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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 $20.32 – (NYSE-AMEX)

May 25, 2010

	2008 A	2009 A	*2010 E*	*2011 E*
Total revenue (millions)	$31.8	$33.6	***$33.3***	***$33.5***
Earnings per share (diluted)	$2.08	$3.62	***$3.78***	***$3.89***

52-Week range	$24.95 – $4.55	Fiscal year ends:	December
Shares outstanding a/o05/14/10	1.54 million	Lease revenue/share (ttm)	$17.39
Approximate float	1.20 million	Price/Sales (ttm)	1.2X
Market Capitalization	$31 million	Price/Sales (2011)E	1.2X
Book value/share	$27.47	Price/Earnings (ttm)	5.1X
Price/Book	0.7X	Price/Earnings (2011)E	5.2X

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

Key investment considerations:

We are maintaining our Speculative Buy rating on AeroCentury (NYSE-AMEX: ACY) and raising our 12-month price target to $24.30 per share (prior was $23.15 per share). We raised our price target due to the expansion of the P/E multiple to 8.5X from 7.8X.

On May 12, 2010, ACY reported 1Q10 revenue increased by $0.8 million to $8.8 million. Net income was $1.9 million or $1.20 per share versus net income of $1.2 million or $0.80 per share. The improvement in year-over-year results was due to reductions in depreciation and interest expenses.

1Q10 results beat our revenue and EPS forecasts by $800,000 and $0.40, respectively. An insurance settlement and lower expenses improved per share results.

The International Monetary Fund's April 2010 World Economic Outlook forecasts emerging and developing economies' GDP growth of 6.3% and 6.5% for 2010 and 2011, respectively. The International Air Transport Association forecasts worldwide passenger demand growth of 5.6% in 2010, up from its prior 4.5% forecast.

Our 2010 forecast is based on increased passenger demand driven by global economic growth and a reduction in the operating expense margin to 89.5% from 92.1% in 2009. For 2010, we project total revenue of $33.3 million (prior was $34 million) and net income of $6 million or $3.78 per share (prior was EPS of $3.71).

For 2011, we project revenue of $33.5 million and EPS of $3.89 per share. We previously forecasted revenue of $3.48 million and EPS of $3.78. Our forecast is based on the continued reduction in operating costs to 86.9% of operating lease revenue from our 2010 estimate of 89.5%.

Please view our Disclosures pages 12 - 14

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Recommendation

We are maintaining our Speculative Buy rating on AeroCentury (NYSE-AMEX: ACY). The company is in a position to increase both operating lease revenue and net income through 2011. The company should be able to increase lease rates, re-lease aircraft that is scheduled to come off-lease, and use its newly renewed credit facility to make strategic purchases of additional assets (e.g., aircraft and engines).

We are raising our twelve-month price target to $24.30 per share from $23.15 per share. Our price target has been raised due to the expansion of the P/E multiple to 8.5X from 7.8X during the past three months.

The four comparative rental and leasing airline companies we profile, all with larger market capitalizations (vs. ACY), have an aggregate price to (trailing) sales multiple of 1.3X versus 1.2X for AeroCentury.

Name	Symbol	Trade	Market Cap in $mil	EPS Est 2010	EPS Est 2011	P/E 2010 E	P/E 2011 E	Trailing Price/Sales
Aercap Holdings N.V. Ordinary S	AER	10.97	1115	1.95	1.91	5.63	5.74	1.0
Aircastle Limited Common Stock	AYR	9.37	907	1.14	1.14	8.22	8.22	1.6
Babcock & Brown Air Limited Ame	FLY	11.34	372	1.13	1.04	10.04	10.90	1.7
Willis Lease Finance Corporatio	WLFC	11.09	120	1.11	3.38	9.99	3.28	0.8
						8.5	7.0	1.3
Company								
AeroCentury Corp.	ACY	20.32	31	3.78	3.89	5.4	5.2	1.2

Source: Yahoo data and Taglich Brothers estimates

Our price target is derived using an 8.5X price-to-earnings multiple, which is the current forward P/E multiple for ACY's peers, applied to our earnings per share estimate of $3.57 for the next four quarters. We discounted the result by 20% to account for microcap risk and potential earnings volatility due to the low share count. The result is a twelve-month price target of $24.30 per share, which implies year-ahead stock price appreciation of 20%.

The Company

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

The company earns a return on acquired aircraft and engines through leases and eventual sale. ACY reinvests cash flow in purchases of more assets that are then leased. As of March 31, 2010, the company's aircraft portfolio consisted of 42 aircraft. The three GE CF34-8E aircraft engines were all off lease at March 31, 2010, as two were return a day before the end of the month.

During the final nine months of 2010, 13 of ACY's leases are scheduled to expire. At March 31, 2010, the company had two Fokker 50 aircraft and two Saab 340A aircraft on which leases had expired. Given management's prior experiences it is likely that ACY could experience lower on-lease utilization rates due to longer remarketing times on returned aircraft.

Aircraft by Percentage of Net Book Value

Aircraft Type	# owned	# On Lease
Fokker 100s	7	7
deHavilland DHC-8-300s	8	8
Fokker 50s	14	12
GE CF34-8E engine	3	0
Saab 340Bs	6	6
deHavilland DHC-8-100s	2	2
Saab 340As	2	0
eHavilland DHC-6s	3	3

Source: Company reports – period ended 03/31/10

The following has recently occurred:

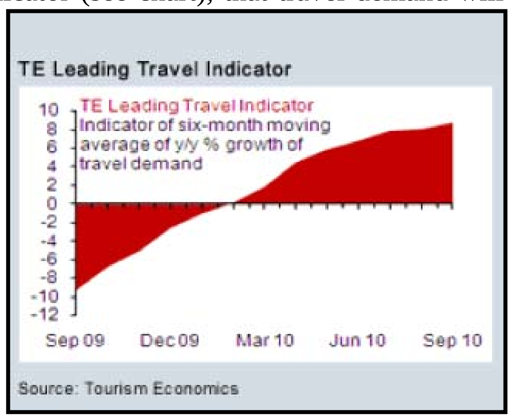
- In February 2010, the lessee of two Fokker 50 aircraft declared bankruptcy. The leases were to have expired on March 1, 2010. The company has possession of the aircraft. The cash security deposits and a letter of credit for the two aircraft, as well as maintenance reserves, are being used to prepare the aircraft for their re-lease

- In March 2010, a regional carrier in Argentina signed a term sheet for the lease of the company's two Saab 340A aircraft. Delivery is expected in 2Q10
- In March 2010, a Fokker 50 aircraft was delivered to a lessee for a three-year term
- In May 2010, the company and a lessee extended the leases for two DHC-8-300 aircraft for 30 months and 54 months, respectively.
- On April 28, 2010, the company entered into a new credit facility. The initial draw of $50 million under the facility was used to pay off the outstanding balance of $50 million due under its old facility. The credit facility has a two-year tern and is collateralized by all of the assets of the company, including its aircraft portfolio.

Outlook

The May 2010 issue of the US Travel Outlook, published by the US Travel Association, reported that airline passenger revenue increased in March 2010 by 15.4%, the third consecutive year on year monthly increase. The positive start to 2010 is due to economic growth that is driving increased travel. In March 2010, global airline capacity grew by 2% from the prior year. This was the seventh consecutive month of growth.

The US Travel Outlook report is forecasting, based on its leading indicator (see chart), that travel demand will grow through at least September 2010. For 2010, US travel expenditures are expected to increase by 4.8% to $738.5 billion and grow by 9% to $805.7 billion in 2011.



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

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

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

April 2010 GDP Forecast

	2010	**2011**
Advanced economies	2.30%	2.40%
Emerging and developing economies	6.30%	6.50%

Source: World Economic Outlook IMF April 2010

The global economic growth forecasted by the International Monetary Fund (IMF) should support the leasing and rental airline sector.

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

Projections

<u>*Operations*</u>
Our revenue forecast is based on the company's aircraft portfolio of approximately 42 aircraft and three aircraft engines. The company has experienced lease terminations and payment deferrals, as well as indications of a weakening in both the financial condition and operating results of the majority of its customers. However, management continues to carefully monitor the performance of all of its customers. Mexico in particular has shown market weakness as drug-related violence deters tourism and travel. If the violence in Mexico were to escalate, it is likely to impact ACY's lessees' ability to pay their monthly rent. As of February 2010, ACY's operating lease revenue from Mexican lessees approximates 17% of monthly lease revenue payments.

For 2010, we forecast total revenue of $33.3 million and net income of $6 million or $3.78 per share. We previously estimated total revenue of $34 million and net income of $5.9 million or $3.71 per share. Total revenue primarily consists of lease revenue on at least 37 aircraft and no engines on lease for a major portion of 2010, maintenance reserves income, and a $0.4 million insurance recovery settlement on a damaged aircraft that was in excess of book value.

As we expect operating expense trends to improve, our profit expectations have increased. We expect total operating expenses to decline by $0.7 million from lower interest expense as outstanding debt levels decline and reduced depreciation expense. With lower operating expenses and stable revenue, operating expense margin should improve to 89.5% from 92.1% in 2009.

For 2011, we project total revenue of $33.5 million and net income of $6.2 million or $3.89 share. We previously forecasted revenue of $34 million and net income of $6 million or $3.78 per share. Operating expense margin should widen to 86.5% from our 2010 forecast of 89.5%, based on modest rental rate increases, having at least 37 aircraft on lease for a majority of the year, and stable operating expenses.

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

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

- Operating lease revenue of $27 million and $27.7 million, respectively. Our forecast is based on lease revenue for 37 aircraft for most of each year, with modest increase in lease renewal rates
- Interest expense of $4.7 million and $4.9 million, respectively, versus, $5.2 million in 2009. Year-over-year decline and moderate increase reflect reduced debt levels
- SG&A expenses (including insurance), of nearly $1.2 million and $1.4 million, respectively, for 2010 and 2011. If the company purchases additional aircraft, expenses could be greater than forecasted
- Management fees of $3.7 million for both 2010 and 2011
- Depreciation of $7.3 million and $7.1 million, respectively, for 2010 and 2011
- Maintenance, impairment, and bad debt expenses of $7.2 million and $7.1 million, respectively, for 2010 and 2011. As aircraft come off lease and are prepared for re-lease, it will cause a quarterly spike in maintenance expense
- A tax rate of approximately 34.8% for both periods

Our forecasts are also based on the following:

- Rent payment deferrals for four lessees totaling approximately $2.3 million, in order to assist certain lessees in difficult financial situations. A majority of the deferrals should be repaid during the 2H10

- A signed term sheet for a 39-month lease to a regional carrier in Argentina of two Saab 340A aircraft Delivery is expected in May 2010
- The extension of terms on three leased aircraft so far in 2010

Finances

For 2010, we project cash throw-off of $12.1 million (versus $16.8 million in 2009), which should allow the company to continue paying down debt on its credit facility and subordinated notes. In 2009, ACY repaid $17.8 million of debt and borrowed $8 million for the purchase of aircraft engines. We project an increase in 2010 working capital needs of $2.1 million, as the company will need to support an increase in accounts receivables (due to lease deferments) and a decline in maintenance reserves. We project cash from operations of $9.9 million. Cash at the end of 2010 should increase by $1.7 million to $2.9 million, as we project repayment of $12.5 million in debt and borrowings of $3 million.

For 2011, we project cash throw-off of $12.8 million, a decrease in working capital needs of $1.1 million, and cash generated from operations of $14 million. The decrease in working capital should result from a decline in accounts receivable. Our projection also reflects repayment of approximately $15.5 million of debt and borrowings of $2 million. We forecast a 2011 increase of $0.4 million in cash to approximately $3.3 million.

Recent Financials

1Q10 versus 1Q09:

- Operating lease revenue grew to $6.7 million compared to $6.5 million. Our estimate was $6.9 million
- Total revenue (including maintenance reserves and other) grew to $8.8 million compared $8.0 million. Our estimate was $8.3 million
- Total operating expense decreased to $6 million from $6.2 million
- Net income was $1.9 million or $1.20 per share versus net income of $1.2 million or $0.80 per share. Our estimate was $1.4 million or $0.85 per share

1Q10 revenue, which included maintenance reserves (non-refundable reserves earned based on lessee aircraft usage and other), increased by 10%, due to a $0.3 million increase in operating lease revenue and a $0.6 million increase in other items compared to last year. Offsetting the increase was maintenance reserves which declined by $0.1 million, due to lower average usage of aircraft by some of the company's lessees and a higher number of off-lease aircraft (we estimate an average of three).

Operating lease revenues grew by 3.1% due to aircraft engines purchased during 2009. Offsetting the increase was a reduction in operating lease revenue from customers that were deferring payment and a decrease in revenue related to aircraft that were off lease for all or part of the quarter compared to 1Q09.

Total revenue was enhanced by insurance proceeds of $648,000, up from $6,000 in the year earlier quarter for one of the company's DHC-8-100 aircraft that was damaged in January 2010, and reversal of a bad debt charge of $0.2 million in 2009 but paid by the lessee in 2010.

1Q10 expenses decreased by $0.2 million, thus operating expenses margin improved to 88.6% from 95.2% in 1Q09. The decline in operating expenses was due to the following:

- Interest expense decreased by $353,000 to $1.1 million due to the lower average outstanding principal of subordinated notes and the resulting reduction in interest payments and discount amortization expense
- SG&A expenses including insurance decreased by $91,000 due to lower accounting and legal fees
- Depreciation expense decreased by $72,000 to $1.8 million due to the elimination of the damaged aircraft from its portfolio

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

– Maintenance expense increased by $0.3 million to $1.8 million due to increases in expense for off-lease aircraft and maintenance performed by lessees using non-refundable reserves

– Management fees increased by $7,000 due to aircraft acquisitions

Operating margin in 1Q10 expanded to 32.7% of operating lease revenue from 23.5% in 1Q09. The expansion was due to $444,000 reductions in interest and SG&A expenses.

Finances

The company's debt to equity ratio is 1.4 versus 3.6 for the industry, indicating that ACY is significantly less leveraged than other rental and leasing services companies.

1Q10 cash from operations totaled $4.6 million, enabling the company to repay nearly $2 in debt. At March 31, 2009, ACY's cash position increased to $6.0 million from $1.3 million at December 31, 2009.

Based upon our forecasts for revenues and expenditures through the end of 2010 and 2011, we believe ACY should have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility and subordinated notes.

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

Credit Facility

At March 31, 2010, the company had $53 million outstanding under an $80 million senior revolving credit facility that matured on April 30, 2010. The weighted average interest rate on the facility at March 31, 2010 was 3.8%. In 1Q10, the company did not borrow against the facility and repaid slightly more than $0.5 million of outstanding principal. The company was in compliance with all covenants.

On April 28, 2010, the company and Union Bank, California Bank & Trust, and US Bank National Association, entered into a new loan and security agreement. The new credit facility is $75 million (maturing April 28, 2012), with provisions allowing for a maximum of $110 million. The facility is secured by a first priority lien on all of the company's assets, including its aircraft portfolio. The initial proceeds were used to pay off the outstanding amount of the company's former credit facility. The base interest rate is equal to the highest of:

- The Federal Funds rate plus one-half of one percent
- The one month LIBOR plus one and one half percent

During April 2007, ACY issued 16% senior unsecured subordinated notes. At March 31, 2010, the carrying amount of the subordinated notes was approximately $7.7 million (outstanding principal is $8 million less unamortized debt discount of approximately $0.4 million) and accrued interest payable was zero. The company was in compliance with all covenants under the subordinated notes agreement.

Competition

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

The large non-public participants in the aircraft leasing industry are GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance and AIRFUND Corporation, a private company that is a U.S. based commercial aircraft asset manager founded in 1984. The public companies (chart on right) are Willis Lease Finance Corp. (NasdaqGM: WLFC), AerCap Holdings N.V. (NYSE: AER), Aircastle Limited (NYSE: AYR), Babcock & Brown Air Limited (NYSE: FLY). Net income for AerCap and Aircastle had year-over-year profit gains, while Willis Lease and Babcock & Brown reported a year-over-year decline in net income.

Public and Private Competitors

	Net Income in millions 1Q10A
AerCap Holdings N.V.	$18.5
Aircastle Limited	$34.4
Babcock & Brown Air Limited	$16.7
Willis Lease Finance	$2.3

Source: Yahoo Finance

Risks

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

Lessee Credit Risk

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

Interest Rates

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

Customer Concentration

For the month of April 2010, ACY's two largest customers, located in Mexico and Antigua, accounted for approximately 17% and 15%, respectively, of monthly lease revenue. For 2009, its top five customers accounted for 58% operating lease revenue compared to 64% in 2008.

Stockholder Rights Plan

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

Shareholder Control

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

Miscellaneous

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

Trading Volume

An equity specific concern relates to liquidity. During 2008, average daily volume was 10,862 shares a day and in 2009 average daily volume decreased to 6,321 shares a day. During the first four months of 2010, average daily volume was 5,435 shares traded. On a relative basis, volume for this equity is very small and could lead to price volatility.

AeroCentury Inc.
Consolidated Balance Sheet
2007 – 2010E
(in thousands)

	2007A	2008A	2009A	1Q10A	2010E	2011E
ASSETS						
Current assets:						
Cash & Equivalents	$ 2,843	$ 2,170	$ 1,253	$ 6,022	$ 2,934	$ 3,297
Accounts Receivable	1,648	2,023	3,165	3,255	3,224	2,696
Tax receivable	1,836	1,627	3	-	-	-
Prepaid Expense & Other	1,402	1,001	555	906	810	971
Total current assets	**7,729**	**6,820**	**4,976**	**10,184**	**6,968**	**6,965**
Aircraft & engines, net of depreciation	118,924	124,914	127,204	123,322	123,000	122,724
Total assets	**$ 126,653**	**$ 131,734**	**$ 132,179**	**$ 133,506**	**$ 129,968**	**$ 129,689**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts Payable and accrued expenses	$ 811	$ 599	$ 625	$ 704	$ 556	$ 662
Notes Payable and accrued interest	73,075	72,411	62,582	60,658	55,000	54,000
Maintenance deposits and accrued costs	6,025	8,095	9,913	8,886	8,985	9,055
Security deposits	5,697	5,499	5,566	6,931	6,000	5,000
Prepaid rent	1,028	1,073	1,009	1,008	1,000	1,000
Income taxes payable	229	52	5	4	-	-
Total current liabilities	**86,864**	**87,729**	**79,699**	**78,192**	**71,541**	**69,717**
Deferred Income Taxes	7,649	9,169	11,988	12,926	10,000	8,000
Total Liabilities	**94,513**	**96,898**	**91,687**	**91,117**	**81,541**	**77,717**
Stockholders' equity:						
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2	2	2
Paid-in capital	15,378	14,780	14,780	14,780	14,780	14,780
Retained earnings	17,265	20,558	26,215	28,111	34,150	37,695
Treasury Stock, at cost	(504)	(504)	(504)	(504)	(504)	(504)
Total stockholders' equity	**32,140**	**34,835**	**40,493**	**42,388**	**48,427**	**51,972**
Total liabilities and stockholders' equity	**$ 126,653**	**$ 131,734**	**$ 132,179**	**$ 133,506**	**$ 129,968**	**$ 129,689**
SHARES OUT	1,543	1,543	1,543	1,543	1,543	1,543

AeroCentury Inc.
Annual Income Statement
2007 – 2011E,
(in thousands)

	2007A	2008A	2009A	**2010E**	**2011E**
Revenues:					
Operating lease revenue	$ 19,412	$ 24,407	$ 26,462	**$ 26,995**	**$ 27,735**
Maintenance reserves income	4,310	7,170	6,207	**5,678**	**5,800**
Gain(loss) on disposal of assets	98	15	-	**208**	**-**
Other Income	31	203	488	**440**	**-**
Total Revenues	23,850	31,795	33,157	**33,321**	**33,535**
Expenses:					
Management Fees	3,017	3,676	3,678	**3,739**	**3,730**
Depreciation	5,615	7,223	7,663	**7,326**	**7,050**
Interest	6,260	7,154	5,367	**4,657**	**4,850**
SG&A	865	1,128	965	**1,221**	**1,360**
Maintenance	2,396	6,771	7,767	**7,212**	**7,100**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	342	714	57	**-**	**-**
Total Expenses	18,495	26,665	25,497	**24,155**	**24,090**
Operating Income	5,354	5,130	7,660	**9,166**	**9,445**
Taxes(Benefit)	1,579	1,837	2,688	**3,186**	**3,275**
Tax Rate	*29.49%*	*35.82%*	*35.09%*	*34.75%*	*34.67%*
Net Income	$ 3,775	$ 3,292	$ 4,972	**$ 5,981**	**$ 6,170**
EPS-fully diluted includes insurance settlement	$ 2.36	$ 2.08	$ 3.21	**$ 3.78**	**$ 3.89**
Avg Shares Out-fully diluted	1,598	1,585	1,549	**1,581**	**1,586**
Margin Analysis					
Gross margin	87.3%	88.4%	88.9%	**88.8%**	**88.9%**
Operating margin	22.5%	16.1%	23.1%	**27.5%**	**28.2%**
NI/Rev	15.8%	10.4%	15.0%	**17.9%**	**18.4%**
NI/Rent Income	19.4%	13.5%	18.8%	**22.2%**	**22.2%**
Total Exp/Rev	77.5%	83.9%	76.9%	**72.5%**	**71.8%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	15.54%	15.06%	13.90%	**13.85%**	**13.45%**
Depreciation	28.92%	29.59%	28.96%	**27.14%**	**25.42%**
Interest	32.25%	29.31%	20.28%	**17.25%**	**17.49%**
SG&A	4.46%	4.62%	3.65%	**4.52%**	**4.90%**
Total Expenses	95.28%	109.25%	96.35%	**89.48%**	**86.86%**
Percent Change Year/Year					
Operating lease revenue	22.78%	25.73%	8.42%	**-0.19%**	**2.74%**

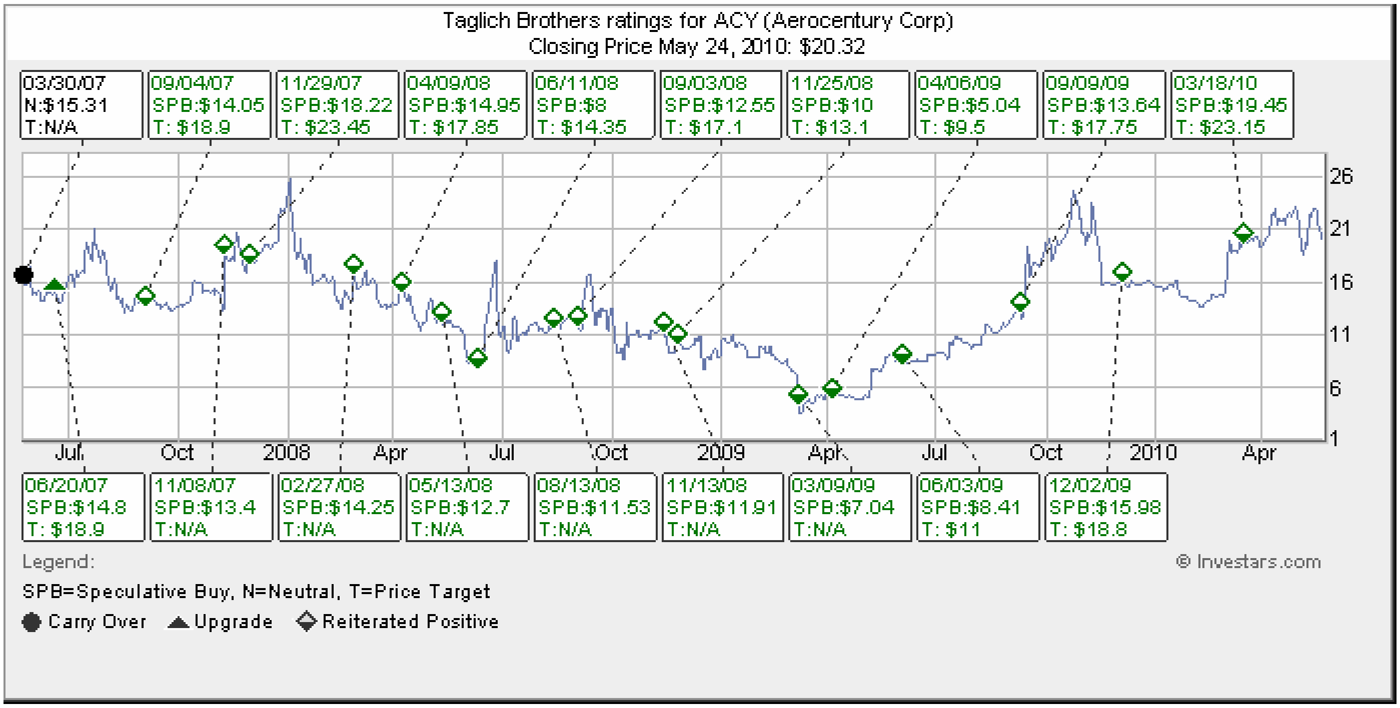
AeroCentury Inc.
Quarterly Income Statement
2009 – 2011E,
(in thousands)

	Q1 (3/09)A	Q2 (6/09)A	Q3 (9/09) A	Q4 (12/09)A	**2009A**	Q1 (3/10)A	Q2 (6/10)E	Q3 (9/10) E	Q4 (12/10)E	**2010E**	Q1 (3/11)E	Q2 (6/11)E	Q3 (9/11) E	Q4 (12/11)E	**2011E**
Revenues:															
Rent Income	$ 6,469	$ 6,441	$ 6,852	$ 7,283	**$ 27,046**	$ 6,720	$ 6,730	$ 6,750	$ 6,795	**$ 26,995**	$ 6,855	$ 6,925	$ 6,950	$ 7,005	**$ 27,735**
Maintenance reserves income	1,568	1,543	1,597	1,360	**6,068**	1,478	1,400	1,400	1,400	**5,678**	1,450	1,450	1,450	1,450	**5,800**
Gain(loss) on disposal of assets	-			-	-	208	-		-	**208**	-	-	-	-	-
Other Income	6	258	224	(38)	**450**	440	-	-	-	**440**	-	-	-	-	-
Total Revenues	8,044	8,241	8,674	8,605	**33,564**	8,846	8,130	8,150	8,195	**33,321**	8,305	8,375	8,400	8,455	**33,535**
Expenses:															
Management Fees	927	913	918	922	**3,681**	934	930	940	935	**3,739**	925	930	940	935	**3,730**
Depreciation	1,908	1,908	1,912	1,916	**7,644**	1,836	1,835	1,830	1,825	**7,326**	1,800	1,775	1,750	1,725	**7,050**
Interest	1,410	1,381	1,276	1,136	**5,202**	1,057	1,100	1,200	1,300	**4,657**	1,100	1,200	1,300	1,250	**4,850**
SG&A includes insurance	351	252	113	311	**1,027**	316	255	200	450	**1,221**	325	275	285	475	**1,360**
Maintenance	1,505	1,710	2,702	1,232	**7,149**	1,812	1,800	1,800	1,800	**7,212**	1,775	1,775	1,775	1,775	**7,100**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	57	-	-	151	**208**	-	-	-	-	-	-	-	-	-	-
Total Expenses	6,157	6,164	6,922	5,668	**24,911**	5,955	5,920	5,970	6,310	**24,155**	5,925	5,955	6,050	6,160	**24,090**
				150.90											
Operating Income	1,887	2,077	1,752	2,937	**8,653**	2,891	2,210	2,180	1,885	**9,166**	2,380	2,420	2,350	2,295	**9,445**
Operating Margin	23.45%	25.20%	20.20%	34.13%	25.78%	32.69%	27.18%	26.75%	23.00%	27.51%	28.66%	28.90%	27.98%	27.14%	28.17%
Taxes(Benefit)	648	709	606	1,031	**2,996**	996	775	765	650	**3,186**	825	835	815	800	**3,275**
Tax Rate	*34.36%*	*34.15%*	*34.61%*	*35.12%*	*34.62%*	*34.44%*	*35.07%*	*35.09%*	*34.48%*	*34.75%*	*34.66%*	*34.50%*	*34.68%*	*34.86%*	*34.67%*
Net Income	$ 1,238	$ 1,368	$ 1,146	$ 1,905	**$ 5,657**	$ 1,896	$ 1,435	$ 1,415	$ 1,235	**$ 5,981**	$ 1,555	$ 1,585	$ 1,535	$ 1,495	**$ 6,170**
EPS-fully diluted	$ 0.80	$ 0.89	$ 0.73	$ 1.20	**$ 3.62**	$ 1.20	$ 0.91	$ 0.90	$ 0.78	**$ 3.78**	$ 0.98	$ 1.00	$ 0.97	$ 0.94	**$ 3.89**
Avg Shares	1,543	1,543	1,567	1,586	**1,563**	1,581	1,581	1,581	1,581	**1,581**	1,586	1,586	1,586	1,586	**1,586**
Margin Analysis															
Gross margin	88.5%	88.9%	89.4%	89.3%	**89.0%**	89.4%	88.6%	88.5%	88.6%	**88.8%**	88.9%	88.9%	88.8%	88.9%	**88.9%**
Operating margins	23.5%	25.2%	20.2%	34.1%	**32.0%**	32.7%	27.2%	26.7%	23.0%	**27.5%**	28.7%	28.9%	28.0%	27.1%	**28.2%**
NI/Rev	15.4%	16.6%	13.2%	22.1%	**16.9%**	21.4%	17.7%	17.4%	15.1%	**17.9%**	18.7%	18.9%	18.3%	17.7%	**18.4%**
NI/Rent Income	19.1%	21.2%	16.7%	26.2%	**20.9%**	28.2%	21.3%	21.0%	18.2%	**22.2%**	22.7%	22.9%	22.1%	21.3%	**22.2%**
Total Exp/Rev	76.5%	74.8%	79.8%	65.9%	**74.2%**	67.3%	72.8%	73.3%	77.0%	**72.5%**	71.3%	71.1%	72.0%	72.9%	**71.8%**
As Per Cent of Rent Income															
Expenses:															
Management Fees	14.3%	14.2%	13.4%	12.7%	**13.6%**	13.9%	13.8%	13.9%	13.8%	**13.8%**	13.5%	13.4%	13.5%	13.3%	**13.4%**
Depreciation	29.5%	29.6%	27.9%	26.3%	**28.3%**	27.3%	27.3%	27.1%	26.9%	**27.1%**	26.3%	25.6%	25.2%	24.6%	**25.4%**
Interest	21.8%	21.4%	18.6%	15.6%	**19.2%**	15.7%	16.3%	17.8%	19.1%	**17.3%**	16.0%	17.3%	18.7%	17.8%	**17.5%**
SG&A	5.4%	3.9%	1.7%	4.3%	**3.8%**	4.7%	3.8%	3.0%	6.6%	**4.5%**	4.7%	4.0%	4.1%	6.8%	**4.9%**
Total Expenses	95.2%	95.7%	101.0%	77.8%	**92.1%**	88.6%	88.0%	88.4%	92.9%	**89.5%**	86.4%	86.0%	87.1%	87.9%	**86.9%**
Percent Change Year/Year															
Rent Income	9.8%	11.8%	8.0%	13.6%	**10.8%**	3.9%	4.5%	(1.5%)	(6.7%)	**(0.2%)**	2.0%	2.9%	3.0%	3.1%	**2.7%**

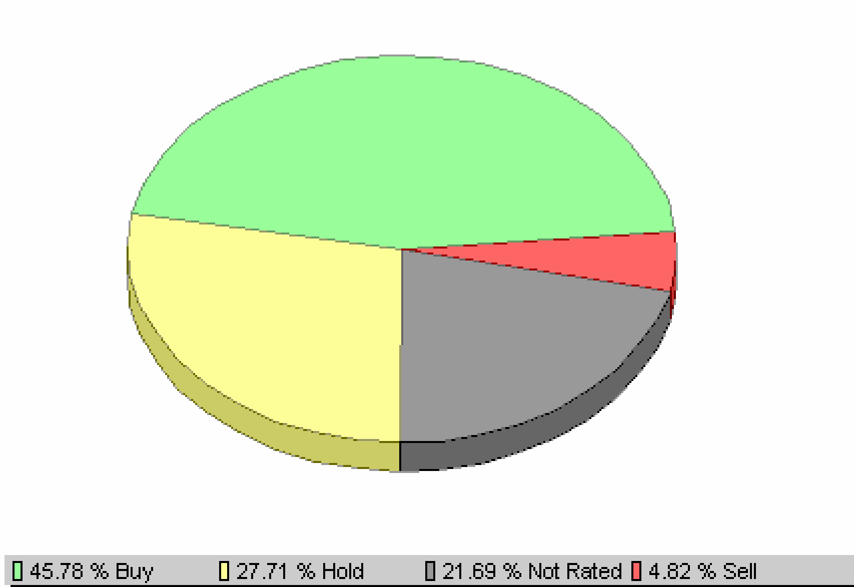
AeroCentury Inc.
Annual and Projected
Cash Flow Statement
2007 – 2011E
(in thousands)

	2007A	2008A	2009A	2010E	2011E
Cash Flows from Operating Activities					
Net Income	$ 3,775	$ 3,293	$ 5,657	$ 5,981	$ 6,170
Loss (gain) on sale of aircraft and aircraft engines	(98)	(15)	(75)	-	-
Depreciation	5,615	7,222	7,644	7,326	7,700
Provision for impairment in value of aircraft	-	745	-	-	-
Non-cash interest	312	1,251	593	500	650
Provision for bad debt	16	1	209	250	300
Deferred Taxes	3,178	1,520	2,818	(1,988)	(2,000)
	12,798	14,018	16,847	12,069	12,820
Changes In:					
Accounts receivable	(165)	(376)	(1,104)	(59)	528
Taxes receivable	(1,812)	209	1,624	3	-
Prepaid expenses and other	(340)	(112)	(113)	(255)	(161)
Accounts payable and accrued expenses	157	(104)	(180)	(69)	107
Accrued interest on notes payable	(17)	(64)	18	-	-
Maintenance reserves and accrued costs	2,857	2,070	1,818	(928)	69
Security Deposits	1,509	(198)	67	(566)	500
Prepaid rent	554	45	(64)	(259)	100
Unearned income	-	-	-	-	-
Taxes payable	229	(176)	(47)	(5)	-
Net Changes in Working Capital	2,973	1,294	2,019	(2,138)	1,143
Net cash Provided by Operations	15,771	15,312	18,867	9,931	13,964
Cash Flows from Investing Activities					
Payments received on note receivable	-	-	-	-	-
Issuance of note receivable	-	-	-	-	-
Proceeds from disposal of assets	98	15	-	-	-
Purchase of aircraft and aircraft engines	(32,333)	(13,930)	(9,902)	-	-
Net cash used in Investing	(32,236)	(13,915)	(9,902)	-	-
Cash Flows from Financing Activities					
Borrowings under credit facility	25,500	12,500	8,000	3,000	2,000
Issuance of notes payable	9,237	3,960	-	-	-
Debt issuance costs	(735)	286	-	-	-
Repayment of credit facility and note payable	(18,078)	(18,817)	(17,882)	(12,500)	(15,500)
Net cash provided by Financing	15,925	(2,071)	(9,882)	(9,500)	(13,500)
Net change in Cash	(541)	(674)	(917)	431	464
Cash Beginning of Period	3,384	2,843	2,170	1,253	1,684
Cash End of Period	$ 2,843	$ 2,170	$ 1,253	$ 1,684	$ 2,147

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.70%
Hold	0	0
Sell	1	100%
Not Rated	0	0

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

Public Companies mentioned in this report:

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

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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