Research Report – Update

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

AeroCentury Corp.

Rating: Neutral

Howard Halpern

August 18, 2010

ACY $15.20 – (NYSE-AMEX)

	2008 A	2009 A	*2010 E*	*2011 E*
Total revenue (millions)	$31.8	$33.6	***$32.9***	***$31.9***
Earnings per share (diluted)	$2.08	$3.62	***$2.29***	***$2.74***

52-Week range	$25.00 – $11.42	Fiscal year ends:	December
Shares outstanding a/o 08/12/10	1.54 million	Lease revenue/share (ttm)	$16.82
Approximate float	1.20 million	Price/Sales (ttm)	0.9X
Market Capitalization	$23 million	Price/Sales (2011)E	0.9X
Book value/share	$27.81	Price/Earnings (ttm)	4.4X
Price/Book	0.5X	Price/Earnings (2011)E	5.5X

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 lowering our investment recommendation on AeroCentury (NYSE-AMEX: ACY) to Neutral from Speculative Buy. Analysts have reduced 2011 EPS estimates by 18.3% since July 2010 for ACY's peers; we have lowered our 2011 estimate for ACY by nearly 30%. Our downgrade is due to the weakening earnings outlook for ACY and its peers.

ACY is feeling the effects of lower lease rates, doubtful collectibility of some receivables, and the weakening financial and operating conditions of a majority of its lease customers. It could take at least a few months to alleviate some of the uncertainties.

If the June and July 2010 letters of intent for the proposed purchase of two deHavilland Dash-8-Q400 aircraft were completed, we would view that as a positive development that could possibly raise earnings expectations.

On August 12, 2010, ACY reported 2Q10 operating lease revenue declined by nearly 11% to $5.7 million. EPS fell to $0.33 from $0.89 in the prior year. Lower results were due to a decline in lease rates, additional aircraft off lease, and higher level of maintenance expense to prepare aircraft for remarketing efforts. 2Q10 results fell short of our revenue and EPS expectations by $1 million and $0.58, respectively.

Other companies in the industry are reporting that aviation industry conditions are improving but an oversupply of certain types aircraft is putting pressure on lease rates. The weakening financial condition of a majority of its customers has diminished the outlook for ACY.

Our 2010 forecast reflects the near term uncertainty. For 2010, we project operating lease revenue of $24.3 million, down $3 million from our prior forecast. Net income should fall to $3.6 million or $2.29 per share from our prior forecast of $6 million or $3.78 per share

For 2011, we project lease revenue of $24.7 million and EPS of $2.74 per share, which is up slightly from our 2010 forecast but significantly lower than our prior forecast of $27.7 million $3.48 per share.

Please view our Disclosures pages 13 - 15

Recommendation

We are lowering our investment recommendation on AeroCentury (NYSE-AMEX: ACY) to Neutral from Speculative Buy due to diminished earnings prospects. ACY and its peers are experienced reduced earnings prospects (see current and prior tables below).

ACY is beginning to feel the effects of:

- Lower lease rates
- Uncertainty with respect to the collectibility of some receivables
- The weakening financial and operating conditions of a majority of its lease customers

It could take at least a few months before the outlook for growth becomes clearer. As the uncertainties begin to abate, we will reevaluate our outlook. If the June and July 2010 letters of intent the company signed for the proposed purchase of two deHavilland Dash-8-Q400 aircraft for a combined $17 million purchase price are completed, we would view that as a positive development that could possibly raise earnings expectations.

The four comparative rental and leasing airline companies we profile, all with larger market capitalizations (vs. ACY), have an aggregate price to (trailing) sales multiple of 1.1X versus 0.9X for AeroCentury.

Name	Symbol	Trade	Market Cap in $mil	EPS Est 2010	EPS Est 2011	P/E 2010 E	P/E 2011 E	Trailing Price/Sales
Aercap Holdings N.V. Ordinary S	AER	11.70	1115	1.89	1.95	6.19	6.00	1.0
Aircastle Limited Common Stock	AYR	8.90	907	0.95	1.20	9.37	7.42	1.3
Babcock & Brown Air Limited Ame	FLY	11.30	372	1.40	1.18	8.07	9.58	1.4
Willis Lease Finance Corporatio	WLFC	10.25	120	0.34	1.74	30.15	5.89	0.6
						13.4	7.2	1.1
Company								
AeroCentury Corp.	ACY	15.35	24	2.29	2.74	6.7	5.6	0.9
Source: Yahoo data and Taglich Brothers estimates as of August 13, 2010								

2010 and 2011 earnings estimates for ACY's peers have been reduced by 13.5% and 18.3%, respectively, during the past three months. Its closest peer is Willis Lease Finance, which estimates have been by 69.4% and 48.5%, respectively. We have reduced ACY's estimates for 2010 and 2011 by 39% and 29.6%, respectively, since May 2010.

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

Source: Yahoo data and Taglich Brothers estimates – May 24, 2010

The 2011 P/E multiple of 7.2X, indicates, based on our EPS forecast of $2.74, that ACY could trade in the range of $15.00 to $19.00. The higher end of this range does not account for micro cap risks.

The Company

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

The company earns a return on acquired aircraft and engines through leases and eventual sale. ACY reinvests cash flow in purchases of more assets that are then leased. As of June 30, 2010, the company's aircraft portfolio consisted of 42 aircraft. The three GE CF34-8E aircraft engines were all off lease at June 30, 2010.

Aircraft by Percentage of Net Book Value

Aircraft Type	# owned	# On Lease at 6/30/10	# On Lease at 3/31/10	Δ
Fokker 100s	7	7	7	-
deHavilland DHC-8-300s	8	8	8	-
Fokker 50s	14	10	12	-2
GE CF34-8E engine	3	0	0	-
Saab 340Bs	6	6	6	-
deHavilland DHC-8-100s	2	2	2	-
Saab 340As	2	0	0	-
eHavilland DHC-6s	3	3	3	-

Source: company reports

During the final six months of 2010, thirteen of ACY's leases are scheduled to expire. It is too soon to determine how many aircraft, if any, will be returned, or if leases are renewed, at what rate. At June 30, 2010, the company had four Fokker 50 aircraft and two Saab 340A aircraft on which leases had expired. Given management's prior experiences it is likely that ACY could continue experiencing lower on-lease utilization rates due to longer remarketing times on returned aircraft.

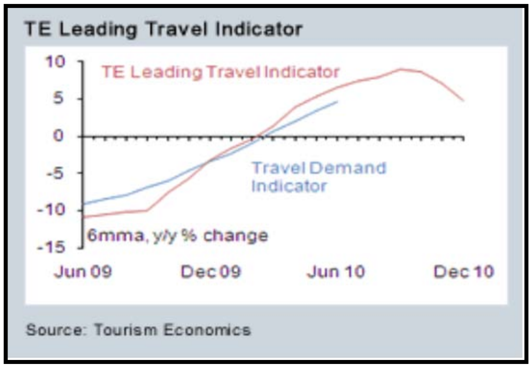
Developments since the end of 2Q10:

- In July 2010, two Saab 340A aircraft were delivered to a new customer in Argentina. The lease term for each aircraft is 39 months.
- One CF34-8E5 engine was leased to a regional carrier in Germany. The short-term lease expires in September 2010.
- A customer that serves as a regional carrier for a commonly controlled international airline declared bankruptcy in August 2010. ACY is in the process of determining its impact, if any, on financial results.

Outlook

The August 2010 issue of the US Travel Outlook, published by the US Travel Association, reported that leisure travel intentions reflect the pattern of recent quarters' year-over-year declines. At 53%, leisure travel intentions among US adults between now and January 2011 are down 10 points from July 2009 and eight points under July 2008.

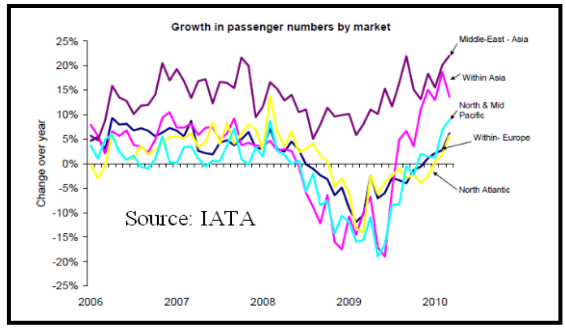
The US Travel Outlook report is forecasting, based on its leading indicator (see chart) that travel demand will begin to peak in 3Q10 and decrease into the end of the year. For 2010, US travel expenditures are expected to increase by 6.2% to $748.3 billion and grow by 7.8% to $806.9 billion in 2011.



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

– IATA's 2010 US forecast has been upgraded to a small net profit for the commercial airline industry. They had previously forecasted a small net loss.

- The situation in Europe has deteriorated and IATA forecasts a slightly larger net loss due to weak regional economic growth.
- Globally, the chart to the right depicts the mixed picture by region for passenger trends in 2010.



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

The global economic growth forecasted by the International Monetary Fund (IMF) points to a potential reversal of the downward trend in the leasing and rental airline sector.

IBISWorld predicts that airlines are more likely to lease a greater proportion of aircraft in order to provide flexibility in managing demand. According to IBISWorld, demand for air travel is expected to rise if economic conditions continue to improve.

July 2010 GDP Forecast

	2010	2011
Advanced economies	2.6%	2.4%
Emerging and developing economies	6.8%	6.4%

Source: World Economic Outlook IMF July 2010

Projections

<u>*Operations*</u>

Our reduced forecasts are based on the following assumptions:

- Reduction in the demand for aircraft, which is likely to cause lower lease utilization rates when an aircraft is leased and longer lead times for remarketing of returned aircraft. ACY has 13 aircraft with leases that are scheduled to expire in the 2H10.
- Fewer opportunities for acquisitions. Since the acquisition of three engines last year the company has not acquired any new assets.
- Unanticipated defaults from small airline carriers. A default and the unscheduled return of an aircraft would result in reduced operating lease revenue but also in unanticipated, unrecoverable expenses arising from maintenance and return condition obligations. In 2Q10ACY continued to observe indications of weakened financial conditions and operating results among its customers.
- In 2009 and early 2010, ACY agreed to defer a portion of the rent and maintenance reserves due from four customers that lease a total of eight aircraft. Deferrals equaled nearly $4 million. At June 30, 2010 the balance of the deferrals was nearly $1.7 million with allowances totaling nearly $1.3 million against amounts due from one of the lessees.
- As of July 2010, ACY's operating lease revenue from Mexican lessees approximated 17% of monthly lease revenue payments. If the drug cartel violence in Mexico continues it could negatively impact the customers' financial condition.

For 2010, we forecast total revenue of $32.9 million and net income of $3.6 million or $2.29 per share. We previously estimated total revenue of $33.3 million and net income of $6 million or $3.78 per share. Operating lease revenue should decrease to $24.3 million from $27 million in 2009 and our prior forecast of $26.9 million. Our total revenue forecast consists of lease revenue on at least 36 aircraft and no engines on lease for a major portion of 2010, maintenance reserves income, and a $0.4 million insurance recovery settlement on a damaged aircraft that was in excess of book value.

Except for maintenance and bad debt expenses we expect most operating expense trends to improve. These expenses underlie reductions in our profit expectations. We expect total operating expenses to increase by $2.5

million from higher maintenance costs of $2.6 million and provisions for bad debt expense. Offsetting the increases will be lower interest and depreciation expenses. With higher operating expenses and reduced revenue, operating expense margin should worsen to 112.7% from 92.1% in 2009.

For 2011, we project total revenue of $31.9 million and net income of $4.3 million or $2.74 share. We previously forecasted revenue of $33.5 million and net income of $6.2 million or $3.89 per share. Operating expense margin should improve to 102.3% from our 2010 forecast of 112.7%, based on reduced maintenance costs.

If the company purchases additional aircraft, our forecasts (for 2010 and 2011) will be adjusted to reflect additional aircraft lease revenue. While there are likely to be only a few acquisition opportunities, the company announced that in June and July 2010, letters of intent to purchase two deHavilland Dash-8-Q400 aircraft for an aggregate purchase price of approximately $17 million were executed. The timing of the actual purchase and revenue generating potential has not been disclosed.

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

- Operating lease revenue of $24.3 million and $24.7 million, respectively. Our forecast is based on lease revenue for 37 aircraft for most of each year, with modestly lower lease renewal rates
- Interest expense of $4.8 million and $5.4 million, respectively, versus $5.2 million in 2009. Year-over-year increase is due to higher interest rates from the recently renewed credit facility
- SG&A expenses (including insurance), of nearly $1.5 million annually for 2010 and 2011. If the company purchases additional aircraft, expenses could be greater than forecasted
- Management fees of $3.8 million for both 2010 and 2011
- Depreciation of $7.3 million and $7.2 million, respectively, for 2010 and 2011
- Maintenance, impairment, and bad debt expenses of $10 million and $7.4 million, respectively, for 2010 and 2011. As aircraft come off lease and are prepared for re-lease, it will cause a quarterly spike in maintenance expense
- A tax rate of approximately 34.5% for both periods

Our forecasts are also based on the following:

- Rent payment deferrals
- The May 2010 extension of leases for two DHC-8-300 aircraft for 30 months and 54 months, respectively.

Finances

For 2010, we project cash throw-off of $13 million (versus $16.8 million in 2009), which should allow the company to continue paying down debt on its credit facility and subordinated notes. In 2009, ACY repaid $17.8 million of debt and borrowed $8 million for the purchase of aircraft engines. We project an increase in 2010 working capital needs of $1.5 million, as the company will need to support an increase in accounts receivables (due to lease deferments) and a decline in maintenance reserves. We project cash from operations of $11.5 million. Cash at the end of 2010 should increase by $2 million to $3.3 million, as we project repayment of $12.5 million in debt and borrowings of $3 million. We are not including in our forecast the purchase of any aircraft. The company does have excess borrowing capacity complete the pending purchase of two aircraft for approximately $17 million.

For 2011, we project cash throw-off of $12.5 million, an increase in working capital needs of $0.7 million, and cash generated from operations of $11.1 million. The increase in working capital should result from a reduction in security deposits. Our projection also reflects repayment debt. We forecast a 2011 decrease in cash of $0.2 million to approximately $3.1 million.

Recent Financials

2Q10 versus 2Q09:

- Operating lease revenue fell to $5.7 million compared to $6.4 million. Our estimate was $6.7 million
- Total revenue (including maintenance reserves and other) grew to $9.1 million compared to $8.2 million. Our estimate was $8.1 million
- Total operating expense increased to $8.2 million from $6.2 million
- Net income was $0.5 million or $0.33 per share versus net income of $1.4 million or $0.91 per share. Our estimate was $1.4 million or $0.91 per share

Total revenue growth was entirely due to maintenance reserves revenue of $3.2 million from $1.5 million in the prior period last year. Operating lease revenue decrease of 10.8% was due to aircraft off lease for all or part of the quarter and assets leased at lower lease rates. Operating lease revenue was reduced by $200,000 due to uncertainty about the collectibility of related receivables.

Maintenance reserves revenue increased by $1.7 million compared to 2Q09. The increase was related to refundable maintenance reserves retained by ACY when two aircraft were returned in early 2010 and which are being used to fund maintenance required by conditions of the leases.

2Q10 expenses increased by $2.1 million, so the operating expense margin widened to 143.5% from 95.7% in 2Q09. The higher level of operating expenses was due to the following:

– SG&A expenses including insurance increased by $120,000 due to remarketing efforts of off-lease assets

– Management fees increased by $3,600 due to acquired aircraft engines

– Maintenance expense increased by $1.8 million to $3.7 million due to nearly $2.1 million related to maintenance reserves retained when two aircraft were returned in early 2010. Reserves are being used to fund maintenance required by conditions of the lease

– Bad debt expense of $284,000 was recorded (compared to none last year) due to uncertainty about the collectibility of certain receivables

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

– Interest expense decreased by $241,700 to $1.1 million due to the lower average subordinated notes balance and the expiration of ACY's interest rate that expired in December 2009. Offsetting the decline was higher interest cost related to the new credit facility

– Depreciation expense decreased by $85,600 to $1.8 million due to the elimination of the damaged aircraft from its portfolio

Operating margin in 2Q10 contracted to 8.9% of operating lease revenue from 25.2% in 2Q09. Margin compression was due to the higher level of maintenance costs and bad debt expense.

The deterioration in 1H10 results was due mainly to 2Q10 performance. As with its peer group (see competition section) it appears that the second quarter of 2010 has raised doubt as to the year-over-year growth potential for the industry.

	6 Mos. 2010	6 Mos. 2008	% Δ
Revenues:			
Lease revenue	$ 12,468	$ 12,910	**-3.4%**
Maintenance reserves income	4,703	3,111	**51.2%**
Gain(loss) on disposal of assets	208	-	
Other Income	517	264	
Total Revenues	17,896	16,285	**9.9%**
Total Expenses	14,201	12,322	**15.3%**
Operating Income	3,695	3,964	**7.3%**
Taxes(Benefit)	1,271	1,358	**-6.4%**
Tax Rate	*34.41%*	*34.25%*	
Net Income	$ 2,423	$ 2,606	**-7.0%**
EPS-fully diluted	$ 1.53	$ 1.69	
Avg Shares Out-fully diluted	1,587	1,543	
Margin Analysis			
Gross Profit	15,167	13,527	
Gross margin	84.7%	83.1%	
Operating margins	20.6%	24.3%	
NI/Rev	13.5%	16.0%	
NI/Rent Income	19.4%	20.2%	
Total Exp/Rev	79.4%	75.7%	
As Per Cent of lease revenue			
Total Expenses	113.9%	95.4%	

Source: company reports

Finances
The company's debt to equity ratio is 1.3 versus 2.2 for the industry, indicating that ACY is less leveraged than other rental and leasing services companies.

1H10 cash from operations fell to $6.5 million, down from $10.4 million in the 1H09. The decrease was due to expenditures for maintenance and a decrease in payments received for maintenance reserves.

2Q10 cash from operations totaled $1.9 million, facilitating in the repayment of nearly $4.3 in debt. At June 30, 2010, ACY's cash position decreased sequentially by $2.8 million from $6 million at March 31, 2010.

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

Future growth will be dependent on the availability of additional financing for acquisitions of leased assets. We project that the aircraft portfolio and renewal of aircraft leases should provide the resources to sustain operation for the foreseeable future.

Credit Facility
At June 30, 2010, the company had $50 million outstanding under a $90 million senior revolving credit facility that matures on April 28, 2012. The weighted average interest rate on the facility at June 30, 2010 was 4.14%. In 2Q10, the company did not borrow against the facility and repaid slightly more than $3.5 million of outstanding principal. The company was in compliance with all covenants. The credit facility was increased on June 4, 2010, to $90 million from $75 million on April 28, 2010, as new participants committed an additional $15 million to the facility.

The base interest rate on the facility is equal to the highest of the federal funds rate plus one-half of one percent or the one-month LIBOR plus one and one half percent.

During April 2007, ACY issued 16% senior unsecured subordinated notes. At June 30, 2010, the carrying amount of the subordinated notes was approximately $6.2 million (outstanding principal is $6.4 million less unamortized debt discount of approximately $0.2 million) and accrued interest payable was zero. The company was in compliance with all covenants under the subordinated notes agreement.

Competition

The company leases aircraft and aircraft engines to regional commercial aircraft operators. The competition in this market, which is primarily based on price and lease terms, consists of companies that offer financing, including leasing companies, banks and other financial institutions, and aircraft leasing partnerships. The large non-public participants in the aircraft leasing industry are GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance and AIRFUND Corporation, a private company that is a US based commercial aircraft asset manager founded in 1984. The public companies (chart on right) are Willis Lease Finance Corp. (NasdaqGM: WLFC), AerCap Holdings N.V. (NYSE: AER), Aircastle Limited (NYSE: AYR), Babcock & Brown Air Limited (NYSE: FLY). While all competitors remained profitable their income was less then the same period a year ago.

Public Competitors

Net Income in millions	2Q10A	vs. 2Q09A	Δ %
AerCap Holdings N.V.	$48.9	$56.6	-14%
Aircastle Limited	$18.1	$27.6	-34%
Babcock & Brown Air Limited	$13.2	$14.0	-6%
Willis Lease Finance	$1.9	$5.0	-62%

Source: Yahoo Finance

Risks

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

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

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

Customer Concentration
For the month of July 2010, ACY's five largest customers, located in Mexico Antigua, Germany, the Netherlands Antilles and Norway, accounted for approximately 63%, respectively, of monthly lease revenue. For 2009, its top five customers accounted for 58% operating lease revenue compared to 64% in 2008.

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

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

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

Trading Volume
An equity specific concern relates to liquidity. During 2008, average daily volume was 10,862 shares a day and in 2009 average daily volume decreased to 6,321 shares a day. During the first seven months of 2010, average daily volume decreased to 4,882 shares. On a relative basis, volume for this equity is very small and could lead to price volatility.

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

	2007A	2008A	2009A	**2Q10A**	**2010E**	**2011E**
ASSETS						
Current assets:						
Cash & Equivalents	$ 2,843	$ 2,170	$ 1,253	$ 3,226	$ 3,266	$ 3,103
Accounts Receivable	1,648	2,023	3,165	2,628	2,903	2,405
Tax receivable	1,836	1,627	3	-	-	-
Prepaid Expense & Other	1,402	1,001	555	2,161	1,702	1,484
Total current assets	7,729	6,820	4,976	**8,014**	**7,871**	**6,993**
Aircraft & engines, net of depreciation	118,924	124,914	127,204	121,765	120,000	119,724
Total assets	$ 126,653	$ 131,734	$ 132,179	**$ 129,779**	**$ 127,871**	**$ 126,717**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Accounts Payable and accrued expenses	$ 811	$ 599	$ 625	$ 1,595	$ 1,095	$ 962
Notes Payable and accrued interest	73,075	72,411	62,582	56,341	53,000	48,000
Maintenance deposits and accrued costs	6,025	8,095	9,913	8,494	8,858	8,624
Security deposits	5,697	5,499	5,566	6,426	5,500	4,500
Prepaid rent	1,028	1,073	1,009	861	1,000	1,000
Income taxes payable	229	52	5	-	-	-
Total current liabilities	86,864	87,729	79,699	**73,717**	**69,453**	**63,086**
Deferred Income Taxes	7,649	9,169	11,988	13,147	13,000	12,500
Total Liabilities	94,513	96,898	91,687	**86,864**	**82,453**	**75,586**
Stockholders' equity:						
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2	2	2
Paid-in capital	15,378	14,780	14,780	14,780	14,780	14,780
Retained earnings	17,265	20,558	26,215	28,638	31,140	35,480
Treasury Stock, at cost	(504)	(504)	(504)	(504)	(504)	(504)
Total stockholders' equity	32,140	34,835	40,493	**42,916**	**45,418**	**49,758**
Total liabilities and stockholders' equity	$ 126,653	$ 131,734	$ 132,179	**$ 129,779**	**$ 127,871**	**$ 126,717**
SHARES OUT	1,543	1,543	1,543	1,543	1,543	1,543

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

	2007A	2008A	2009A	**2010E**	**2011E**
Revenues:					
Operating lease revenue	$ 19,412	$ 24,407	$ 26,462	**$ 24,308**	**$ 24,740**
Maintenance reserves income	4,310	7,170	6,207	**7,903**	**7,200**
Gain(loss) on disposal of assets	98	15	-	**208**	**-**
Other Income	31	203	488	**517**	**-**
Total Revenues	23,850	31,795	33,157	**32,936**	**31,940**
Expenses:					
Management Fees	3,017	3,676	3,678	**3,765**	**3,780**
Depreciation	5,615	7,223	7,663	**7,313**	**7,240**
Interest	6,260	7,154	5,367	**4,812**	**5,400**
SG&A	865	1,128	965	**1,488**	**1,490**
Maintenance	2,396	6,771	7,767	**9,702**	**7,400**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	342	714	57	**306**	**-**
Total Expenses	18,495	26,665	25,497	**27,386**	**25,310**
Operating Income	5,354	5,130	7,660	**5,550**	**6,630**
Taxes(Benefit)	1,579	1,837	2,688	**1,917**	**2,290**
Net Income	$ 3,775	$ 3,292	$ 4,972	**$ 3,633**	**$ 4,340**
EPS-fully diluted includes insurance settlement	$ 2.36	$ 2.08	$ 3.21	**$ 2.29**	**$ 2.74**
Avg Shares Out-fully diluted	1,598	1,585	1,549	**1,589**	**1,586**
Margin Analysis					
Gross margin	87.3%	88.4%	88.9%	**88.6%**	**88.2%**
Operating margin	22.5%	16.1%	23.1%	**16.9%**	**20.8%**
NI/Rev	15.8%	10.4%	15.0%	**11.0%**	**13.6%**
NI/Rent Income	19.4%	13.5%	18.8%	**14.9%**	**17.5%**
Total Exp/Rev	77.5%	83.9%	76.9%	**83.1%**	**79.2%**
Tax rate	29.5%	35.8%	35.1%	**34.5%**	**34.5%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	15.54%	15.06%	13.90%	**15.49%**	**15.28%**
Depreciation	28.92%	29.59%	28.96%	**30.09%**	**29.26%**
Interest	32.25%	29.31%	20.28%	**19.80%**	**21.83%**
SG&A	4.46%	4.62%	3.65%	**6.12%**	**6.02%**
Total Expenses	95.28%	109.25%	96.35%	**112.67%**	**102.30%**
Percent Change Year/Year					
Operating lease revenue	22.78%	25.73%	8.42%	**-10.12%**	**1.78%**

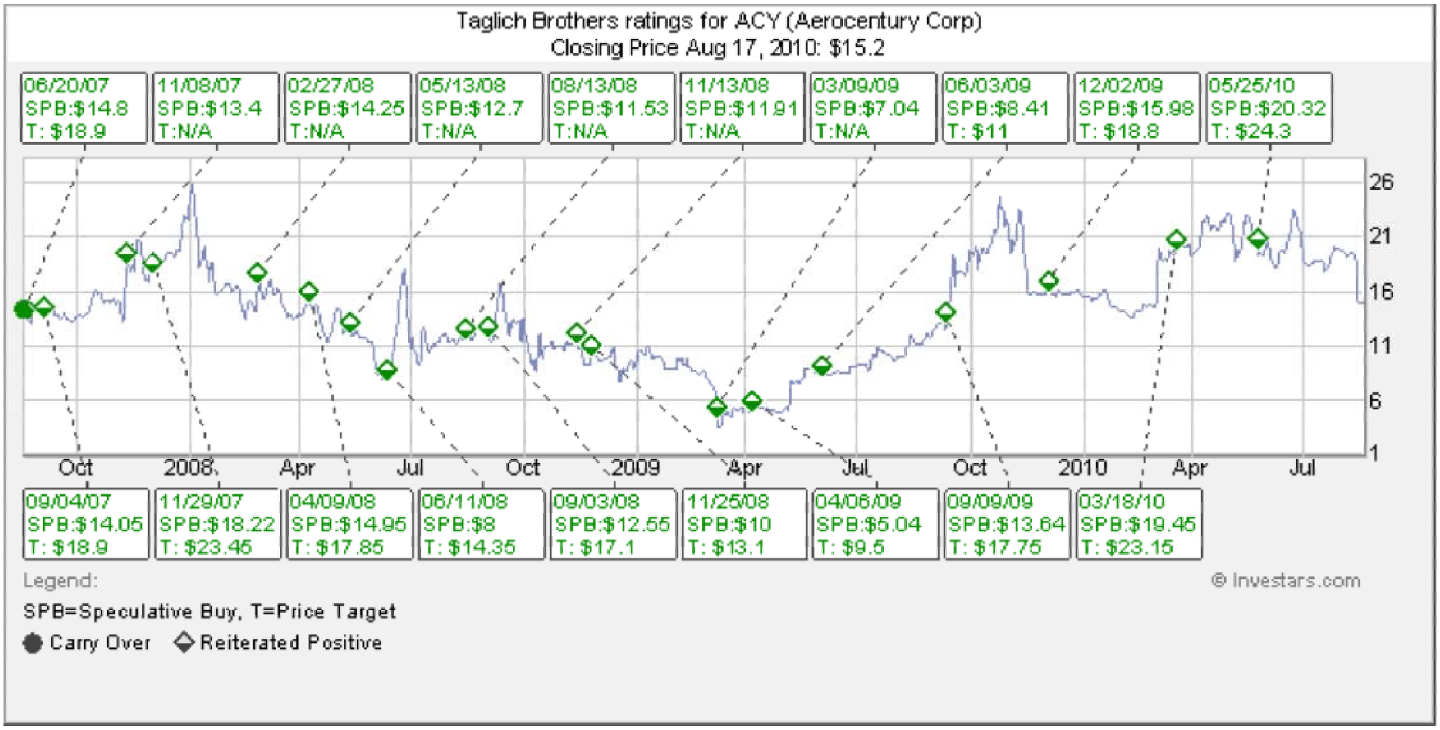
AeroCentury Inc.
Quarterly Income Statement
2009 – 2011E,
(in thousands)

	1Q09A	2Q09A	3Q09A	4Q09A	2009A	1Q10A	2Q10A	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E
Revenues:															
Rent Income	$ 6,469	$ 6,441	$ 6,852	$ 7,283	**$ 27,046**	$ 6,720	$ 5,747	$ 5,850	$ 5,990	**$ 24,308**	$ 6,045	$ 6,145	$ 6,230	$ 6,320	**$ 24,740**
Maintenance reserves income	1,568	1,543	1,597	1,360	**6,068**	1,478	3,225	1,750	1,450	**7,903**	1,800	1,800	1,800	1,800	**7,200**
Gain(loss) on disposal of assets	-			-	**-**	208	-		-	**208**	-	-	-	-	**-**
Other Income	6	258	224	(38)	**450**	440	78	-	-	**517**	-	-	-	-	**-**
Total Revenues	8,044	8,241	8,674	8,605	**33,564**	8,846	9,050	7,600	7,440	**32,936**	7,845	7,945	8,030	8,120	**31,940**
Expenses:															
Management Fees	927	913	918	922	**3,681**	934	917	940	975	**3,765**	930	920	945	985	**3,780**
Depreciation	1,908	1,908	1,912	1,916	**7,644**	1,836	1,822	1,825	1,830	**7,313**	1,820	1,815	1,805	1,800	**7,240**
Interest	1,410	1,381	1,276	1,136	**5,202**	1,057	1,140	1,240	1,375	**4,812**	1,225	1,325	1,400	1,450	**5,400**
SG&A includes insurance	351	252	113	311	**1,027**	316	372	350	450	**1,488**	335	350	340	465	**1,490**
Maintenance	1,505	1,710	2,702	1,232	**7,149**	1,812	3,690	2,200	2,000	**9,702**	1,850	1,850	1,850	1,850	**7,400**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	57	-	-	151	**208**	-	306	-	-	**306**	-	-	-	-	**-**
Total Expenses	6,157	6,164	6,922	5,668	**24,911**	5,955	8,247	6,555	6,630	**27,386**	6,160	6,260	6,340	6,550	**25,310**
				150.90											
Operating Income	1,887	2,077	1,752	2,937	**8,653**	2,891	804	1,045	810	**5,550**	1,685	1,685	1,690	1,570	**6,630**
Taxes(Benefit)	648	709	606	1,031	**2,996**	996	276	365	280	**1,917**	585	575	590	540	**2,290**
Net Income	$ 1,238	$ 1,368	$ 1,146	$ 1,905	**$ 5,657**	$ 1,896	$ 528	$ 680	$ 530	**$ 3,633**	$ 1,100	$ 1,110	$ 1,100	$ 1,030	**$ 4,340**
EPS-fully diluted	$ 0.80	$ 0.89	$ 0.73	$ 1.20	**$ 3.62**	$ 1.20	$ 0.33	$ 0.43	$ 0.33	**$ 2.29**	$ 0.69	$ 0.70	$ 0.69	$ 0.65	**$ 2.74**
Avg Shares	1,543	1,543	1,567	1,586	**1,563**	1,581	1,591	1,591	1,591	**1,589**	1,586	1,586	1,586	1,586	**1,586**
Margin Analysis															
Gross margin	88.5%	88.9%	89.4%	89.3%	**89.0%**	89.4%	89.9%	87.6%	86.9%	**88.6%**	88.1%	88.4%	88.2%	87.9%	**88.2%**
Operating margins	23.5%	25.2%	20.2%	34.1%	**32.0%**	32.7%	8.9%	13.7%	10.9%	**16.9%**	21.5%	21.2%	21.0%	19.3%	**20.8%**
NI/Rev	15.4%	16.6%	13.2%	22.1%	**16.9%**	21.4%	5.8%	8.9%	7.1%	**11.0%**	14.0%	14.0%	13.7%	12.7%	**13.6%**
NI/Rent Income	19.1%	21.2%	16.7%	26.2%	**20.9%**	28.2%	9.2%	11.6%	8.8%	**14.9%**	18.2%	18.1%	17.7%	16.3%	**17.5%**
Total Exp/Rev	76.5%	74.8%	79.8%	65.9%	**74.2%**	67.3%	91.1%	86.3%	89.1%	**83.1%**	78.5%	78.8%	79.0%	80.7%	**79.2%**
Tax rate	34.4%	34.2%	34.6%	35.1%	**34.6%**	34.4%	34.3%	34.9%	34.6%	**34.5%**	34.7%	34.1%	34.9%	34.4%	**34.5%**
As Per Cent of Rent Income															
Expenses:															
Management Fees	14.3%	14.2%	13.4%	12.7%	**13.6%**	13.9%	16.0%	16.1%	16.3%	**15.5%**	15.4%	15.0%	15.2%	15.6%	**15.3%**
Depreciation	29.5%	29.6%	27.9%	26.3%	**28.3%**	27.3%	31.7%	31.2%	30.6%	**30.1%**	30.1%	29.5%	29.0%	28.5%	**29.3%**
Interest	21.8%	21.4%	18.6%	15.6%	**19.2%**	15.7%	19.8%	21.2%	23.0%	**19.8%**	20.3%	21.6%	22.5%	22.9%	**21.8%**
SG&A	5.4%	3.9%	1.7%	4.3%	**3.8%**	4.7%	6.5%	6.0%	7.5%	**6.1%**	5.5%	5.7%	5.5%	7.4%	**6.0%**
Total Expenses	95.2%	95.7%	101.0%	77.8%	**92.1%**	88.6%	143.5%	112.1%	110.7%	**112.7%**	101.9%	101.9%	101.8%	103.6%	**102.3%**
Percent Change Year/Year															
Rent Income	9.8%	11.8%	8.0%	13.6%	**10.8%**	3.9%	(10.8%)	(14.6%)	(17.8%)	**(10.1%)**	(10.0%)	6.9%	6.5%	5.5%	**1.8%**

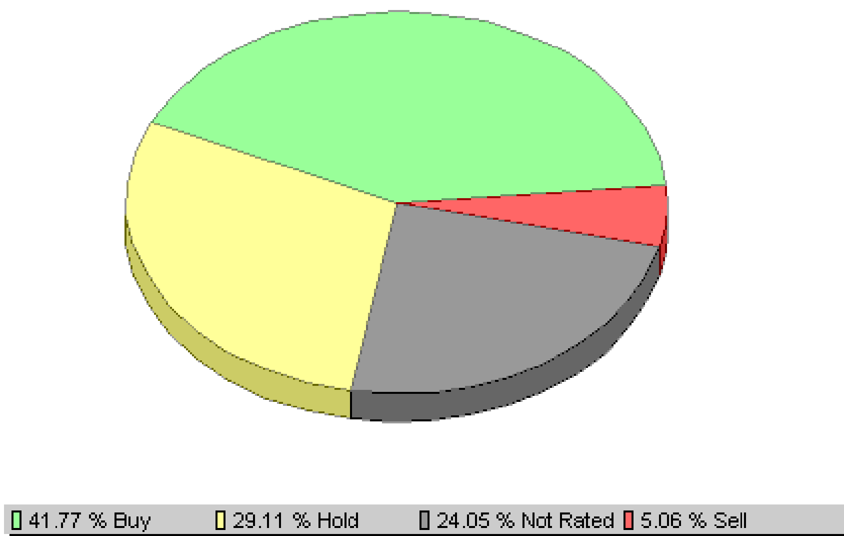
AeroCentury Inc.
Annual and Projected
Cash Flow Statement
2007 – 2011E
(in thousands)

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

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	8.00%
Hold	0	0
Sell	1	100%
Not Rated	0	0

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Public Companies mentioned in this report:

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

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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