TAGLICHBROTHERS
The Standard of Excellence in the Microcap Market
Member: FINRA, SIPC

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 $8.41 – (AMEX)

June 3, 2009

	FY (12/07) A	FY (12/08) A	***FY (12/09) E***	***FY (12/10) E***
Total revenue (millions)	$23.85	$31.80	***$31.57***	***$31.80***
Earnings per share (diluted)	$2.36	$2.08	***$2.75***	***$2.84***

52-Week range	$18.40 – $3.15	Fiscal year ends:	December
Shares outstanding a/o 05/14/09	1.54 million	Lease revenue/share (ttm)	$15.95
Approximate float	1.06 million	Price/Sales (ttm)	0.5X
Market Capitalization	$13 million	Price/Sales (2010)E	0.5X
Book value/share	$23.37	Price/Earnings (ttm)	3.1X
Price/Book	0.4X	Price/Earnings (2010)E	3.0X

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 the shares of AeroCentury (AMEX: ACY) and increasing our 12-month price target to $11.00 per share (prior was $9.50 per share). Our price target is based on a relative price to sales and price to earnings analysis. The change in our price target is primarily the result of the increase in our EPS forecast.

On May 7, 2009, ACY reported first quarter 2009 total revenue of $8.051 million versus $7.191 million. Net income for the quarter was $1.238 million or $0.80 per share versus net income of $0.296 million or $0.18 per diluted share in the same period last year.

Based on comments in ACY's 2009 first quarter 10Q 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 $31.568 million (prior was $31.850 million) and net income of $4.238 million or $2.75 per diluted share (prior was $2.985 million or $1.88 per diluted share). The virtually flat total revenue forecast is primarily due to reduced maintenance reserve income resulting from lower average usage of aircraft; however, the increase in net income is based on lower interest expenses as the Company's balance on its credit facility was reduced (approximately $3.6 million lower in Q1'09 vs. Q4'08) and a lower expense level for maintenance.

We are introducing our preliminary forecast for 2010, which calls for total revenue of $31.800 million and net income of $4.385 million or $2.84 per diluted share. Our preliminary 2010 forecast is based on the potential for a slight improvement it the global economy and overall operating trends for the Company remaining favorable (i.e., the ability to re-lease aircraft).

****Please view our disclaimer located on page 14.***

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174
(800) 383-8464 • Fax (631) 757-1333
www.taglichbrothers.com

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.

As of March 31, 2009, 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	5
Fokker 100s	7	7

Source: 2009 Q1 10Q Filing

As noted above, two Saab 340As, one Saab 340B, and one Fokker 50 aircraft were off lease as of March 31, 2009. The Saab 340-B lease was terminated early in the first quarter of 2009. According to Management, the Fokker 50 and Saab 340A aircraft are undergoing maintenance to prepare them for re-lease. Also, one turboprop engine owned by ACY was off lease. Management is seeking re-lease or sale opportunities for these aircraft.

The 2009 first quarter 10Q filing stated that eight of ACY's leases expire during the remainder of 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 April 2009, the following occurred:

- At the end of April, ACY received a request from the lessee (of three of the Company's Fokker 100 aircraft that are leased by a regional airline based in Mexico) to defer three months of future payments as a result of a decrease in passenger volume due to the H1N1 virus (swine flu). The Company agreed to discuss a possible deferral with the lessee at a meeting in late May; and
- The lease for one of the Company's DHC-8-100 aircraft, which was to expire in May, was extended for 36 months.

During May 2009, the following occurred:

- ACY and the lessee of one of its Fokker 50 aircraft with a lease expiring in mid May agreed in principle to a two-year re-lease at the same rent, with an option for a one-year extension; and
- The Company received notice from the Internal Revenue Service that its claim for a tax refund of approximately $1.6 million was accepted. No further details were provided (i.e., accounting treatment or timing of when the payment will be made).

Recent Financials

On May 7, 2009, ACY reported first quarter 2009 total revenue of $8.043 million versus $7.823 million in the same period last year. Investors should be cognizant that both periods reflect AUG AIR-1, Accounting for Planned Major Maintenance Activities. Maintenance reserves income revenue (which 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 decreased to $1.568 million from $1.750 million in the same period last year. The reduction was primarily due lower average usage of aircraft by some of the Company's lessees and because there were more aircraft off lease in the current period (we estimate two) compared to the same period last year.

Operating lease revenue during the first quarter of 2009, improved to $6.469 million versus $5.894 million in the same period last year. The positive change in operating lease revenue ($0.575 million) versus the first quarter of 2008 was primarily due to a $0.8 million increase in operating lease revenue from aircraft purchased during 2008, as well as re-leases of two aircraft that were off lease for part of the first quarter of 2008, and re-leases of several aircraft at increased rental rates. Mitigating the operating lease revenue increase was aircraft off lease during all or part of the first quarter of 2009.

ACY reported that depreciation, management fees, G&A, insurance expenses, and bad debt/other taxes for the first quarter of 2009 increased by approximately $0.375 million versus the same period last year. The increase was primarily due to higher depreciation, other taxes, and management fees. Depreciation increased by approximately $0.201 million, primarily due to the purchase of aircraft in 2008. Management fees increased by approximately $0.044 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, insurance expenses, and bad debt/other taxes increased by approximately $0.130 million versus the same period last year primarily due to higher insurance and other taxes (which included non-income based sales, use, and value-added and franchise taxes). Other taxes were approximately $0.1 million greater versus the same period last year due to adjustments made in 2008.

Interest expense decreased by approximately $0.720 million in the current period compared to the first quarter of 2008. The year-over-year decline was primarily related to a gain in fair value related to the interest rate swap, which contributed to a net decrease in interest expense of approximately $0.609 million, a decrease of approximately $0.564 million in its credit facility interest as a result of lower average interest rates, and a decrease of approximately $0.028 million in credit facility and subordinated notes unused commitment fees resulting from lower average unused balances. Mitigating the decreases was an increase of approximately $0.119 million related to higher credit facility and subordinated notes balances, an increase of approximately $0.198 million in subordinated notes fee amortization as a result of the issuance of additional subordinated notes in July 2008, and an increase of approximately $0.165 million in net settlement interest related to the interest rate swap.

According to the Company's 2009 first quarter 10Q filing, the weighted average interest rate on its credit facility was 3.31% versus 5.56% during the same period last year.

Maintenance expense decreased by approximately $0.876 million during the first quarter of 2009 compared to the same period last year. According to the Company's 10Q 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 decrease resulted from approximately $1.061 million less in total lessee work incurred, which was mitigated by an increase of approximately $0.185 million in expenses related to off-lease aircraft. Investors should also take note that the Company incurred approximately $0.783 million and $0.939 million, respectively, of maintenance expense that was funded by non-refundable maintenance reserves, which were recorded as income when accrued. For both the current period and same period last year, the Company's effective tax rate was approximately 34%.

In comparison, Taglich Brothers' estimates called for total revenue of $7.875 million and net income of $0.590 million or $0.37 per share. The difference between actual results and our forecast was primarily due to lower interest expense versus our expectation.

Balance Sheet as of March 31, 2009

The Company provided the following balance sheet data:

- Total assets were $129.787 million versus $131.734 million at December 31, 2008;
- Total liabilities were $93.714 million versus $96.898 million at December 31, 2008; and
- Shareholders' equity stood at $36.073 million versus $34.835 million at December 31, 2008.

The Company ended the first quarter of 2009 with cash and cash equivalents of approximately $1.9667 million versus $2.170 million at December 31, 2008. Total outstanding notes payable and accrued interest decreased to $68.133 million versus $72.411 million at the end of 2008.

At the end of March 31, 2009, the Company had outstanding $54.500 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 first quarter 10Q filing, the weighted average interest rate on the facility at March 31, 2009 and 2008 was 3.31% and 5.56%, respectively. During the current quarter, the Company did not borrow against the facility and repaid $3.596 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. According to the first quarter 2009 10Q filing, as of March 31, 2009, the carrying amount of the subordinated notes was approximately $13.0 million (outstanding principal amount is $14 million less unamortized debt discount of approximately $1.0 million) and accrued interest payable was zero. As of the end of the quarter, the Company was in compliance with all covenants under the subordinated notes agreement. Management stated in the first quarter 2009 10Q filing that based on its current projections, the Company believes it will continue to be in compliance with all covenants of its subordinated notes agreement, but there can be no assurance of such compliance in the future.

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 March 31, 2009, the Company recognized a $0.508 million liability for the swap on its balance sheet (in the notes payable and accrued interest line item). The Company also recognized a gain of $0.138 million as a component of interest expense for the change in fair value of the swap contract. **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, during March 2009, repaid the outstanding principal of $0.647 million owed by AeroCentury VI LLC under its special purpose financing and paid a prepayment penalty of approximately $0.001 million. At the same time, the Company transferred ownership of the aircraft that served as collateral for the financing from AeroCentury VI LLC to AeroCentury Corp., whereupon the aircraft became eligible as collateral under the Credit Facility.

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 existing lease terms and rents, as well as estimates that include: 1) rents on assets to be re-leased; 2) timely use of proceeds of unused debt capacity toward additional acquisitions of income producing assets, 3) required debt payments; 4) interest rate increases and decreases; and 5) the cost and anticipated timing of maintenance to be performed.

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). All three of the publicly traded companies were profitable during the first calendar quarter of 2009 (generating net income of approximately $7 million, $47 million, and $30 million, respectively).

According to the Travel Industry Association of America (TIA), after years of little travel volume growth combined with significantly lower travel spending, 2006 – 2008 experienced growth of 6.4%, 6.0%, and estimated growth of 4.8%, respectively. However, the TIA's May 2009 forecast calls for a decline of 8.8% in 2009 to $704.8 billion with a potential rebound of 6.2% to 748.3 billion in 2010.

The International Air Transport Association (IATA, which represents some 230 airlines comprising 93% of scheduled international air traffic) issued during March 2009, the following revised 2009 forecast:

- Worldwide passenger traffic is expected to decline by 5.7% (prior forecast called for a decline of 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 still could be the worst revenue environment in 50 years; and
- North America will likely be the only region that could make money, as this was the only region that has been able to shrink capacity in line with the fall in demand.

Outlook and Projections

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 39 of the 43 aircraft are on lease as of as of March 31, 2009). Management stated in the first quarter 2009 10Q filing that except for a lease termination and payment deferrals that were previously discussed, ACY has not experienced significant changes in any of its customers' payment timeliness, but has seen some indications of a weakening in the financial condition and operating results of some customers. However, to reiterate, the Company stated in its 10K filing, 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 $31.568 million and net income of $4.278 million or $2.75 per diluted share. Our prior expectation was for total revenue of $31.850 million and net income of $2.985 million or $1.88 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 at least 39 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.

Based on comments in ACY's first quarter 10Q filing, a review of first quarter results, and the expectation of a moderation of interest expense versus our prior expectations, we are adjusting our bottom line forecast. Our bottom line expectations have been increased from our prior expectations, primarily due to the revision of interest expense. **We have reduced interest expense by approximately $2.0 million, primarily as a result of reported first quarter 2009 results, in which interest expense was $0.590 million below our expectations. Therefore, given first quarter 2009 results and an approximate $4.0 million reduction of its overall debt level (see balance sheet for details), we feel comfortable at this time in reducing our interest expense forecast. However, our forecast would need to be adjusted if the Company was to use debt to purchase additional aircraft (the Company has approximately $25 million of available credit to use in order to purchase aircraft).**

We are introducing our preliminary forecasts for 2010, which calls for total revenue of $31.800 million and net income of $4.385 million or $2.84 per diluted share. Our preliminary 2010 forecast is based on the potential of a slight improvement in the global economy and overall operating trends for the Company remaining favorable (i.e., the ability to re-lease aircraft).

Our bottom line estimates for 2009 and 2010 incorporates the following assumptions:

- Interest expense of $5.910 million versus $7.154 million reported in 2008. For 2010, we are forecasting interest expense of approximately $6.295 million. The increase is based on the potential for increased positive economic activity, which would likely cause the weighted average interest rate to rise on the Company's credit facility;

- SG&A expenses (including insurance), of approximate $1.450 million and $1.565 million, respectively, for 2009 and 2010. Investors should realize that if the Company is able to purchase additional aircraft, our 2009 and 2010 expense expectations would likely be low;

- Management fees and depreciation of $11.450 million and $11.750 million, respectively, for 2009 and 2010. The levels are consistent with our prior forecast as the Company entered 2009 with a portfolio of 43 aircraft (which did not change as of March 31, 2009) versus entering 2008 with an aircraft portfolio of 41;

- Maintenance, impairment, and bad debt expenses of $6.212 million and $5.4 million, respectively, for 2009 and 2010. Our 2009 forecast incorporates approximately $2.3 million of maintenance expense for aircraft that are currently off lease that will need to occur in order to get them ready to be re-leased. At this point in time our 2010 estimate is just an approximation that a more normalized maintenance level will occur; however, as events warrant necessary changes to the forecast will occur; and

- A tax rate of 35.3% in 2009 and 35.4% in 2010.

Investors should be aware that we have considered the following:

- During April 2009, the lease for one of the Company's DHC-8-100 aircraft, which was to expire in May, was extended for 36 months. Also, during May 2009, ACY and the lessee of one of its Fokker 50 aircraft with a lease expiring in mid May agreed in principle to a two-year re-lease at the same rent, with an option for a one-year extension;

- 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 required payment in four, equal monthly installments beginning in March 2009; according to the first quarter 2009 10Q filing, the Company received the first two payments. However, as previously discussed, another lessee has indicated to the Company that due to a significant drop in revenue as a result of the H1N1 virus crisis, the lessee may seek a three-month rent deferral from the Company.

- Eight of the Company's aircraft leases expire during the remainder of 2009. Management indicated in the Company's SEC filings 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 the first quarter 2009 10Q filing, even if the aircraft that are currently off lease or 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.

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 and 2010. 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. AUG AIR-1 allows major maintenance activities to be accounted for in one of three ways and Management evaluated the impact of the adoption 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 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. 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 May 13, 2009, the one-month LIBOR rate was 0.375%.

Credit Facility

At March 31, 2009, $54.500 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 March 31, 2009, according to the Company's first quarter 2009 10Q 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 is in a period of financial difficulty and contraction due to the global economic downturn. Also, was enhanced by the unavailability of additional debt financing relied on by many regional carriers caused by the credit crisis and a protracted economic downturn, which has impacted carriers' revenue. 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 April 2009, the National Association for Business Economics (NABE -- an association of professionals who have an interest in business economics) stated that its survey provides evidence that the U.S. economy's recession is abating. However, it also stated that its survey

respondents have become more pessimistic about U.S. economic growth in 2009, with over half expecting real GDP to fall by 2% or more. On May 10, 2009, Reuters reported that the consensus forecast of panelist surveyed in the Blue Chip Economic Indicators newsletter predicted real GDP would fall by 2.8% in 2009 but grow by 1.9% in 2010. According to the report, the economic downturn is expected to ease in the second quarter of this year with growth forecast to resume in the third quarter of 2009.

Also, the economic landscape includes The Conference Board announcing on April 28, 2009, U.S. consumer confidence improved considerably in April 2009 to 39.2, which is up from 26.9 in March 2009. Investor should realize that the all time low was 25.0 in February 2009. The rise in consumer confidence was a result of significant improvement in the short-term outlook, as well as seeing signs that condition have not deteriorated further and may have even improved during the second quarter of 2009.

If the recessionary environment remains intact and does not moderate, 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 first quarter 2009 10Q 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.

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 $0.927 million and $0.883 million for first quarter of 2009 and 2008, respectively. No remarketing or acquisition fees were paid to JMC during the first quarter of 2009 and 2008, 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.

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 four months of 2009 average daily volume decreased to 4,004 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.

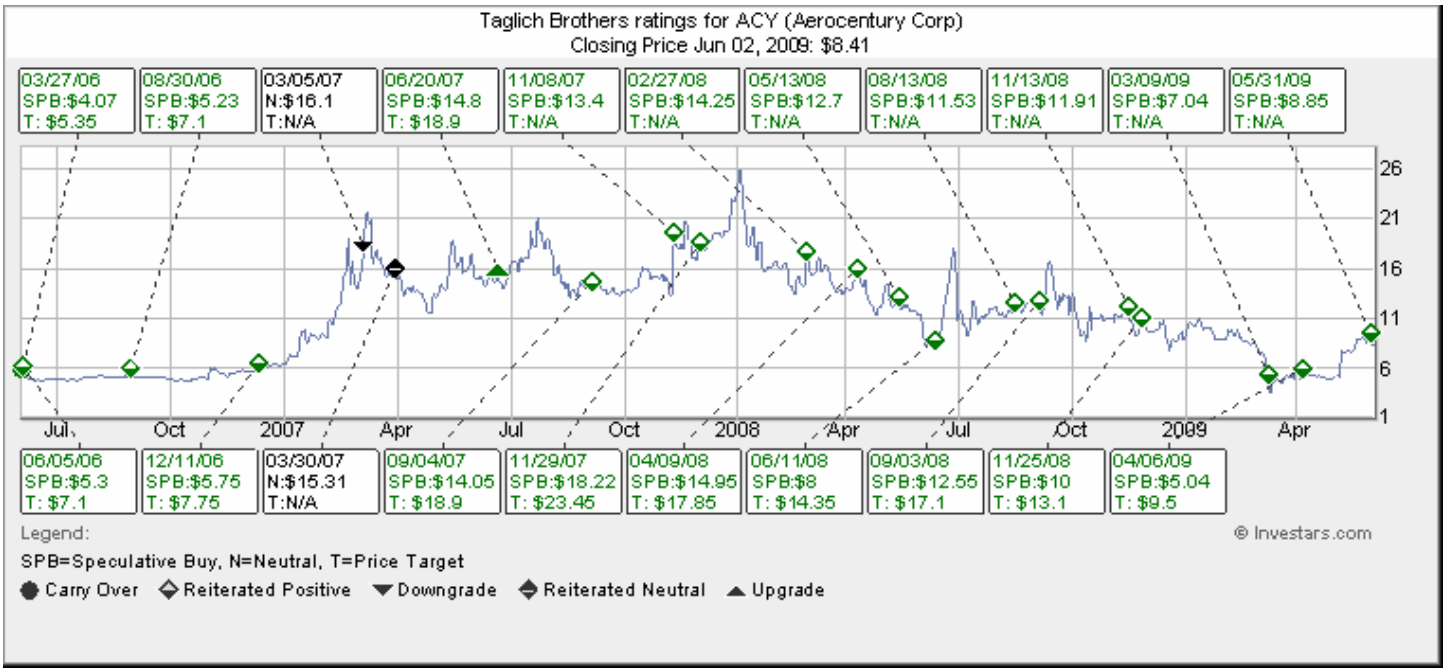
Conclusion

We are maintaining our Speculative Buy rating on the shares of AeroCentury (AMEX: ACY) and increasing our twelve-month price target to $11.00 per share from our prior twelve-month price target of $9.50 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 the result of the increase in our EPS forecast, which is primarily the result of a reduction in interest expense. We are maintaining a relatively high discount factor given the uncertainties that abound in the economy and the equities market.

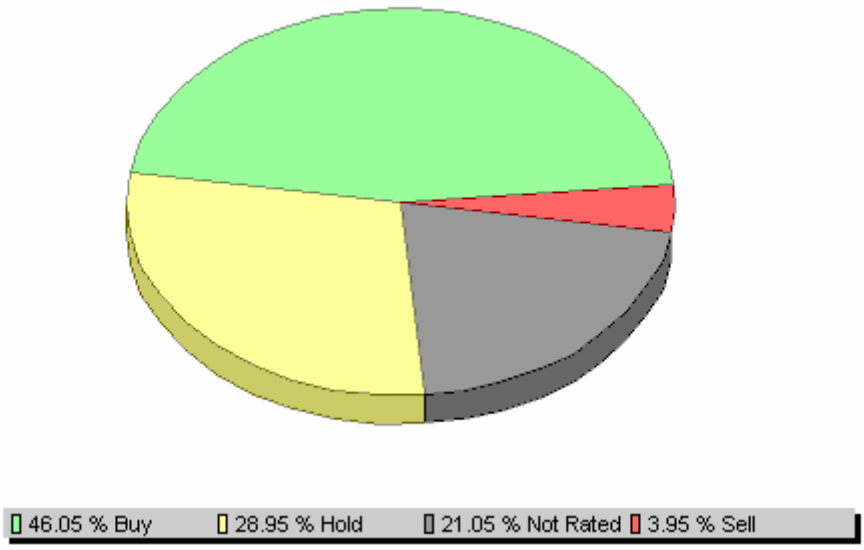
Our price target is derived using the following valuation models discounted by approximately 45% to account for Company specific and microcap risks:

- A 0.9X price to revenue multiple, which is the trailing twelve month multiple (as of June 2, 2009) for the Rental & Leasing Industry according to moneycentral.msn.com, applied to our operating lease revenue (rent income) per share estimate of $16.54 for the next four quarters; and

- A 9.3X price to earnings multiple, which is the trailing twelve month multiple (as of June 2, 2009) for the Rental & Leasing Industry according to moneycentral.msn.com, applied to our earnings per share estimate of $2.70 for the next four quarters.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	7.69%
Hold	0	0
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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)

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to changes in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an Analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research.

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. '07 Year End	Dec. '08 Year End	Mar .'09 1st Qtr End
ASSETS			
Current assets:			
Cash & Equivalents	$ 2,843	$ 2,170	$ 1,967
Accounts Receivable	1,648	2,023	2,209
Tax receivable	1,836	1,627	1,627
Prepaid Expense & Other	1,402	1,001	979
Total current assets	**7,729**	**6,820**	**6,781**
Aircraft & engines, net of depreciation	118,924	124,914	123,006
Total assets	**$ 126,653**	**$ 131,734**	**$ 129,787**
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts Payable and accrued expenses	$ 811	$ 599	$ 600
Notes Payable and accrued interest	73,075	72,411	68,133
Maintenance deposits and accrued costs	6,025	8,095	8,812
Security deposits	5,697	5,499	5,389
Prepaid rent	1,028	1,073	969
Income taxes payable	229	52	7
Total current liabilities	**86,864**	**87,729**	**83,910**
Deferred Income Taxes	7,649	9,169	9,804
Total Liabilities	**94,513**	**96,898**	**93,714**
Stockholders' equity:			
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2
Paid-in capital	15,378	14,780	14,780
Retained earnings	17,265	20,558	21,796
Treasury Stock, at cost	(504)	(504)	(504)
Total stockholders' equity	**32,140**	**34,835**	**36,073**
Total liabilities and stockholders' equity	**$ 126,653**	**$ 131,734**	**$ 129,787**
SHARES OUT	1,543	1,543	1,543

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

	FY2007A	FY2008A	**FY2009E**	**FY2010E**
Revenues:				
Operating lease revenue	$ 19,412	$ 24,407	**$ 25,494**	**$ 26,200**
Maintenance reserves income	4,310	7,170	**6,068**	**5,600**
Gain(loss) on disposal of assets	98	15	**-**	**-**
Other Income	31	203	**6**	**-**
Total Revenues	23,850	31,795	**31,568**	**31,800**
Expenses:				
Management Fees	3,017	3,676	**3,752**	**3,815**
Depreciation	5,615	7,223	**7,698**	**7,935**
Interest	6,260	7,154	**5,910**	**6,295**
SG&A	865	1,128	**1,450**	**1,565**
Maintenance	2,396	6,771	**6,155**	**5,400**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	342	714	**57**	**-**
Total Expenses	18,495	26,665	**25,022**	**25,010**
Operating Income	5,354	5,130	**6,546**	**6,790**
Operating Margin	22.45%	16.13%	20.74%	21.35%
Taxes(Benefit)	1,579	1,837	**2,308**	**2,405**
Tax Rate	*29.49%*	*35.82%*	*35.26%*	*35.42%*
Net Income	$ 3,775	$ 3,292	**$ 4,238**	**$ 4,385**
EPS-fully diluted includes insurance settlement	$ 2.36	$ 2.08	**$ 2.75**	**$ 2.84**
Avg Shares Out-fully diluted	1,598	1,585	**1,543**	**1,543**
Margin Analysis				
GPM	87.3%	88.4%	**88.1%**	**88.0%**
NI/Rev	15.8%	10.4%	**13.4%**	**13.8%**
NI/Rent Income	19.4%	13.5%	**16.6%**	**16.7%**
Total Exp/Rev	77.5%	83.9%	**79.3%**	**78.6%**
As Percent of operating lease revenue				
Expenses:				
Management Fees	15.54%	15.06%	**14.72%**	**14.56%**
Depreciation	28.92%	29.59%	**30.20%**	**30.29%**
Interest	32.25%	29.31%	**23.18%**	**25.55%**
SG&A	4.46%	4.62%	**5.69%**	**5.97%**
Total Expenses	95.28%	109.25%	**98.15%**	**95.46%**
Percent Change Year/Year				
Operating lease revenue	22.78%	25.73%	**4.45%**	**2.77%**

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)A	Q2 (6/09)E	Q3 (9/09) E	Q4 (12/09)E	**FY2009E**
Revenues:					
Operating lease revenue	$ 6,469	$ 6,300	$ 6,350	$ 6,375	**$ 25,494**
Maintenance reserves income	1,568	1,500	1,500	1,500	**6,068**
Total Revenues	8,043	7,800	7,850	7,875	**31,568**
Expenses:					
Management Fees	927	935	940	950	**3,752**
Depreciation	1,908	1,920	1,930	1,940	**7,698**
Interest	1,410	1,400	1,500	1,600	**5,910**
SG&A	350	360	365	375	**1,450**
Maintenance	1,505	1,550	1,550	1,550	**6,155**
Total Expenses	6,157	6,165	6,285	6,415	**25,022**
Operating Income	1,886	1,635	1,565	1,460	**6,546**
Operating Margin	23.45%	20.96%	19.94%	18.54%	**20.74%**
Taxes(Benefit)	648	575	560	525	**2,308**
Tax Rate	*34.36%*	*35.17%*	*35.78%*	*35.96%*	***35.26%***
Net Income	$ 1,238	$ 1,060	$ 1,005	$ 935	**$ 4,238**
EPS-fully diluted includes insurance settlement	$ 0.80	$ 0.69	$ 0.65	$ 0.61	**$ 2.75**
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	**1,543**
Margin Analysis					
GPM	88.5%	88.0%	88.0%	87.9%	**88.1%**
NI/Rev	15.4%	13.6%	12.8%	11.9%	**13.4%**
NI/Rent Income	19.1%	16.8%	15.8%	14.7%	**16.6%**
Total Exp/Rev	76.6%	79.0%	80.1%	81.5%	**79.3%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	14.33%	14.84%	14.80%	14.90%	**14.72%**
Depreciation	29.49%	30.48%	30.39%	30.43%	**30.20%**
Interest	21.80%	22.22%	23.62%	25.10%	**23.18%**
SG&A	5.41%	5.71%	5.75%	5.88%	**5.69%**
Total Expenses	95.18%	97.86%	98.98%	100.63%	**98.15%**
Percent Change Year/Year					
Operating lease revenue	9.76%	9.39%	0.12%	-0.58%	**4.45%**

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2010
(in thousands)

	Q1 (3/10)E	Q2 (6/10)E	Q3 (9/10) E	Q4 (12/10)E	**FY2010E**
Revenues:					
Operating lease revenue	$ 6,500	$ 6,525	$ 6,575	$ 6,600	**$ 26,200**
Maintenance reserves income	1,400	1,400	1,400	1,400	**5,600**
Total Revenues	7,900	7,925	7,975	8,000	**31,800**
Expenses:					
Management Fees	935	950	960	970	**3,815**
Depreciation	1,960	1,980	1,990	2,005	**7,935**
Interest	1,510	1,525	1,580	1,680	**6,295**
SG&A	380	390	395	400	**1,565**
Maintenance	1,350	1,350	1,350	1,350	**5,400**
Total Expenses	6,135	6,195	6,275	6,405	**25,010**
Operating Income	1,765	1,730	1,700	1,595	**6,790**
Operating Margin	22.34%	21.83%	21.32%	19.94%	**21.35%**
Taxes(Benefit)	610	605	610	580	**2,405**
Tax Rate	*34.56%*	*34.97%*	*35.88%*	*36.36%*	***35.42%***
Net Income	$ 1,155	$ 1,125	$ 1,090	$ 1,015	**$ 4,385**
EPS-fully diluted includes insurance settlement	$ 0.75	$ 0.73	$ 0.71	$ 0.66	**$ 2.84**
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	**1,543**
Margin Analysis					
GPM	88.2%	88.0%	88.0%	87.9%	**88.0%**
NI/Rev	14.6%	14.2%	13.7%	12.7%	**13.8%**
NI/Rent Income	17.8%	17.2%	16.6%	15.4%	**16.7%**
Total Exp/Rev	77.7%	78.2%	78.7%	80.1%	**78.6%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	14.38%	14.56%	14.60%	14.70%	**14.56%**
Depreciation	30.15%	30.34%	30.27%	30.38%	**30.29%**
Interest	24.77%	24.90%	25.55%	26.97%	**25.55%**
SG&A	5.85%	5.98%	6.01%	6.06%	**5.97%**
Total Expenses	94.38%	94.94%	95.44%	97.05%	**95.46%**
Percent Change Year/Year					
Operating lease revenue	0.48%	3.57%	3.54%	3.53%	**2.77%**