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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
June 5, 2006

ACY $5.30 – (AMEX)

	FY (12/04)A	FY (12/05)A	*FY (12/06) E*	*FY (12/07) E*
Revenues (millions)	$10.90*	$13.50	***$17.34****	***$15.35***
Earnings per share (diluted)	$0.17	$0.13	***$0.28***	***$0.32***

52-Week range	$5.54 – $2.90	Fiscal year ends:	December
Shares outstanding	1.61 million	Rent income/shares (ttm)	$8.14
Trading float	1.07 million	Price/Sales (ttm)	0.65X
Insiders and Institutional ownership	0.54 million	Price/Sales (2007)E	0.53X
Book value/share a/o 03/31/06	$11.89	Price/Earnings (ttm)	31.2X
Price/Book	0.45X	Price/Earnings (2007)E	16.6X

*** Includes $1.748 million gain on disposal of assets ** Includes $2.387 million gain from non-refundable maintenance reserves**

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

Key investment considerations:

We are maintaining our Speculative Buy rating on shares of AeroCentury (AMEX: ACY) and setting a twelve-month price target of $7.10 per share. Our prior twelve-month price target was $5.35 per share. The increase in our price target is primarily based on our initial outlook for top and bottom line expectations for 2007.

On April 25, 2006, the Company announced a new lessee for its Saab 340A aircraft and the sale of its remaining Shorts SD3-60 aircraft. The Saab aircraft was leased to RegionsAir for a term of 24 months with an extension option. The Shorts aircraft was sold to a U.S. operator.

On May 17, 2006, ACY announced that Bridge Bank, N.A. became a new member of the Company's credit facility, which resulted in the facility being increased to $55.0 million from $50.0 million.

AeroCentury reported first quarter 2006 total revenues of $6.088 million versus $2.540 million in the same period last year. Top line results were positively impacted by $2.4 million related to non-refundable maintenance reserves. Net income for the quarter was $0.105 million or $0.07 per diluted share versus net income of $0.040 million or $0.03 per diluted share in the first quarter of 2005.

Based on first quarter results and the outlook provided by Management in public filings, we are adjusting our forecasts for 2006, to total revenue of $17.338 million (includes the $2.4 million gain) and net income of $0.433 million or $0.28 per share. Our prior forecasts called for total revenue of $13.130 million and net income of $0.263 million or $0.17 per diluted share. Investors should note that due to the extremely low share count (1.543 million) a $0.100 million change in net income equals approximately $0.06 per diluted share.

Our initial forecasts for 2007, call for total revenue of $15.350 million and net income of $0.500 million or $0.32 per diluted share.

****Please view our disclaimer located on page 11.***

The Company

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

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

Recent Financials

On May 3, 2006, AeroCentury reported first quarter 2006 total revenue of $6.088 million versus $2.540 million in the same period last year. Operating lease revenue improved to $3.701 million versus $2.552 million in the first quarter of 2005. The positive change in operating lease revenue versus last year was primarily due to aircraft purchased beginning in April 2005 and a net increase in rent as a result of aircraft re-leased after March 31, 2005. In addition, total revenue was positively impacted by a one-time gain of $2.387 million related to non-refundable maintenance reserves retained by the Company which were recorded at lease end.

However, revenue growth was muted to a small degree by aircraft that was on lease for all of the first three months of 2005, but off lease for a portion of the first three months of 2006.

ACY reported that depreciation, management fees, and SG&A expenses for the quarter increased by approximately $0.472 million versus the first quarter of 2005. The increase was primarily due to the purchase of aircraft beginning in April 2005 and legal expenses associated with the early return of an aircraft, which was offset to some degree by the sale of an aircraft in the fourth quarter of 2005, lower accounting fees, and lower insurance expense. In addition, the Company also experienced higher interest expense (resulting from higher market interest rates and a higher average principal balance during the same period in 2005) of approximately $0.402 million versus the first quarter of 2005.

Maintenance expenses increased by $2.537 million compared to the same period last year, primarily due to retention of non-refundable maintenance reserves when two aircraft were returned to the Company at lease end, as previously discussed. Based on the condition of the aircraft at the time of return, the Company accrued approximately $2.392 million of maintenance expense. In addition, during the first quarter of 2006, the Company accrued approximately $0.162 million of expense to prepare several aircraft for re-lease. In 2005, the Company accrued approximately $0.017 million for the storage of several aircraft.

Net income for quarter was $0.105 million or $0.07 per diluted share versus a net income of $0.040 million or $0.03 per diluted share in the first quarter of 2005.

In comparison, Taglich Brothers' estimates called for total revenue of $3.22 million and net income of $0.060 million or $0.04 per diluted share.

Balance Sheet as of March 31, 2006

The Company provided the following balance sheet data:

- Total assets increased to $97.010 million versus $96.547 million at the end of 2005;
- Total liabilities increased to $77.915 million versus $77.557 million at the end of 2005; and
- Shareholders' equity increased to $19.095 million versus $18.990 million at the end of 2005.

The Company ended the first quarter of 2006 with cash and cash equivalents of $2.220 million versus $0.618 million at December 31, 2005. Total outstanding notes payable and accrued interest declined slightly to $58.191 million versus $58.337 million at the end of fiscal 2005.

On November 10, 2005, an agreement was reached to renew the maturity date of the Company's $50.0 million credit facility until October 31, 2007. In connection with the renewal of the facility, certain financial covenants were modified. The applicable margin will range between 275 to 325 basis points above LIBOR based on certain financial ratios. During the first three months of 2006, the Company did not repay any of the outstanding principal under its credit facility. As of March 31, 2006, according to the Company's 10-Q filing, it was in compliance with all covenants and Management believes, at this time, based on its current projections, that ACY will continue to be in compliance with all covenants related to the credit facility. At the end of quarter, $49.996 million was outstanding under the credit facility.

Subsequent to the end of the first quarter of 2006, ACY announced on May 17, 2006, that Bridge Bank, N.A. became a new member of the Company's credit facility, which resulted in the facility being increased to $55.0 million from $50.0 million.

Investors should be aware that during November 2005, the Company refinanced two DHC-8 aircraft that were part of its credit facility collateral base, using bank financing separate from its credit facility. The aircraft were transferred to AeroCentury V LLC, a special purpose LLC, which borrowed $6.4 million at a fixed interest rate of 7.87% and is due November 10, 2008. The note is collateralized by the aircraft of this new non-recourse subsidiary (which means that if a default were to occur it would not impact ACY's base business). Repayments of this financing consists of monthly principal and interest payments through April 22, 2008, interest only from April 22, 2008 until the maturity date, and a balloon principal payment due at maturity. According to the first quarter 2006 10-Q filing, the balance of the note payable at March 31, 2006 was $6.098 million and it was in compliance with all covenants related to this obligation.

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

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

Recent Developments

On April 25, 2006, the Company announced a new lessee for its Saab 340A aircraft and the sale of its remaining Shorts SD3-60 aircraft.

- The Saab aircraft was leased to RegionsAir for a term of 24 months with an extension option. RegionsAir based in Smyrna, Tennessee, currently operates 12 aircraft pursuant to code-sharing agreements with American Airlines and Continental Airlines providing service to small and medium-sized communities as part of the federally-subsidized essential air service (EAS) program. The EAS program was put into place to guarantee that small communities that were served by certificated air carriers before deregulation maintain a minimal level of scheduled air service.

- The Shorts aircraft was sold to a U.S. operator. The sale of the aircraft resulted in a gain of approximately $0.400 million.

Competitive Environment

The Company targets regional commercial aircraft operators that are seeking to lease aircraft under an operating lease. The competition in this market, which is primarily based on price and lease terms, comes from companies that offer financing, including leasing companies, banks and other financial institutions, and aircraft leasing partnerships. The large participants in the aircraft leasing industry include International Lease Finance Corp., a subsidiary of American International Group (NYSE: AIG), the CIT Group (NYSE: CIT), GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, and Willis Lease Finance Corp. (NasdaqNM: WLFC). Also, of note was the announcement during January 2006 that Morgan Stanley was selling its aircraft leasing business to a European private equity group for $2.5 billion in cash.

Impacting the leasing of aircraft for all industry participants had been relatively low interest rates which caused lease rates to decline upon the releasing of an aircraft. However, based on the continued action in the bond market, short-term interest rates have continued to march higher, which has been reinforced by the sixteenth 25 basis points increase in interest rates so far since mid-2004, by the Federal Reserve.

According to the Travel Industry Association of America (TIA), after years of little travel volume growth combined with significantly lower travel spending, 2005 was the year of recovery the industry has been awaiting. It was the first year since 2000 that all travel industry sectors experience increased demand. The TIA is reporting that overall traveler spending by domestic and international visitors increased by approximately 7.6% to $646 billion in 2005, versus an estimated $600.1 billion in 2004. The TIA is forecasting that number to increase by approximately 5% in 2006 to $675 billion.

Projections and Outlook

Based on first quarter results, the outlook provided by Management in the Company's public filings, and general operating trends, we are adjusting our forecasts for 2006, to total revenue of $17.338 million (which includes $2.387 million gain from non-refundable maintenance reserves). Our prior forecast called for total revenue of $13.130 million.

Based on our revised revenue forecast and the Company's cost structure during the first quarter of 2006, we are adjusting our estimate for net income to $0.433 million or $0.28 per share versus our prior estimate, which called for net income of $0.263 million or $0.17 per diluted share. Investors should take note that ACY has a limited number of shares outstanding; therefore, a change of $0.100 million to net income would result in an approximate $0.06 per share change in earnings per share.

Our forecast for bottom line results includes the following:

- Interest expense increasing to $4.744 million versus $3.485 million in 2005;

- SG&A expenses, which includes insurance, increasing to $1.019 million versus $0.826 million in 2005;

- Management fees and depreciation increasing to $7.778 million versus $6.371 million in 2005;

- Maintenance, impairment, and bad debt expenses of $3.153 million versus $2.479 million in 2005. In 2005, maintenance expense included approximately $1.452 million due to the condition of two aircraft that were returned to the Company and the needed preparations to re-lease them. While 2006 included approximately $2.553 million related to the retention of non-refundable maintenance reserves when two aircraft were returned to the Company at lease end; and

- A tax rate of 32.8%.

Our initial forecast for 2007, calls for total revenue of $15.350 million and net income of $0.500 million or $0.32 per diluted share. It is important to note that our total revenue estimate for 2007 only consists of rent revenue as we are not forecasting any unusual events that might impact total top line results. As for bottom line results, we are estimating a fairly consistent cost structure with the exception of maintenance expense. We expect that expense item to be approximately $0.700 million, baring any unusual events.

Investors should be aware that if additional purchases are made and the Company is able to re-lease aircraft on a consistent basis, revenues could exceed our expectations for 2006. Of particular note, during November 2005, the Company created a non-recourse special purpose subsidiary that refinanced two DHC-8 aircraft, which had been part of the collateral base for its credit facility. The $6.4 million financing was provided by a separate bank at a fixed interest rate of 7.87%.

Also supporting our projections for the upcoming year is ACY having a combination of thirty-three aircraft and one aircraft engines within its portfolio, as of March 31, 2006. Additionally, subsequent to the end of the quater, the Company accomplished the following:

- Extended the lease for three of its Fokker 50 aircraft for an additional 18 months each; and

- Signed 36-month leases with a regional carrier in the Caribbean for two of its deHavilland DHC-8 aircraft. One was returned at lease end in December 2005 and the other was returned at lease in during March 2006. One aircraft was delivered in January 2006 and the second was delivery in March 2006;

According to the Company's first quarter 10-Q filing, it currently has two aircraft off lease, but expects to re-lease the aircraft during the next month or so. Management is always seeking remarketing opportunities for its off-lease assets. Investors should be aware that if any of leases are not renewed, the Company may be required to make principal repayments under its credit facility due to collateral base covenant restrictions.

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 release agreements, Management continues to focus its efforts on marketing. In addition, the lessee for two aircraft has given the Company indications that it will return one and extend the lease for the other.

Risks

Credit Facility Renewal

In November 2004, the Company reached agreement with its lenders to renew its credit facility through October 31, 2005. The renewal agreement also revised certain pricing and covenant provisions and waived compliance with two covenants at September 30, 2004. As part of the renewal, the LIBOR margin was set at 375 basis points through March 2005, after which a margin of 275 to 375 basis points will be determined by certain financial ratios.

According to the Company's October 31, 2005, 8-K filing it obtained an extension of its credit facility until November 9, 2005. Subsequently, the Company reached an agreement with its lenders to renew the maturity date of the facility to October 31, 2007. This two year renewal should allow the Management to focus on building its aircraft portfolio over the next two years.

At the end of the first quarter of 2006, $49.996 million was outstanding under the Company's $50 million credit facility, which means that Management will need to either expand the facility or continue to use special purpose financing in order to increase its aircraft portfolio.

On May 17, 2006, ACY announced that Bridge Bank, N.A. become a new member of the Company's credit facility, which resulted in the facility being increased to $55.0 million from $50.0 million.

Special Purpose Financing

The Company owns one deHavilland DHC-8 aircraft that is held in a special purpose subsidiary entity and financed by a lender separate from the credit facility. A balloon principal payment is due during April 2006, but the financing provides for a six month remarketing period at the expiration or early termination of the lease. Payments due on the financing are reduced during this period and the balloon payment is deferred to the end of the six month period. Management anticipates that the aircraft lease will be renewed for an additional term, and that it will be able to find replacement financing for the aircraft by the balloon payment due date, so that the aircraft can continue to be leased and held a special purpose subsidiary. In addition, if the Company is unable to find such replacement financing, the Company anticipates that it will be able to sell the aircraft for a price in excess of the repayment amount of the financing.

During November 2005, the Company refinanced two DHC-8 aircraft using bank financing separate from its credit facility. The aircraft were transferred to a special purpose LLC, which borrowed $6.4 million, due November 10, 2008. The note is collateralized by the aircraft. Payments consist of monthly principal and interest through April 22, 2008, and interest only from April 22, 2008 until the maturity date, when a balloon principal payment is due.

In general, the availability of special purpose financing in the future will depend on:

- The availability of funds to be used for the equity portion of the financing;
- The type of asset being financed;
- The creditworthiness of the underlying lessee; and
- Continued compliance with certain of the Company's credit facility covenants.

Debt Financing

The Company uses its revolving credit facility and special purpose financing to acquire aircraft in order to lease it to a customer. If a customer is unable to make its lease payments (for example, the repossession of aircraft from a Haitian lessee), AeroCentury may not have the ability to repay the debt secured by the aircraft acquired, which means that title to the aircraft would likely be lost in a foreclosure proceeding. It should be noted that money drawn under the credit facility is secured by the Company's existing assets, as well as the assets acquired with each financing. A reduction in the number of aircraft in AeroCentury's portfolio would negatively impact operations.

Competitive Environment

The Company competes for customers, who generally are regional commercial aircraft operators that are seeking to lease aircraft under an operating lease, with other leasing companies, banks, financial institutions, and aircraft leasing partnerships. The competitive environment may increase if competitors who have traditionally neglected the regional air carrier market begin to focus on that market. In general, competition is largely based on price and lease terms, as well as the entry of new competitors into the market. In addition, those companies with greater access to capital markets could mean fewer acquisition opportunities for ACY and/or lease terms less favorable to the Company on new acquisitions, as well as renewals of existing leases or new leases of existing aircraft.

Shares Outstanding

ACY has a limited number of shares outstanding; therefore, any change in the top-line could dramatically impact bottom-line results. Based on the current fully diluted shares outstanding, a $0.1 million change in net income would result in an approximate $0.06 per share change in earnings per share.

Customer Concentration

For the year ended December 31, 2005, the Company had three significant customers, which accounted for 34%, 14%, and 12%, respectively, of lease revenue. The Company's first quarter 10-Q filing stated that its five largest customers are located in Belgium, Taiwan, the Caribbean, Norway, and Sweden, and account for approximately 15%, 13%, 12%, 11%, and 10%, respectively, of the Company's monthly lease revenue. Concentration of credit risk with respect to lease receivables will diminish in the future only if the Company is able to lease additional assets or re-lease assets currently on lease to significant customers to new customers.

Economic Factors

The Company's business is dependent on the strength of the Travel and Transportation Industries and on the general level of global economic activity. As a result of the weak economic environment experienced between the middle of 2000 to the middle of 2003, there was a reduction in the number of aircraft being used by major air carriers, particularly those serving the United States Market. AeroCentury's current leases and remarketing efforts are primarily focused outside of the U.S.; therefore, the impact was somewhat muted. A March 2006 economic forecast by the Mortgage Bankers Association (is a national association representing the real estate finance industry) calls for Gross Domestic Product to grow at an annual rate of approximately 3.6% in 2006. In addition, the Federal Reserve has raised interest rates (by 0.25 basis points) sixteen times since mid 2004, in order to moderate future economic growth. If the economic growth were to stall or slow due to unforeseen events (such as hurricanes and terror attacks) it would likely impact the Travel and Aviation Industries, which in turn could negatively impact the Company's operations.

Leasing

Crucial to the Company's ability to regain profitability and grow revenues is its ability to successfully negotiate lease extensions and re-lease/remarket aircraft. However, factors that may negatively impact the Company's leasing operations include: 1) demand for leasing aircraft and/or the sale of an aircraft; 2) acceptable rates that an aircraft can be leased for; and 3) the cyclical nature of the Air Transportation and Travel Industries.

Reliance on JetFleet Management

AeroCentury relies on JetFleet Management Corp (JMC) to perform management functions under a management agreement. Currently, the agreement is in its seventh year of a 20-year term. Under this agreement, the Company pays an asset-based management fee to JMC.

JMC is not a fiduciary to the Company or its stockholders. The Board of Directors, however, has ultimate control and supervisory responsibility over all aspects of the Company and owes fiduciary duties to the Company and its stockholders. It is important to note that the officers of JMC are also officers of the Company; therefore, if a dispute over obligations between the Company and JMC occurs, a conflict of interests may exist.

Insurance

The Company may be named in a suit claiming damages for injuries or damage to property caused by its assets. As a triple net lessor, the Company is generally protected against such claims. Additionally, the Company should have some protection through the United States Aviation Act with respect to its aircraft assets. The Company may carry insurance or require a lessee to insure against a risk, there may be certain cases where the loss is not entirely covered by the lessee or its insurance.

Interest Rates

If interest rates were to increase sharply, the Company's near-term operations would likely be negatively impacted in terms of the borrowing required to finance the purchase of assets (i.e. aircraft, engines, etc.). Higher lease rates would over the long-term mitigate the impact of a rapid rise in interest rates.

Valuation Adjustments

The Company continually reviews its asset valuations. It did not make any valuation adjustments during 2003 or 2005. However, in 2004 the Company incurred an impairment charge of $0.463 million related to one of its leased aircraft. It is important to be aware that any future adjustments, if necessary, would negatively impact future financial results and the collateral available for ACY's credit facility.

Miscellaneous

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

Trading Volume

An equity specific concern relates to liquidity. Based on our calculations, average daily-volume for 2004 decreased to 1,261 from 2,660 shares in 2003. Average daily-volume for 2005 increased to 10,992 shares traded a day. During the first five months of 2006, average daily-volume decreased to 3,334 shares traded 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 shares of AeroCentury (AMEX: ACY) and setting a twelve-month price target of $7.10 per share. Our prior twelve-month price target was $5.35 per share. The increase in our price target is primarily based on our initial outlook for top and bottom line expectations in 2007.

Our rating is based on the Company's ability to renew the maturity date of its credit facility to October 31, 2007, obtain additional financing through the creation of a special purpose subsidiary, as well as adding a new bank to its credit facility which increased the facility by $5.0 million to $55.0 million, and its ability to generate fairly consistent top and bottom line results.

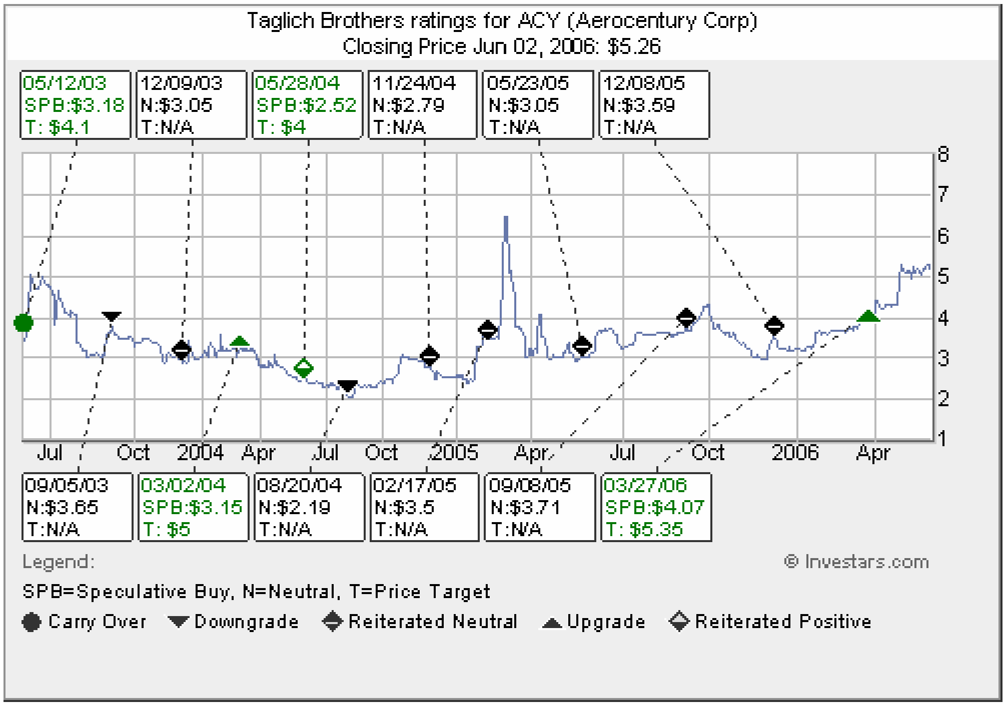
Our price target is derived using the following valuation models discounted by 25% to account for Company specific and microcap risks:

- A 1.09X price to revenue multiple, which is the trailing twelve month multiple (as of June 2, 2006) for a public competitor, Willis Lease Finance Corp. (NasdaqNM: WLFC), applied to our revenue per share estimate of $9.95 for 2007;

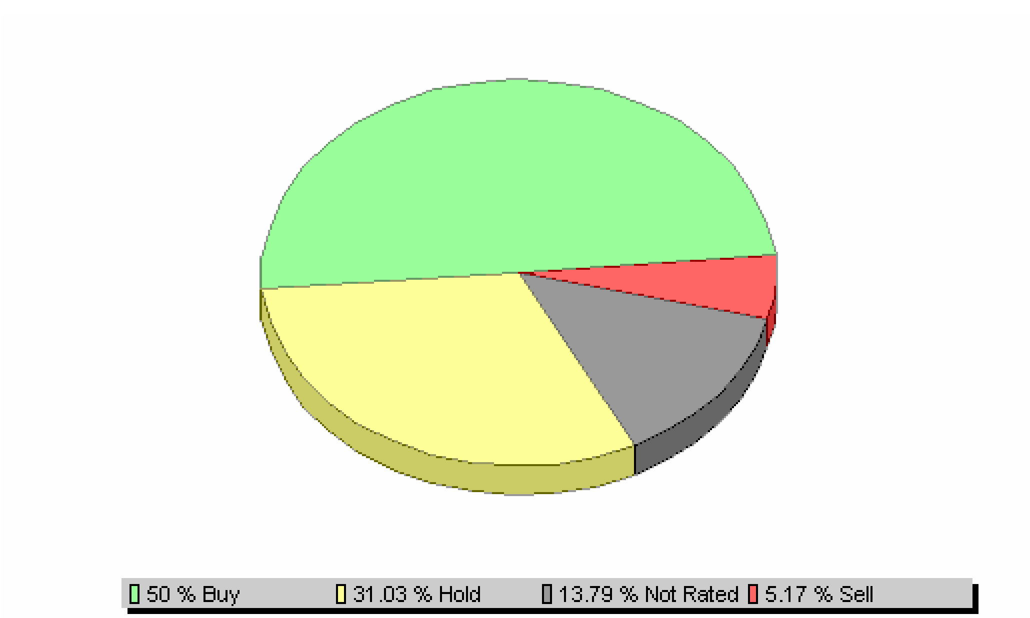
- A 31.3X price to earnings multiple, which is the trailing twelve month multiple (as of June 2, 2006) for Willis Lease Finance Corp., applied to our earnings per share estimate of $0.32 for 2007; and

- A 0.64X price to book multiple (as of June 2, 2006) for Willis Lease Finance Corp., applied to ACY current book value of $11.88.

Investors should be aware that it is still likely that additional financing will be sought to continue building the aircraft portfolio, which has the potential to negatively impact future operations depending on the overall interest rate environment.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	0	0
Hold	0	0
Sell	0	0
Not Rated	1	9.09%

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:

American International Group	(NYSE: AIG)
CIT Group	(NYSE: CIT)
Tyco Inc.	(NYSE: TYC)

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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.

AeroCentury Inc.
Consolidated Balance Sheets
(in thousands)

	Dec. '03 Year End	Dec. '04 Year End	Dec. '05 Year End	Mar. '06 1st Qtr End
ASSETS				
Current assets:				
Cash & Equivalents	$ 9,449	$ 2,404	$ 619	$ 2,220
Accounts Receivable	1,360	6,455	1,128	736
Note receivable	-	295	-	-
Prepaid Expense & Other	699	410	1,036	1,088
Total current assets	**11,508**	**9,563**	**2,783**	**4,044**
Aircraft & engines, net of depreciation	62,151	72,621	93,763	91,940
Total assets	**$ 73,659**	**$ 83,932**	**$ 96,547**	**$ 97,010**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts Payable and accrued expenses	$ 484	$ 868	$ 1,175	$ 974
Notes Payable and accrued interest	41,493	48,990	58,337	58,191
Maintenance deposits and accrued costs	8,736	10,293	13,368	13,481
Security deposits	1,432	1,775	3,125	3,464
Prepaid rent	199	405	447	704
Unearned income		3	-	-
Income Taxes Payable	-	1,704	48	1
Total current liabilities	**52,344**	**64,037**	**76,499**	**76,815**
Long-Term debt-net of current	-	-	-	-
Deferred Income Taxes	2,784	1,098	1,057	1,100
Total Liabilities	**55,128**	**65,134**	**77,557**	**77,915**
Stockholders' equity:				
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2
Paid-in capital	13,821	13,821	13,821	13,821
Retained earnings	5,212	5,478	5,671	5,776
Accumulated deficit	-	-	-	-
Treasury Stock, at cost	(504)	(504)	(504)	(504)
Total stockholders' equity	**18,531**	**18,797**	**18,990**	**19,095**
Total liabilities and stockholders' equity	**$ 73,659**	**$ 83,932**	**$ 96,547**	**$ 97,010**
SHARES OUT	1,607	1,607	1,607	1,607

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

	FY2003A	FY2004A *	FY2005A	**FY2006E**	**FY2007E**
Revenues:					
Rent Income	$ 8,767	$ 8,996	$ 11,387	**$ 14,951**	**$ 15,350**
Gain(loss) on disposal of assets	-	1,748	(48)	**-**	**-**
Other Income	143	160	2,161	**2,387**	**-**
Total Revenues	8,910	10,904	13,499	**17,338**	**15,350**
Expenses:					
Management Fees	1,910	1,988	2,340	**2,813**	**2,890**
Depreciation	3,361	3,555	4,031	**4,965**	**5,050**
Interest	1,941	2,421	3,485	**4,744**	**4,940**
SG&A	843	887	826	**1,019**	**1,030**
Maintenance	2,091	847	2,299	**3,104**	**700**
Provision for impairment in value of aircraft and Bad Debt Expense	900	803	180	**49**	**-**
Total Expenses	11,045	10,501	13,160	**16,694**	**14,610**
Operating Income	(2,136)	403	339	**644**	**740**
Operating Margin	-23.97%	3.70%	2.51%	3.71%	4.82%
Taxes(Benefit)	(795)	137	146	**211**	**240**
Tax Rate	*37.24%*	*33.90%*	*43.10%*	*32.77%*	*32.43%*
Net Income	$ (1,340)	$ 266	$ 193	**$ 433**	**$ 500**
EPS-fully diluted includes insurance settlement	$ (0.87)	$ 0.17	$ 0.13	**$ 0.28**	**$ 0.32**
Avg Shares Out-fully diluted	1,543	1,543	1,543	**1,543**	**1,543**
Margin Analysis					
Gross Profit	7,000	8,916	11,160	**14,525**	**12,460**
GPM	78.6%	81.8%	82.7%	**83.8%**	**81.2%**
NI/Rev	-15.0%	2.4%	1.4%	**2.5%**	**3.3%**
NI/Rent Income	-15.3%	3.0%	1.7%	**2.9%**	**3.3%**
Total Exp/Rev	124.0%	96.3%	97.5%	**96.3%**	**95.2%**
As Per Cent of Rent Income					
Expenses:					
Management Fees	21.79%	22.10%	20.55%	**18.82%**	**18.83%**
Depreciation	38.33%	39.51%	35.40%	**33.21%**	**32.90%**
Interest	22.14%	26.91%	30.60%	**31.73%**	**32.18%**
SG&A	9.61%	9.86%	7.26%	**6.82%**	**6.71%**
Total Expenses	125.99%	116.73%	115.57%	**111.66%**	**95.18%**
Percent Change Year/Year					
Rent Income	0.86%	2.61%	26.58%	**31.30%**	**2.67%**
Operating Income	NMF	NMF	NMF	**NMF**	**NMF**
Net Income	NMF	NMF	NMF	**NMF**	**NMF**

*Excluding unusual charges for maintenance, bad debt, legal fees, and impairment of leased aircraft, as well as a gain from the disposal of assets, we estimate a net loss of approximately $0.077 million or ($0.05) per share.

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2004
(in thousands)

	(3/04)Q1A	(6/04)Q2A	(9/04)Q3A	(12/04)Q4A	FY2004A
Revenues:					
Rent Income	$ 2,060	$ 2,252	$ 2,246	$ 2,432	$ 8,996
Gain(loss) on disposal of assets	-	-	21	1,727	1,748
Other Income	70	50	206	(160)	160
Total Revenues	2,130	2,302	2,473	3,999	10,904
Expenses:					
Management Fees	463	497	500	529	1,988
Depreciation	845	899	894	917	3,555
Interest	551	573	607	690	2,421
SG&A	215	202	336	134	887
Maintenance	25	68	398	356	847
Provision for impairment in value of aircraft and bad debt expense	-	-	610	193	803
Total Expenses	2,099	2,239	3,344	2,819	10,501
Operating Income	31	63	(870)	1,180	403
Operating Margin	1.46%	2.73%	-35.20%	29.50%	3.70%
Taxes(Benefit)	1	12	(313)	436	137
Tax Rate	*3.00%*	*19.88%*	*35.98%*	*36.99%*	*33.90%*
Net Income	$ 30	$ 50	$ (557)	$ 743	$ 266
EPS-fully diluted	$ 0.02	$ 0.03	$ (0.36)	$ 0.48	$ 0.17
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	1,543
Margin Analysis					
Gross Profit	1,667	1,805	1,974	3,470	8,916
GPM	78.3%	78.4%	79.8%	86.8%	81.8%
NI/Rev	1.4%	2.2%	-22.5%	18.6%	2.4%
NI/Rent Income	1.5%	2.2%	-24.8%	30.6%	3.0%
Total Exp/Rev	98.5%	97.3%	135.2%	70.5%	96.3%
As Per Cent of Rent Income					
Expenses:					
Management Fees	22.47%	22.05%	22.25%	21.76%	22.10%
Depreciation	41.03%	39.93%	39.79%	37.69%	39.51%
Interest	26.76%	25.44%	27.00%	28.37%	26.91%
SG&A	10.45%	8.98%	14.95%	5.51%	9.86%
Total Expenses	101.90%	99.43%	148.86%	115.91%	116.73%
Percent Change Year/Year					
Rent Income	-15.99%	3.04%	10.63%	15.88%	2.61%

Excluding unusual charges for maintenance, bad debt, legal fees, and impairment of leased aircraft, as well as a gain from the disposal of assets, we estimate a net loss of approximately $0.077 million or ($0.05) per share.

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2005
(in thousands)

	(3/05)Q1A	(6/05)Q2A	(9/05)Q3A	(12/05)Q4A	FY2005A
Revenues:					
Rent Income	$ 2,522	$ 2,738	$ 2,956	$ 3,170	$ 11,387
Gain(loss) on disposal of assets	(60)	-	-	11	(48)
Other Income	78	16	0	2,066	2,161
Total Revenues	2,540	2,755	2,957	5,248	13,499
Expenses:					
Management Fees	544	567	594	634	2,340
Depreciation	925	980	1,030	1,096	4,031
Interest	763	817	877	1,028	3,485
SG&A	231	212	205	179	826
Maintenance	17	34	169	2,079	2,299
Provision for impairment in value of aircraft and bad debt expense	12	88	-	79	180
Total Expenses	2,492	2,698	2,876	5,094	13,160
Operating Income	48	57	81	153	339
Operating Margin	1.89%	2.05%	2.74%	2.92%	2.51%
Taxes(Benefit)	8	10	29	98	146
Tax Rate	*17.16%*	*17.68%*	*35.63%*	*64.10%*	*43.10%*
Net Income	$ 40	$ 47	$ 52	$ 55	$ 193
EPS-fully diluted	$ 0.03	$ 0.03	$ 0.03	$ 0.04	$ 0.13
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	1,543
Margin Analysis					
Gross Profit	1,996	2,188	2,362	4,614	11,160
GPM	78.6%	79.4%	79.9%	87.9%	82.7%
NI/Rev	1.6%	1.7%	1.8%	1.0%	1.4%
NI/Rent Income	1.6%	1.7%	1.8%	1.7%	1.7%
Total Exp/Rev	98.1%	97.9%	97.3%	97.1%	97.5%
As Per Cent of Rent Income					
Expenses:					
Management Fees	21.59%	20.71%	20.11%	19.99%	20.55%
Depreciation	36.69%	35.80%	34.84%	34.55%	35.40%
Interest	30.25%	29.84%	29.66%	32.43%	30.60%
SG&A	9.16%	7.74%	6.92%	5.63%	7.26%
Total Expenses	98.83%	98.53%	97.27%	160.68%	115.57%
Percent Change Year/Year					
Rent Income	22.42%	21.29%	31.61%	30.37%	26.58%

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2006
(in thousands)

	(3/06)Q1A	(6/06)Q2E	(9/06)Q3E	(12/06)Q4E	FY2006E
Revenues:					
Rent Income	$ 3,701	$ 3,725	$ 3,750	$ 3,775	$ 14,951
Gain(loss) on disposal of assets	-	-		-	-
Other Income	2,387	-	-	-	2,387
Total Revenues	6,088	3,725	3,750	3,775	17,338
Expenses:					
Management Fees	698	700	705	710	2,813
Depreciation	1,230	1,240	1,245	1,250	4,965
Interest	1,164	1,175	1,195	1,210	4,744
SG&A	244	250	260	265	1,019
Maintenance	2,554	200	175	175	3,104
Provision for impairment in value of aircraft and bad debt expense	49	-	-	-	49
Total Expenses	5,939	3,565	3,580	3,610	16,694
Operating Income	149	160	170	165	644
Operating Margin	2.45%	4.30%	4.53%	4.37%	3.71%
Taxes(Benefit)	44	50	57	60	211
Tax Rate	*29.54%*	*31.25%*	*33.53%*	*36.36%*	*32.77%*
Net Income	$ 105	$ 110	$ 113	$ 105	$ 433
EPS-fully diluted	$ 0.07	$ 0.07	$ 0.07	$ 0.07	$ 0.28
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	1,543
Margin Analysis					
Gross Profit	5,390	3,025	3,045	3,065	14,525
GPM	88.5%	81.2%	81.2%	81.2%	83.8%
NI/Rev	1.7%	3.0%	3.0%	2.8%	2.5%
NI/Rent Income	2.8%	3.0%	3.0%	2.8%	2.9%
Total Exp/Rev	97.6%	95.7%	95.5%	95.6%	96.3%
As Per Cent of Rent Income					
Expenses:					
Management Fees	18.86%	18.79%	18.80%	18.81%	18.82%
Depreciation	33.24%	33.29%	33.20%	33.11%	33.21%
Interest	31.46%	31.54%	31.87%	32.05%	31.73%
SG&A	6.60%	6.71%	6.93%	7.02%	6.82%
Total Expenses	160.48%	95.70%	95.47%	95.63%	111.66%
Percent Change Year/Year					
Rent Income	46.77%	36.02%	26.84%	19.07%	31.30%