and intermediate term. Once an aircraft is purchased, the question becomes the timing of an aircraft acquisition. Our estimates do not incorporate the purchase of aircraft until ACY makes a public announcement that the acquisition has been completed.

Our bottom line estimates for 2009 incorporate the following assumptions:

- Interest expense of $7.890 million versus $7.154 million reported in 2008. The increase is primarily the result of the additional $4 million subordinated debt issued during July 2008 and the interest rate swap derivative (during 2008 the Company experienced an expense of $0.646 million, which was a component of interest expense), as well as aggregate interest rates that may gradually edge higher during the second half of 2009;

- SG&A expenses (including insurance), of approximate $1.255 million versus $1.128 million reported in 2008. Investors should realize if the Company is able to purchase additional aircraft (as noted above), our 2009 expense expectation would likely be low;

- Management fees and depreciation of $11.505 million versus $10.899 million reported in 2008. The increase is primarily due to the Company entering 2009 with a portfolio of 43 aircraft versus entering 2008 with an aircraft portfolio of 41;

- Maintenance, impairment, and bad debt expenses of $6.550 million versus $7.485 million in 2008. While the year-over-year is forecast to be lower by approximately $0.935 million, it is an increase of approximately $2.55 million versus our prior forecast. The primary reason for the increase in our forecast is Management indicating in the 2008 10K filing that from the start of 2009, two aircraft that are currently off lease, will require approximately $1.8 million (combined – one has approximately $0.6 million work left to be done (approximately $1.2 million of work had been completed by December 31, 2008) while the other requires $1.2 million of maintenance) before each is ready for re-lease. It should also be noted that ; and

- A tax rate of 35.79% in 2009 versus 35.82% as reported in 2008.

Investors should be aware that we have considered the following:

- During October 2008, the Company and a lessee signed a term sheet for a three-year re-lease of the Company's off lease DHC-8-300 aircraft and delivery was expected to have occurred during the fourth quarter of 2008. The Company and the lessee (which currently leases two of the Company's DHC-8-100 aircraft), agreed to a three-year extension of the lease for one of those aircraft.

- The Company continually monitors the financial condition of its lessees to avoid unanticipated creditworthiness issues, and where necessary, works with lessees to ensure continued compliance with obligations under their respective leases. Currently, the Company is closely monitoring the performance of three lessees with a total of seven aircraft under lease. ACY continues to work closely with these lessees to ensure compliance with their current obligations. In February 2009, the Company and the lessee of two of its aircraft agreed to defer a potion of the rent and maintenance reserves from the lessee. The deferral is to be paid in four monthly installments beginning in March 2009.

- Ten of the Company's aircraft leases expire during 2009. Management indicated in the Company's 2008 10K filing its belief that it will be successful in extending the leases for a majority of these aircraft, given preliminary indications from current lessees. Our top line forecast includes Management's expectations.

According to 2008 10K filing, even if the aircraft that are currently off lease and may come off lease in the remainder of 2009 remain off lease for an extended period of time, Management believes it will be able to meet its operational needs and remain in compliance with the terms of its credit facility and subordinated notes obligations. The Company's expectations are based on existing lease terms and rents, as well as the following estimates:

- Rents on assets to be re-leased;
- Timely use of proceeds of unused debt capacity toward additional acquisitions of income producing assets; and
- The cost and anticipated timing of maintenance to be performed.

Also, investors should note that the Company's aircraft are subject to leases with varying expiration dates through January 2012.

Investors should be aware that if additional purchases of aircraft are made (from the expanded credit facility and/or subordinated notes) and the Company is able to re-lease aircraft on a consistent basis, revenue plus expenses could exceed our expectations for 2009. 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.

Risks

Lessee Credit Risk

If a customer defaults upon its lease obligations, the Company may be limited in its ability to enforce remedies since most of its lessees are small regional passenger airlines, which may be even more sensitive to airline industry market conditions than the major airlines. As a result, the Company's inability to collect rent under a lease or to repossess equipment in the event of a default by a lessee could have an adverse impact on the Company's operating lease revenue.

FASB Staff Position AUG AIR-1

The Company discontinued 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 requires 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 this accounting method will result in uneven effects on the Company's results of operations.**

Interest Rates

The Company's current credit facility and the indebtedness of one of its special purpose subsidiaries carry 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. Therefore, if interest rates rise significantly, and there is relatively little lease origination by the Company following such rate increases, the Company could experience lower net income. Further, even if significant lease origination occurs following such rate increases, if the contemporaneous aircraft market forces result in lower or flat rental rates, the Company could experience lower net income.

The Company has chosen to hedge some, but not all, of its variable interest rate exposure. Consequently, if an interest rate increase were great enough, the Company might not be able to generate sufficient lease revenue to meet its unhedged interest payment and other obligations and comply with the other covenants of its facility or indebtedness of one of its special purpose subsidiaries. Additionally, if the one-month LIBOR rate drops below the fixed swap rate, the Company will be obligated to pay the swap counterparty the difference between the fixed swap rate of 4.04% and the one-month LIBOR rate that is payable under the Company's hedged credit facility obligations. As of March 12, 2009, the one-month LIBOR rate was 0.5625%.

Credit Facility

At December 31, 2008, $58.096 million was outstanding under the Company's $80 million credit facility, which expires on March 31, 2010. This means that Management has the ability to increase its aircraft portfolio. As of December 31, 2008, according to the Company's 2008 10K filing, it was in compliance with all covenants related to this obligation.

Investors should take note that the Company anticipates that before the facility is set to expire that the current lenders participating in the facility will remain as participants in the amount for which they are currently committed. However, there can be no assurance that such will actually occur. Therefore, if one or more participants in the facility decides not to continue then the Company will either need to pay off such participant by obtaining additional commitment amounts from the remaining lenders, finding new replacement lenders, or selling assets, or doing some combination there of.

Debt Financing

During April 2007, the Company entered into a Securities Purchase Agreement (SPA), which allows for the issuance of 16% senior unsecured subordinated notes, with an aggregate principal amount of up to $14 million after a second amendment was agreed to during July 2008. The subordinated notes will be due December 30, 2011. Under the SPA, the note purchasers will also be issued warrants to purchase up to 81,224 shares of the common stock at an exercise price of $8.75 (subject to registration rights pursuant to an Investor's Registration Rights Agreement).

The Company uses its revolving credit facility, subordinated debt, 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.

The Company's business is dependent upon general economic conditions and the strength of the travel and transportation industry. The industry was in a period of financial difficulty and contraction caused primarily by record-high fuel prices during the first half of 2008 and was and may continue to be severely affected by the global downturn brought on by the ongoing credit crisis. Investors should note that during periods of economic contraction, carriers generally reduce capacity in response to lower passenger loads, and as a result, there is a reduced demand for aircraft and a potential for a corresponding decrease in market lease rental rates and aircraft values.

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. During February 2009, the National Association for Business Economics (NABE -- an association of professionals who have an interest in business economics) stated that base on a drumbeat of weak economic and financial market data its forecasters expect GDP to **decrease** by 0.90% in 2009. However, after a strongly negative first half of 2009, they expect the second half of 2009 will experience growth of approximately 1.6% on an annualized rate. Also, the Monetary Policy Report submitted to Congress on February 24, 2009, by the Federal Reserve, indicated that GDP is likely to fall into the range of -1.3% to -0.5% for 2009.

Also, the economic landscape includes The Conference Board announcing on February 24, 2009, U.S. consumer confidence fell to an all-time low with a reading of 25.0 down from 37.4 in January 2009. The current reading shows the impact of the financial crisis, which has taken a toll on consumers' confidence.

If the current recessionary environment remains intact for a long period of time, it would likely impact the Travel and Aviation Industries, which in turn could negatively impact the Company's operations.

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 2008 10K filing, stated that its five largest customers located in Mexico, Antigua, Norway, Netherlands Antilles, and Germany, account for approximately 16%, 14%, 10%, 10%, and 10%, respectively, of the Company's monthly lease revenue. If any of the customers located in those regions were to run into financial difficulties, it would negatively impact operating results.

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.

To gain some perspective as to where the aircraft are leased, investors should note the following table and year-over year changes:

Net Book Value of Aircraft and Aircraft Engines Held for Lease	**As of December 31, 2008 ($ millions)**	**As of December 31, 2007 ($ millions)**
Europe and United Kingdom	47.460	30.982
Caribbean	26.779	28.487
Central America	17.154	18.170
Asia	9.872	15.692
Off lease	6.295	9.294
United States	7.338	7.735
Africa	10.016	4.913
South America	0	3.651
Total	124.914	118.924

Source: 2008 10K filing

The information above is based on the Company's portfolio of 43 and 41 aircraft for 2008 and 2007, respectively.

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.

Investment in Different Aircraft Types
According to SEC filing, the Company has traditionally invested in a limited number of types of turboprop aircraft and engines. The SEC filings state that while Management intends to continue to focus solely on regional aircraft and engines, it began acquiring Fokker 100 regional jet aircraft (beginning in 2007), and may continue to seek acquisition opportunities for new types and models of regional jet and turboprop aircraft and engines used in the Company's targeted customer base of regional air carriers. Acquisition of other aircraft types and engines not previously acquired may entail greater ownership risk due a lack of experience managing those aircraft and engine

types. However, ACY believes that JMC personnel's overall industry experience and its technical resources should permit the Company to effectively manage such new aircraft types and engines.

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 twelfth 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.

Related Party Transactions
The Company's portfolio of leased aircraft assets is managed and administered under the terms of a management agreement with JMC, which is an integrated aircraft management, marketing and financing business, and a subsidiary of JetFleet Holding Corp. (JHC). Certain officers of the Company are also officers of JHC and JMC and hold significant ownership positions in both JHC and the Company. Investors should note that the Company recorded management fees of $3.677 million and $3.014 million for 2008 and 2007, respectively. While no remarketing fees were paid to JMC during 2008 or 2007, acquisition fees paid totaled $0.437 million and $1.068 million, respectively.

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.

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

Internal Controls
In the Company's 2008 10K filing, it stated that during the course of the audit of consolidated financial statements, Management identified and reported a material weakness in its internal control over financial reporting at December 31, 2008 related to controls over its review of the appraised values of its aircraft assets used for impairment evaluation purposes. In the process of providing ACY's independent auditor information that had previously been used in preparing the aircraft appraisal, Management reviewed the assumptions specified in the appraisal report. As a result of this review, Management determined that the underlying assumptions for certain aircraft should be modified. Based on the revised appraised current value of one of the Company's aircraft, during the fourth quarter of 2008, ACY recognized an impairment provision, which should have been recorded in the third quarter of 2008. There was no impact to any other prior periods. Also, since no material

difference in net income would have occurred during the final six months of 2008, Management did not restate financial results for the third quarter of 2008.

Management determined that this deficiency constituted a material weakness as of December 31, 2008; however, it was also determined that the error was inadvertent and unintentional. Upon becoming aware of this issue, the Company initiated a review of its internal controls and processes with respect to valuation of assets and evaluation of such assets for potential impairment. As a result of such review, the Company instituted new control procedures over its process of obtaining and reviewing appraisals. Accordingly, Management believes that it has corrected the material weakness relating to evaluation of the possible impairment of its assets as of the date of the 2008 10K filing.

Shareholder Control
According to the Company's Form DEF 14A filing (on March 24, 2009), Neal Crispin, its Chairman, President, and Principal Stockholder and Toni Perazzo, its CFO and Senior Vice President of Finance (and wife of the Company's Chairman) combined control approximately 22% of AeroCentury Inc. common stock. Therefore, they are potentially able to significantly influence all matters requiring approval by stockholders, including the election of directors and significant corporate transactions.

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 2006, average daily-volume was 3,494 shares traded a day. However, during the 2007, average daily volume surged to 33,831 shares traded per day. During 2008, average daily volume decreased to 10,862 shares a day and during the first three months of 2009 average daily volume decreased to 4,187 shares a 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.

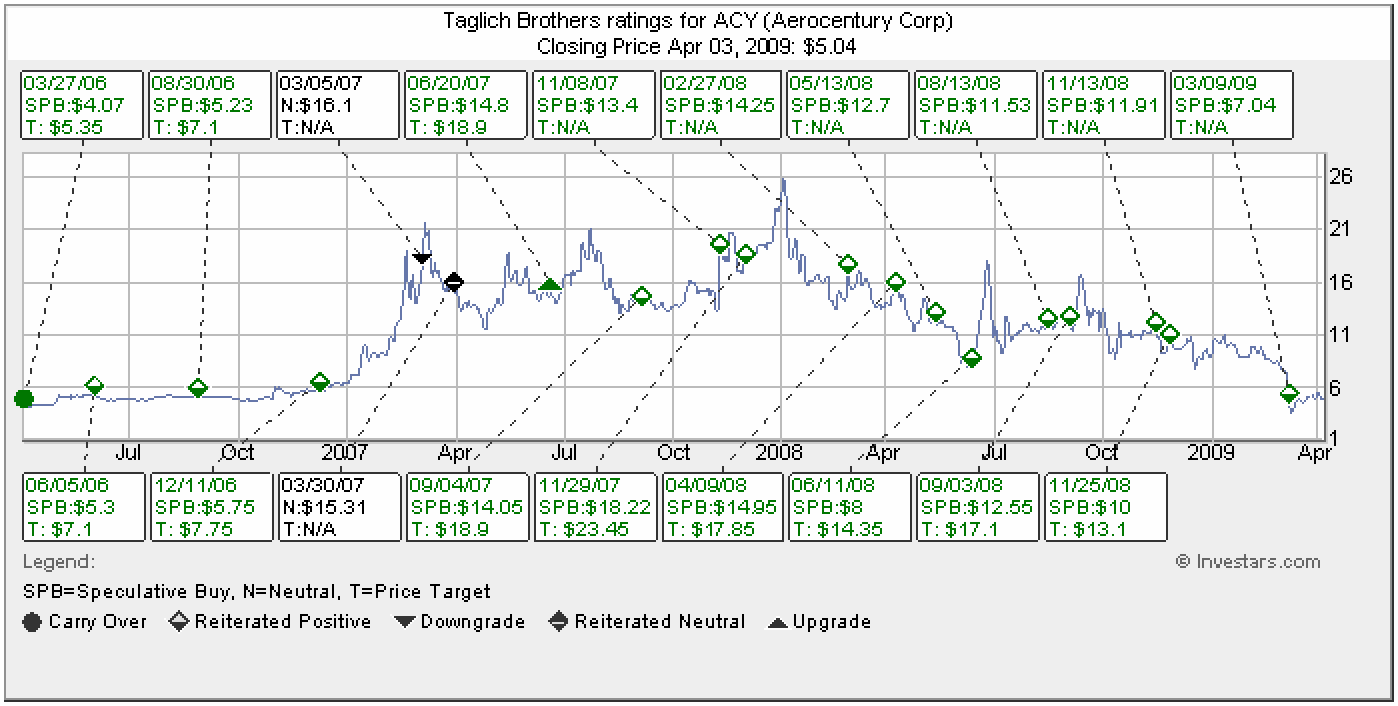
Conclusion

We are maintaining our Speculative Buy rating on the shares of AeroCentury (AMEX: ACY) and lowering our twelve-month price target to $9.50 per share from our prior twelve-month price target of $13.10 per share. Our price target is based on a relative price to sales and price to earnings analysis relative to the Rental & Leasing Industry. The change in our price target is primarily the result of a reduction in our EPS forecast for 2009 (approximately 46%), which is the result of increased operating expenses. We are maintaining a relatively high discount factor given the uncertainties that abound in the economy and the equities market.

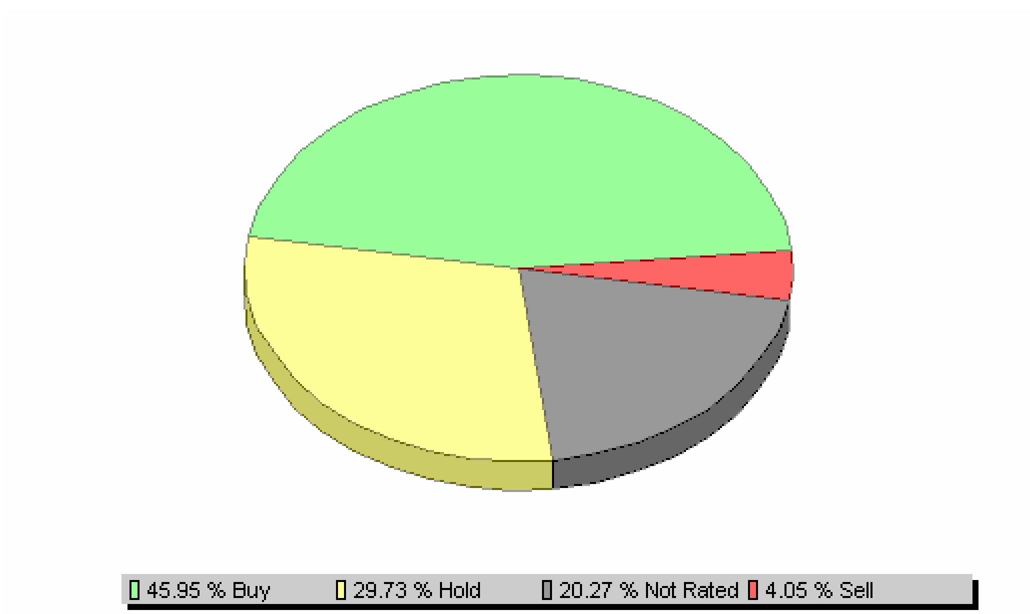
Our price target is derived using the following valuation models discounted by approximately 45% to account for Company specific and microcap risks:

- A 0.8X price to revenue multiple, which is the trailing twelve month multiple (as of April 3, 2009) for the Rental & Leasing Industry according to moneycentral.msn.com, applied to our operating lease revenue (rent income) per share estimate of $15.80 for the next four quarters; and

- A 12.0X price to earnings multiple, which is the trailing twelve month multiple (as of April 3, 2009) for the Rental & Leasing Industry according to moneycentral.msn.com, applied to our earnings per share estimate of $1.88 for the next four quarters.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7.41%
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:

AerCap Holdings N.V.	(NYSE: AER)
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)

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As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. Since February 2000, the company pays a monthly monetary fee of $1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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 Sheet
(in thousands)

	Dec. '06 Year End*	Dec. '07 Year End	Dec. '08 Year End
ASSETS			
Current assets:			
Cash & Equivalents	$ 3,384	$ 2,843	$ 2,170
Accounts Receivable	1,498	1,648	2,023
Tax receivable	-	1,836	1,627
Prepaid Expense & Other	582	1,402	1,001
Total current assets	**5,464**	**7,729**	**6,820**
Aircraft & engines, net of depreciation	91,902	118,924	124,914
Total assets	**$ 97,366**	**$ 126,653**	**$ 131,734**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts Payable and accrued expenses	$ 351	$ 811	$ 599
Notes Payable and accrued interest	57,907	73,075	72,411
Maintenance deposits and accrued costs	3,168	6,025	8,095
Security deposits	4,187	5,697	5,499
Prepaid rent	474	1,028	1,073
Income taxes payable	-	229	52
Total current liabilities	**66,087**	**86,864**	**87,729**
Deferred Income Taxes	4,471	7,649	9,169
Total Liabilities	**70,558**	**94,513**	**96,898**
Stockholders' equity:			
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2
Paid-in capital	13,821	15,378	14,780
Retained earnings	13,489	17,265	20,558
Treasury Stock, at cost	(504)	(504)	(504)
Total stockholders' equity	**26,808**	**32,140**	**34,835**
Total liabilities and stockholders' equity	**$ 97,366**	**$ 126,653**	**$ 131,734**
SHARES OUT	1,543	1,543	1,543

*Restated for SAB 108 and AUG AIR-1

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

	FY2006A	FY2007A	FY2008A	**FY2009E**
Revenues:				
Operating lease revenue	$ 15,810	$ 19,412	$ 24,407	**$ 25,050**
Maintenance reserves income	2,990	4,310	7,170	**6,800**
Gain(loss) on disposal of assets	34	98	15	**-**
Other Income	8	31	203	**-**
Total Revenues	18,842	23,850	31,795	**31,850**
Expenses:				
Management Fees	2,742	3,017	3,676	**3,865**
Depreciation	4,692	5,615	7,223	**7,640**
Interest	4,954	6,260	7,154	**7,890**
SG&A	838	865	1,128	**1,255**
Maintenance	3,978	2,396	6,771	**6,550**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	8	342	714	**-**
Total Expenses	17,212	18,495	26,665	**27,200**
Operating Income	1,630	5,354	5,130	**4,650**
Operating Margin	8.65%	22.45%	16.13%	14.60%
Taxes(Benefit)	621	1,579	1,837	**1,665**
Tax Rate	*38.10%*	*29.49%*	*35.82%*	*35.81%*
Net Income	$ 1,009	$ 3,775	$ 3,292	**$ 2,985**
EPS-fully diluted includes insurance settlement	$ 0.65	$ 2.36	$ 2.08	**$ 1.88**
Avg Shares Out-fully diluted	1,543	1,598	1,585	**1,585**
Margin Analysis				
GPM	85.4%	87.3%	88.4%	**87.9%**
NI/Rev	5.4%	15.8%	10.4%	**9.4%**
NI/Rent Income	6.4%	19.4%	13.5%	**11.9%**
Total Exp/Rev	91.3%	77.5%	83.9%	**85.4%**
As Percent of operating lease revenue				
Expenses:				
Management Fees	17.34%	15.54%	15.06%	**15.43%**
Depreciation	29.68%	28.92%	29.59%	**30.50%**
Interest	31.33%	32.25%	29.31%	**31.50%**
SG&A	5.30%	4.46%	4.62%	**5.01%**
Total Expenses	108.87%	95.28%	109.25%	**108.58%**
Percent Change Year/Year				
Operating lease revenue	38.84%	22.78%	25.73%	**2.63%**

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

	(3/07)Q1A	(6/07)Q2A	(9/07)Q3A	(12/07)Q4A	**FY2007A**
Revenues:					
Operating lease revenue	$ 4,284	$ 4,228	$ 5,300	$ 5,600	**$ 19,412**
Maintenance reserves income	827	847	1,152	1,483	**4,310**
Gain(loss) on disposal of assets	-	-	-	98	**98**
Other Income	7	1	12	11	**31**
Total Revenues	5,118	5,076	6,464	7,191	**23,850**
Expenses:					
Management Fees	683	684	794	856	**3,017**
Depreciation	1,235	1,258	1,493	1,628	**5,615**
Interest	1,222	1,424	1,724	1,890	**6,260**
SG&A	199	219	218	230	**865**
Maintenance	225	701	375	1,094	**2,396**
Total Expenses	3,576	4,300	4,896	5,723	**18,495**
Operating Income	1,542	776	1,568	1,468	**5,354**
Operating Margin	30.13%	15.30%	24.26%	20.41%	**22.45%**
Taxes(Benefit)	518	263	454	344	**1,579**
Tax Rate	*33.59%*	*33.87%*	*28.96%*	*23.44%*	***29.49%***
Net Income	$ 1,024	$ 513	$ 1,114	$ 1,124	**$ 3,775**
EPS-fully diluted includes insurance settlement	$ 0.66	$ 0.32	$ 0.69	$ 0.69	**$ 2.36**
Avg Shares Out-fully diluted	1,543	1,601	1,619	1,629	**1,598**
Margin Analysis					
GPM	86.6%	86.5%	87.7%	88.1%	**87.3%**
NI/Rev	20.0%	10.1%	17.2%	15.6%	**15.8%**
NI/Rent Income	23.9%	12.1%	21.0%	20.1%	**19.4%**
Total Exp/Rev	69.9%	84.7%	75.7%	79.6%	**77.5%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	15.95%	16.17%	14.99%	15.28%	**15.54%**
Depreciation	28.82%	29.76%	28.17%	29.08%	**28.92%**
Interest	28.52%	33.68%	32.53%	33.76%	**32.25%**
SG&A	4.65%	5.18%	4.10%	4.10%	**4.46%**
Total Expenses	83.48%	101.69%	92.38%	102.20%	**95.28%**
Percent Change Year/Year					
Operating lease revenue	13.45%	8.19%	32.63%	35.59%	**22.78%**

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2008
(in thousands)

	(3/08)Q1A	(6/08)Q2A	(9/08)Q3A	(12/08)Q4A	**FY2008A**
Revenues:					
Operating lease revenue	$ 5,894	$ 5,759	$ 6,342	$ 6,412	**$ 24,407**
Maintenance reserves income	1,750	1,901	1,884	1,635	**7,170**
Gain(loss) on disposal of assets	15	-	-	-	**15**
Other Income	164	25	10	4	**203**
Total Revenues	7,823	7,685	8,236	8,051	**31,795**
Expenses:					
Management Fees	883	889	957	947	**3,676**
Depreciation	1,707	1,743	1,877	1,896	**7,223**
Interest	2,129	1,101	1,750	2,174	**7,154**
SG&A	277	285	266	300	**1,128**
Maintenance	2,381	1,253	921	2,216	**6,771**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	-	-	(46)	760	**714**
Total Expenses	7,377	5,271	5,724	8,293	**26,665**
Operating Income	446	2,414	2,512	(242)	**5,130**
Operating Margin	5.70%	31.41%	30.50%	-3.01%	**16.13%**
Taxes(Benefit)	150	829	940	(82)	**1,837**
Tax Rate	*33.63%*	*34.34%*	*37.44%*	*33.88%*	***35.82%***
Net Income	$ 296	$ 1,585	$ 1,571	$ (160)	**$ 3,292**
EPS-fully diluted includes insurance settlement	$ 0.18	$ 0.99	$ 1.00	$ (0.10)	**$ 2.08**
Avg Shares Out-fully diluted	1,624	1,594	1,572	1,556	**1,585**
Margin Analysis					
GPM	88.7%	88.4%	88.4%	88.2%	**88.4%**
NI/Rev	3.8%	20.6%	19.1%	-2.0%	**10.4%**
NI/Rent Income	5.0%	27.5%	24.8%	-2.5%	**13.5%**
Total Exp/Rev	94.3%	68.6%	69.5%	103.0%	**83.9%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	14.98%	15.44%	15.09%	14.77%	**15.06%**
Depreciation	28.96%	30.27%	29.59%	29.57%	**29.59%**
Interest	36.12%	19.12%	27.59%	33.91%	**29.31%**
SG&A	4.70%	4.95%	4.19%	4.68%	**4.62%**
Total Expenses	125.16%	91.53%	90.26%	129.34%	**109.25%**
Percent Change Year/Year					
Operating lease revenue	37.58%	36.21%	19.66%	14.50%	**25.73%**

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2009
(in thousands)

	Q1 (3/09)E	Q2 (6/09)E	Q3 (9/09) E	Q4 (12/09)E	**FY2009E**
Revenues:					
Operating lease revenue	$ 6,175	$ 6,225	$ 6,300	$ 6,350	**$ 25,050**
Maintenance reserves income	1,700	1,700	1,700	1,700	**6,800**
Total Revenues	7,875	7,925	8,000	8,050	**31,850**
Expenses:					
Management Fees	950	960	970	985	**3,865**
Depreciation	1,900	1,905	1,915	1,920	**7,640**
Interest	2,000	1,775	1,815	2,300	**7,890**
SG&A	305	310	315	325	**1,255**
Maintenance	1,800	1,650	1,550	1,550	**6,550**
Total Expenses	6,955	6,600	6,565	7,080	**27,200**
Operating Income	920	1,325	1,435	970	**4,650**
Operating Margin	11.68%	16.72%	17.94%	12.05%	**14.60%**
Taxes(Benefit)	330	475	520	340	**1,665**
Tax Rate	*35.87%*	*35.85%*	*36.24%*	*35.05%*	***35.81%***
Net Income	$ 590	$ 850	$ 915	$ 630	**$ 2,985**
EPS-fully diluted includes insurance settlement	$ 0.37	$ 0.54	$ 0.58	$ 0.40	**$ 1.88**
Avg Shares Out-fully diluted	1,585	1,585	1,585	1,585	**1,585**
Margin Analysis					
GPM	87.9%	87.9%	87.9%	87.8%	**87.9%**
NI/Rev	7.5%	10.7%	11.4%	7.8%	**9.4%**
NI/Rent Income	9.6%	13.7%	14.5%	9.9%	**11.9%**
Total Exp/Rev	88.3%	83.3%	82.1%	88.0%	**85.4%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	15.38%	15.42%	15.40%	15.51%	**15.43%**
Depreciation	30.77%	30.60%	30.40%	30.24%	**30.50%**
Interest	32.39%	28.51%	28.81%	36.22%	**31.50%**
SG&A	4.94%	4.98%	5.00%	5.12%	**5.01%**
Total Expenses	112.63%	106.02%	104.21%	111.50%	**108.58%**
Percent Change Year/Year					
Operating lease revenue	4.77%	8.09%	-0.67%	-0.97%	**2.63%**

AeroCentury Inc.
Cash Flow Statement
(in thousands)

	FY2006A	FY2007A	FY2008A
Cash Flows from Operating Activities			
Net Income	$ 817	$ 3,775	$ 3,293
Loss (gain) on sale of aircraft and aircraft engines	(409)	(98)	(15)
Depreciation	4,980	5,615	7,222
Provision for impairment in value of aircraft	49	-	745
Non-cash interest	-	312	1,251
Provision for bad debt	-	16	1
Deferred Taxes	461	3,178	1,520
	5,898	12,798	14,018
Changes In:			
Accounts receivable	227	(165)	(376)
Taxes receivable	-	(1,812)	209
Prepaid expenses and other	454	(340)	(112)
Accounts payable and accrued expenses	(824)	157	(104)
Accrued interest on notes payable	(224)	(17)	(64)
Maintenance reserves and accrued costs	1,512	2,857	2,070
Security Deposits	1,063	1,509	(198)
Prepaid rent	27	554	45
Taxes payable	(48)	229	(176)
Net Changes in Working Capital	2,187	2,973	1,294
Net cash Provided by Operations	8,085	15,771	15,312
Cash Flows from Investing Activities			
Proceeds from disposal of assets	1,056	98	15
Purchase of aircraft and aircraft engines	(6,171)	(32,333)	(13,930)
Net cash used in Investing	(5,115)	(32,236)	(13,915)
Cash Flows from Financing Activities			
Borrowings under credit facility	-	25,500	12,500
Issuance of notes payable	-	9,237	3,960
Debt issuance costs	5,550	(735)	286
Repayment of credit facility and note payable	(5,756)	(18,078)	(18,817)
Net cash provided by Financing	(206)	15,925	(2,071)
Net change in Cash	2,765	(541)	(674)
Cash Beginning of Period	619	3,384	2,843
Cash End of Period	$ 3,384	$ 2,843	$ 2,170