



# TAGLICH BROTHERS

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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

September 3, 2008

**ACY \$12.55 – (AMEX)**

	FY (12/06) A	FY (12/07) A	FY (12/08) E	FY (12/09) E
Total revenue (millions)	\$18.84*	\$23.85	<b>\$29.92</b>	<b>\$30.90</b>
Earnings per share (diluted)	\$0.65	\$2.36	<b>\$2.11</b>	<b>\$2.93</b>

52-Week range	\$26.67 – \$7.76	Fiscal year ends:	December
Shares outstanding <small>a/o 08/13/08</small>	1.54 million	Lease revenue/share (ttm)	\$14.15
Approximate float	1.00 million	Price/Sales (ttm)	0.9X
Market Capitalization	\$19 million	Price/Sales (2009)E	0.8X
Book value/share	\$21.18	Price/Earnings (ttm)	4.9X
Price/Book	0.6X	Price/Earnings (2009)E	4.3X

\* 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 the shares of AeroCentury (AMEX: ACY) and increasing our twelve-month price target to \$17.10 per share from \$14.35 per share. Our price target is based on our operating lease revenue and earnings per share estimates over the next four quarters and a relative analysis of price to sales and earnings.*

*On August 12, 2008, ACY reported second quarter 2008 total revenue of \$7.685 million versus \$5.076 million. Net income for the quarter was \$1.585 million or \$0.99 per diluted share versus net income of \$0.513 million or \$0.32 per share in the same period last year.*

*Investors should note that on July 21, 2008, the Company entered into an agreement, which reduced the maximum amount of 16% Senior Subordinated Notes required to be issued from \$28 million to \$14 million, as well as the number of shares issuable upon exercise of the warrants from 171,473 to 81,224.*

*Based on comments in ACY's second quarter 10Q filing, recent operating lease revenue trends during the second quarter, and reduction in expected interest expense due to the July 21<sup>st</sup> agreement, we are adjusting our forecasts. For 2008, our total revenue estimate is \$29.923 million (prior was \$29.368 million) and net income estimate is \$3.376 million or \$2.11 per diluted share (prior was \$2.911 million or \$1.79 per diluted share).*

*Our revised forecast for 2009 calls for total revenue of \$30.900 million (prior was \$29.450 million) and net income of \$4.665 million or \$2.93 per diluted share (prior was \$3.050 million or \$1.87 per diluted share), which is based on current operational trends and a reduction in our prior interest expense forecast.*

*Investors should note that our forecasts do not include the purchase of additional aircraft until such time as a purchase is announced. The purchase of aircraft should increase operating lease revenue over time.*

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

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## *The Company*

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

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

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

Assets are acquired in one of three ways:

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

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

Of note, as of June 30, 2008, all but three of the Company's 43 aircraft were on lease. Also, one turboprop engine owned by ACY was off lease. At the end of the second quarter, two of the three aircraft off lease were Saab 340As. These two aircraft came off lease as a result of the Company agreeing to their early return (the leases were set to expire in May and July 2008). Management is seeking re-lease or sale opportunities for these aircraft. Also, one deHavilland DHC-8-300 aircraft was off lease and re-lease opportunities are being sought by Management.

## *Recent Developments*

**On July 21, 2008**, the Company entered into a second amendment, which reduced the maximum amount of 16% Senior Subordinated Notes from \$28 million to \$14 million, as well as the number of shares issuable upon exercise of the warrants from 171,473 to 81,224.

**During June 2008**, AeroCentury stated in the Company second quarter 10Q filing that it purchased two Fokker 100 aircraft, which are subject to leases with a regional carrier in Germany for terms expiring in March 2013.

**On June 18, 2008**, the Company entered into an amendment to the securities purchase agreement of April 17, 2007. The purchasers of the 16% Senior Subordinated Notes agreed to extend from June 30, 2008 to July 31, 2008 for the deadline for the closing of the second and final installment of the sale and issuance of those notes.

***Recent Financials***

**On August 12, 2008**, ACY reported second quarter 2008 total revenue of \$7.685 million versus \$5.076 million in the same period last year. Investors should be cognizant that both periods reflect the adoption of AUG AIR-1, Accounting for Planned Major Maintenance Activities (the period last year was restated to conform to current period results).

Operating lease revenue in the second quarter of 2008, improved to \$5.759 million versus \$4.228 million in the same period last year. The positive change in operating lease revenue (\$1.531 million) versus the same period last year was primarily due to aircraft purchased during 2007 and 2008, as well as re-leases during 2007 at increased rental rates for several aircraft. Mitigating the operating lease revenue increase was aircraft off lease during the first half of 2008.

Maintenance reserves income revenue (introduced as a line item during the first quarter of 2007 – with corresponding restatements for 2006) resulted from the adoption of AUG AIR-1. On a year-over-year basis, it increased to \$1.901 million from \$0.845 million in the second quarter of 2007. The increase resulted from the acquisition of aircraft in 2007. **Management continues to believe that this revenue line item is likely to make overall results more volatile.**

ACY reported that depreciation, management fees, G&A, insurance expenses, and bad debt for the quarter increased by approximately \$0.742 million versus the second quarter of 2007. The increase was primarily due to higher depreciation and management fees. Depreciation increased by approximately \$0.472 million, primarily due to the purchase of aircraft during 2007 and 2008. Management fees increased by approximately \$0.205 million due to higher net book values as a result of 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 and bad debt expenses increased by approximately \$0.052 million primarily from higher legal expenses, as well as Officer and Director insurance fees, and product liability insurance and insurance for off-lease aircraft and aircraft engines, which was mitigated by lower accounting fees.

Interest expense decreased by approximately \$0.323 million in the second quarter of 2008 compared to the same period last year. The decline was primarily the result of an approximately \$0.356 million gain recorded for the change in fair value of an interest rate swap and a decrease in the average index interest rates. According to the Company's second quarter 10Q filing, the weighted average interest rate on its credit facility was 5.25% during the second quarter of 2008 versus 8.57% during the same period last year. Mitigating the decrease was higher interest expense as a result of an increase in the Company's average subordinated debt balance.

Maintenance expenses increased by approximately \$0.553 million in the second quarter of 2008 compared to the second quarter last year. According to the Company's 2008 second quarter 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.

In comparison, Taglich Brothers' estimates called for total revenue of \$7.140 million and net income of \$1.000 million or (\$0.61) per share. Actual results differed from our estimates primarily due to the line item of maintenance reserves income.

**Balance Sheet as of June 30, 2008**

The Company provided the following balance sheet data:

- Total assets were \$136.928 million versus \$126.653 million at December 31, 2007;
- Total liabilities were \$102.908 million versus \$94.513 million at December 31, 2007; and
- Shareholders' equity stood at \$34.020 million versus \$32.140 million at December 31, 2007.

The Company ended the second quarter of 2008 with cash and cash equivalents of \$3.048 million versus \$2.843 million at December 31, 2007. Total outstanding notes payable and accrued interest increased to \$79.601 million versus \$73.075 million at the end of 2007.

At the end of the quarter, the Company had outstanding \$70.596 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 second quarter 2008 10Q filing, the weighted average interest rate on the facility at June 30, 2008 and 2007 was 5.25% and 8.57%, respectively. During the second quarter of 2008, the Company repaid \$1.5 million of the outstanding principal under its credit facility and was in compliance with all covenants under its credit facility.

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

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 June 30, 2008, the Company recognized a \$0.265 million liability for the swap on its balance sheet (in the notes payable and accrued interest line item). The Company also recognized both a net settlement amount of \$0.071 million and a gain of \$0.356 million for the second quarter of 2008 as a component of interest expense. **Market expectation of increasing interest rates will tend to decrease the fair value of the swap, and expectation of decreasing interest rates will tend to increase the fair value of the swap.**

Investors should be aware that the Company has two special purpose financings in connection with AeroCentury V LLC and AeroCentury VI LLC. During April 2008, ACY repaid the outstanding principal of \$4.110 million owed by AeroCentury V LLC under its special purpose financing, as well as a prepayment penalty of \$0.008 million. The Company intends to transfer ownership of the two aircraft that served as collateral for the financing from AeroCentury V LLC to AeroCentury Corp. during the third quarter of 2008, upon which the aircraft will be eligible as collateral under its credit facility. Additionally, the leases for the two aircraft have been extended for two years to May 2010. During the six month period ended June 30, 2008, AeroCentury VI LLC repaid approximately \$0.176 million of principal. The principal amount owed under that note was \$0.933 million and interest of \$0.002 million was accrued at June 30, 2008. As of June 30, 2008, the Company was in compliance with all covenants of the AeroCentury VI LLC note obligation.

Management believes that the Company will have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility, subordinated notes, and special purpose financings based upon their own estimates of future revenues and expenditures. Their belief is based on each advance on its credit facility being able to fund a portion of a new acquisition of an asset subject to a lease with the lease revenue expected to be greater than the incremental increase in required for interest payments arising from the advance.

However, future growth will be dependent on the availability of such additional financing for acquisitions of leased assets. We believe based on the Company's history and current financial position that it has enough resources to sustain operation for the foreseeable future.

### ***Competitive Landscape***

The Company targets regional commercial aircraft operators that are seeking to lease aircraft under an operating lease. The competition in this market, which is primarily based on price and lease terms, comes from companies that offer financing, including leasing companies, banks and other financial institutions, and aircraft leasing partnerships. The large participants in the aircraft leasing industry include the CIT Group (NYSE: CIT), GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, Willis Lease Finance Corp. (NasdaqGM: WLFC), AerCap Holdings N.V. (NYSE: AER), and Babcock & Brown Air Limited (NYSE: FLY).

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 7.0% to \$699.8 billion in 2006, versus \$653.8 billion in 2005. The TIA had estimated that number should have increased by approximately 5.7% in 2007 to \$739.4 billion (actual numbers have not been released yet) and is currently estimated to grow by 4.9% in 2008 to \$775.9 billion and 3.9% in 2009 to \$806.2 billion.

### ***Outlook and Projections***

Based on comments in ACY's second quarter 10Q filing, a review of second quarter results, and the expectation of lower than previously anticipated interest expense during the second half of 2008 (due to the July 2008 agreement to reduced the required additional issuance of subordinated debt from \$18 million to only \$4 million), we are revising our forecast for 2008.

We believe that supporting our projections for 2008 should be a combination of approximately 43 aircraft and one aircraft engine within its portfolio (as of June 30, 2008). In the Company's 10-K filing, it stated that as of December 31, 2007, minimum future operating lease revenue payments receivable under non-cancelable leases amount to \$20.812 million for 2008.

We are forecasting for 2008, total revenue of \$29.923 million and net income of \$3.376 million or \$2.11 per diluted share. Our prior expectation was for total revenue of \$29.368 million and net income of \$2.911 million or \$1.79 per diluted share. It is important to note that our total revenue estimate for 2008 primarily consists of operating lease revenue and maintenance reserves income, as we are not forecasting any unusual events (sale of aircraft) that might also impact total top line results. Our bottom line expectations have increased from our prior expectations, primarily due to better than anticipated first half results due in part to higher operating lease revenue and lower than anticipated interest expense during the second quarter of 2008. Investors should note that our current interest expense expectations are approximately \$1.6 million lower than previously forecast due to the July 2008 agreement that reduced the amount of subordinated debt required to be issued.

Based on current operational trends and a reduction in estimated interest expense, our revised forecast for 2009 calls for total revenue of \$30.900 million and net income of \$4.665 million or \$2.93 per diluted share. Our prior expectation was for total revenue of \$29.450 million and net income of \$3.050 million or \$1.87 per diluted share. Investors should note that our current forecast does not include the purchase of additional aircraft until such time as a purchase is announced. The purchase of aircraft should increase operating lease revenue in subsequent quarters after the acquisition is completed.

**Also, while the current record oil prices may be slowing economic growth and impacting the overall confidence level of business, we believe it should have no measurable impact on ACY's operations. Our belief is based on the way aircraft are acquired by the Company:**

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

**We believe that this provides minimal risk to the Company's operations over the near and intermediate term. Once an aircraft is purchased, the question becomes the timing of an aircraft acquisition. Until a public announcement is made by the Company, our estimates do not incorporate the purchase of aircraft.**

Our bottom line estimates for 2008 and 2009 incorporate the following assumptions:

- Interest expense of \$6.630 million versus \$6.260 million reported in 2007. The increase is primarily the result of the \$10 million subordinated debt issued on April 17, 2007 and additional \$4 million that was issued in July 2008, mitigated to some degree by the interest rate swap derivative (during the second quarter of 2008 the Company was able to recognize a gain of \$0.356 million, which was a component of interest expense). For 2009, the interest expense trend should trend higher; therefore our estimate is \$7.975 million;
- SG&A expenses, which includes insurance, of approximate \$1.147 million versus \$0.865 million reported in 2007, as well as 2009 expenses of \$1.210 million. Investors should realize if the Company is able to purchase additional aircraft (as noted above), our 2009 expense expectation is likely to be low;
- Management fees and depreciation of \$10.522 million versus \$8.632 million reported in 2007. The increase is primarily due to the Company entering 2008 with a portfolio of 41 aircraft versus entering 2007 with an aircraft portfolio of 36, as well as adding two additional aircraft during the second quarter of 2008. Until additional aircraft are purchased we anticipate only a slight variation of Management fees and depreciation in 2009 (our forecast is \$10.635 million);
- Maintenance, impairment, and bad debt expenses of \$6.494 million versus \$2.738 million in 2007. The increase is primarily due to expenses the Company will be incurring according the second quarter 10Q filing. According to the filing, approximately \$1.7 million of expense is likely to be recorded during the second half of 2008, as a result of the maintenance on aircraft that was and is expected to be returned in order to refurbish the aircraft so it can be to re-lease. For 2009, we expect this line item to normalize at approximately \$4.0 million (investors should note that our estimate for 2009 might change if aircraft are returned and maintenance is required in order to re-lease the aircraft); and
- A tax rate of 34.19% in 2008 versus 29.49% as reported in 2007. For 2009, we anticipate a tax rate of approximately 34.11%.

Investors should be aware that during the second quarter of 2008, the Company and a regional carrier signed a term sheet for a four-year re-lease of two aircraft. Those aircraft are currently undergoing maintenance. During August 2008, due to its cessation of operations, the lessee of one aircraft signed a return agreement with the Company that provides for an early return of the aircraft and the termination of the lessee's obligation to pay rent after the execution date. In addition, two of the Company's other aircraft leases expire in the fourth quarter of 2008. According to the 10Q filing, Management believes that it will be successful in extending the leases for these aircraft. Management also believes that even if the aircraft are off lease for an extended period of time, the Company will be able to remain in compliance with the terms of its credit facility and subordinated notes.

Currently, the Company is closely monitoring the performance of two lessees with a total of three aircraft under lease. The Company continues to work closely with these lessees to ensure compliance with their current

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

Investors should be aware that if additional purchases of aircraft are made (from the expanded credit facility and/or subordinated notes) and the Company is able to re-lease aircraft on a consistent basis, revenues could exceed our expectations for 2008. 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.

Of note, due to the extremely low share count (1.594 million) a \$0.100 million change in net income equals approximately a change of \$0.06 per diluted share.

## ***Risks***

### *Lessee Credit Risk*

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

### *FASB Staff Position AUG AIR-1*

The Company discontinued the accrue-in-advance method of accounting for planned major maintenance beginning on January 1, 2007. Under the accrue-in-advance method of accounting, the collection of non-refundable maintenance reserves for planned major maintenance and disbursements from reserves to lessees to pay for maintenance performed was reflected only on the Company's balance sheet. AUG AIR-1 allows major maintenance activities to be accounted for in one of three ways: 1) the built-in overhaul method, 2) the deferral method, or 3) the direct expensing method. Management evaluated the impact of the adoption of this new staff position and determined that, going forward, it will use the direct expensing method, under which actual costs incurred are expensed directly. This requires the accrual of non-refundable maintenance reserves from the Company's lessees for planned major maintenance to be reflected as income and performance of maintenance work in connection with the re-lease of maintenance reserves to be reflected as an expense (when maintenance is actually performed). Since the total amount of maintenance reserves accrued in any given period usually exceeds the amount of maintenance expense, it is likely that the Company's net income under the new accounting method will be higher than it would have been under the previous method. **In addition, because the net effect of income from maintenance reserves and maintenance expense in any given period will vary, it is likely that this accounting method will result in uneven effects on the Company's results of operations.**

### *Interest Rates*

The Company's current credit facility and the indebtedness of one of its special purpose subsidiaries carry a floating interest rate based upon short-term interest rate indices. Also, lease rates typically, but not always, move with interest rates, but market demand for the asset also affects lease rates. Because lease rates are fixed at the origination of leases, interest rate changes during the term of a lease have no effect on existing lease payments. Therefore, if interest rates rise significantly, and there is relatively little lease origination by the Company following such rate increases, the Company could experience lower net income. Further, even if significant lease origination occurs following such rate increases, if the contemporaneous aircraft market forces result in lower or flat rental rates, the Company could experience lower net income.

The Company has chosen to hedge some, but not all, of its variable interest rate exposure. Consequently, if an interest rate increase were great enough, the Company might not be able to generate sufficient lease revenue to meet its unhedged interest payment and other obligations and comply with the other covenants of its facility or indebtedness of one of its special purpose subsidiaries. Additionally, if the one-month LIBOR rate drops below the fixed swap rate, the Company will be obligated to pay the swap counterparty the difference between the fixed

swap rate of 4.04% and the one-month LIBOR rate that is payable under the Company's hedged credit facility obligations. As of August 13, 2008, the one-month LIBOR rate was 2.46%.

#### Credit Facility

At June 30, 2008, \$70.596 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 June 30, 2008, according to the Company's second quarter 10Q filing, it was in compliance with all covenants related to this obligation.

#### Special Purpose Financing

During April 2008, ACY repaid the outstanding principal of \$4.110 million owed by AeroCentury V LLC under its special purpose financing. The Company intends to transfer ownership of the two aircraft that served as collateral for the financing from AeroCentury V LLC to AeroCentury Corp. during the third quarter of 2008, upon which the aircraft will be eligible as collateral under its credit facility.

In general, the availability of special purpose financing in the future will depend on: 1) the availability of funds to be used for the equity portion of the financing; 2) the type of asset being financed; 3) the creditworthiness of the underlying lessee; and 4) continued compliance with certain of the Company's credit facility covenants.

#### 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.

#### 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 second quarter 2008 10Q filing, stated that its four largest customers located in Mexico, Antigua, Netherlands Antilles, and Germany, account for approximately 17%, 14%, 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.

To gain some perspective as to where the aircraft are leased, investors should note the following table:

<b>Net Book Value of Aircraft and Aircraft Engines Held for Lease</b>	<b>As of December 31, 2007 (\$ millions)</b>
Europe and United Kingdom	30.982
Caribbean	28.487
Central America	18.170
Asia	15.692
Off lease	9.294
United States	7.735
Africa	4.913
South America	3.651
<b>Total</b>	<b>118.924</b>

Source: 2007 10-K filing

The information above is based on the Company's portfolio of 41 aircraft.

#### Investment in New 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 recently acquired Fokker 100 regional jet aircraft, 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.

#### 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. In a August 2008 economic forecast by the Mortgage Bankers Association (a national association representing the real estate finance industry) calls for Gross Domestic Product (GDP) to grow at an annual rate of approximately 0.8% in 2008 and 2.2% in 2009, compared to GDP of 2.3% in 2007. During May 2008, NABE (an association of professionals who have an interest in business economics and who want to use the latest economic data and trends to enhance their ability to make sound business decisions) issued an outlook based on their survey of economists, which offered a GDP outlook for 2008 and 2009 of 1.2% and 2.7%, respectively. If the economic growth were to stall or go negative and energy prices were to continue at record high levels, 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 eleventh 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.

#### 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.

#### Stockholder Rights Plan

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

#### Internal Controls

During the course of the Company's 2007 audit, its independent auditors identified and reported a material weakness in internal control over financial reporting at December 31, 2007 as it relates to ACY's incorrect accounting for end of lease lump-sum payments for two leases (originally entered into during December 2004). Management was aware of the lump-sum payment; however, upon further investigation found that their understanding of the nature of the payment was different than that of the lease provisions. The Company evaluated the errors in accordance with the quantitative and qualitative guidance set forth in SEC Staff Accounting Bulletin No. 99, "Materiality," and determined with the concurrence of its Audit Committee, that the Company's previous financial statements as issued were unreliable and, as a result, the 2006 annual and 2007 and 2006 interim financial statements were restated.

Management determined that this deficiency constituted a material weakness as of December 31, 2007. Also, it determined that the error was inadvertent and unintentional. Upon becoming aware of this issue, the Company initiated a review of its internal controls and processes with respect to lease revenue recognition. As a result, the Company concluded that its multi-level lease review process which focuses on and summarizes tax and GAAP issues for new and amended leases and which it instituted during the fourth quarter of 2007, prior to the discovery of the error, was satisfactory to prevent recurrence of this type of error. Upon identification of the error, Management analyzed all leases that existed at December 31, 2007 and determined that lease revenue was being properly recognized. According to the Company's second quarter 2008 10Q filing that in accordance with SEC requirements, there has been no significant change in ACY's internal controls over financial reporting.

#### Shareholder Control

According to the Company's Form DEF 14A filing (on May 30, 2008), 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 34.6% 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 the first eight months of 2008, average daily volume decreased to 13,758 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**

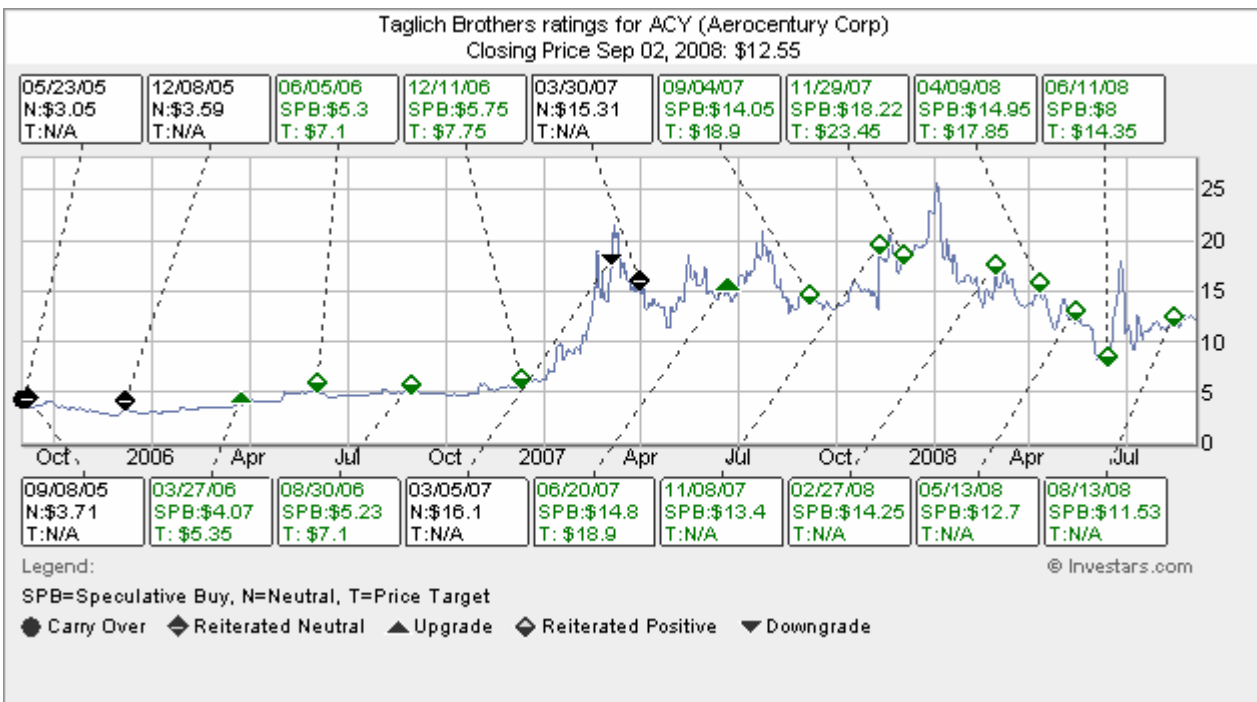
**We are maintaining our Speculative Buy rating on the shares of AeroCentury (AMEX: ACY) and increasing our twelve-month price target to \$17.10 per share from our prior twelve-month price target of \$14.35 per share.** Our price target is based on a relative price to sales and price to earnings analysis relative to the Rental & Leasing Industry.

Management believes that reported net income may be subject to greater fluctuations from quarter-to-quarter as compared to historic results, based on the Company adopted AUG AIR-1 at the start of 2007 (maintenance reserves income revenue).

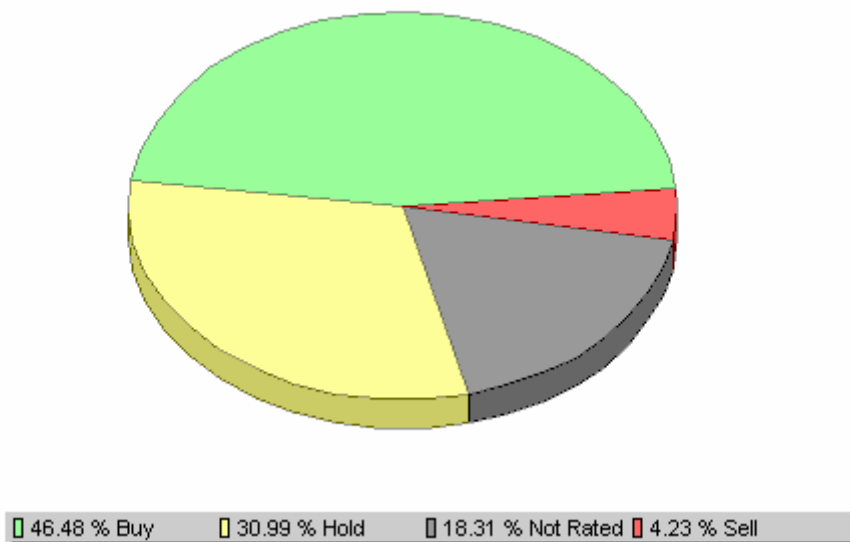
Our price target is derived using the following valuation models discounted by approximately 40% to account for Company specific and microcap risks:

- A 1.33X price to revenue multiple, which is the trailing twelve month multiple (as of September 2, 2008) for the Rental & Leasing Industry according to moneycentral.msn.com, applied to our operating lease revenue (rent income) per share estimate of \$14.72 for the next four quarters; and
- A 15.2X price to earnings multiple, which is the five year high multiple (as of September 2, 2008) for the Rental & Leasing Industry according to moneycentral.msn.com, applied to our earnings per share estimate of \$2.46 for the next four quarters.

# AeroCentury Inc.



## 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	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.**

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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 Sheets  
(in thousands)

	Dec. '06 Year End*	Dec. '07 Year End	Mar. '08 1st Qtr End	Jun. '08 2nd Qtr End
<b>ASSETS</b>				
Current assets:				
Cash & Equivalents	\$ 3,384	\$ 2,843	\$ 5,539	\$ 3,048
Accounts Receivable	1,498	1,648	1,748	1,613
Tax receivable	-	1,836	1,625	1,626
Prepaid Expense & Other	<u>582</u>	<u>1,402</u>	<u>1,491</u>	<u>1,185</u>
<b>Total current assets</b>	<b>5,464</b>	<b>7,729</b>	<b>10,403</b>	<b>7,471</b>
Aircraft & engines, net of depreciation	<u>91,902</u>	<u>118,924</u>	<u>117,242</u>	<u>129,457</u>
<b>Total assets</b>	<b><u>\$ 97,366</u></b>	<b><u>\$ 126,653</u></b>	<b><u>\$ 127,645</u></b>	<b><u>\$ 136,928</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts Payable and accrued expenses	\$ 351	\$ 811	\$ 1,388	\$ 905
Notes Payable and accrued interest	57,907	73,075	71,731	79,601
Maintenance deposits and accrued costs	3,168	6,025	7,776	7,286
Security deposits	4,187	5,697	5,391	5,442
Prepaid rent	474	1,028	1,037	1,017
Income Taxes Payable	<u>-</u>	<u>229</u>	<u>175</u>	<u>194</u>
<b>Total current liabilities</b>	<b><u>66,087</u></b>	<b><u>86,864</u></b>	<b><u>87,498</u></b>	<b><u>94,445</u></b>
Deferred Income Taxes	<u>4,471</u>	<u>7,649</u>	<u>7,711</u>	<u>8,463</u>
<b>Total Liabilities</b>	<b><u>70,558</u></b>	<b><u>94,513</u></b>	<b><u>95,210</u></b>	<b><u>102,908</u></b>
<b>Stockholders' equity:</b>				
Common stock, par value \$0.01; authorized 10,000,000 shares;	2	2	2	2
Paid-in capital	13,821	15,378	15,378	15,378
Retained earnings	13,489	17,265	17,560	19,146
Treasury Stock, at cost	(504)	(504)	(504)	(504)
<b>Total stockholders' equity</b>	<b><u>26,808</u></b>	<b><u>32,140</u></b>	<b><u>32,435</u></b>	<b><u>34,021</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 97,366</u></b>	<b><u>\$ 126,653</u></b>	<b><u>\$ 127,645</u></b>	<b><u>\$ 136,928</u></b>
SHARES OUT	1,607	1,607	1,607	1,607

\*Restated for SAB 108 and AUG AIR-1

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

	<u>FY2006A</u>	<u>FY2007A</u>	<u>FY2008E</u>	<u>FY2009E</u>
Revenues:				
Operating lease revenue	\$ 15,810	\$ 19,412	\$ 23,238	\$ 23,900
Maintenance reserves income	2,990	4,310	6,481	7,000
Gain(loss) on disposal of assets	34	98	-	-
Other Income	<u>8</u>	<u>31</u>	<u>204</u>	<u>-</u>
<b>Total Revenues</b>	18,842	23,850	29,923	30,900
Expenses:				
Management Fees	2,742	3,017	3,557	3,550
Depreciation	4,692	5,615	6,965	7,085
Interest	4,954	6,260	6,630	7,975
SG&A	838	865	1,147	1,210
Maintenance	3,978	2,396	6,494	4,000
Provision for value of aircraft or bad debt expense or other taxes	<u>8</u>	<u>342</u>	<u>-</u>	<u>-</u>
<b>Total Expenses</b>	17,212	18,495	24,793	23,820
<b>Operating Income</b>	<u>1,630</u>	<u>5,354</u>	<u>5,130</u>	<u>7,080</u>
<i>Operating Margin</i>	8.65%	22.45%	17.14%	22.91%
Taxes(Benefit)	<u>621</u>	<u>1,579</u>	<u>1,754</u>	<u>2,415</u>
<i>Tax Rate</i>	38.10%	29.49%	34.19%	34.11%
<b>Net Income</b>	<u>\$ 1,009</u>	<u>\$ 3,775</u>	<u>\$ 3,376</u>	<u>\$ 4,665</u>
<b>EPS-fully diluted includes insurance settlement</b>	<u>\$ 0.65</u>	<u>\$ 2.36</u>	<u>\$ 2.11</u>	<u>\$ 2.93</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,598</u>	<u>1,602</u>	<u>1,594</u>
Margin Analysis				
GPM	85.4%	87.3%	88.1%	88.5%
NI/Rev	5.4%	15.8%	11.3%	15.1%
NI/Rent Income	6.4%	19.4%	14.5%	19.5%
Total Exp/Rev	91.3%	77.5%	82.9%	77.1%
As Percent of operating lease revenue				
Expenses:				
Management Fees	17.34%	15.54%	15.31%	14.85%
Depreciation	29.68%	28.92%	29.97%	29.64%
Interest	31.33%	32.25%	28.53%	33.37%
SG&A	5.30%	4.46%	4.94%	5.06%
<b>Total Expenses</b>	108.87%	95.28%	106.69%	99.67%
Percent Change Year/Year				
Operating lease revenue	38.84%	22.78%	19.71%	2.85%



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

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

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

	<u>(3/08)Q1A</u>	<u>(6/08)Q2A</u>	<u>(9/08)Q3E</u>	<u>(12/08)Q4E</u>	<u>FY2008E</u>
<b>Revenues:</b>					
Operating lease revenue	\$ 5,894	\$ 5,759	\$ 5,785	\$ 5,800	\$ <b>23,238</b>
Maintenance reserves income	1,750	1,901	1,415	1,415	<b>6,481</b>
Gain(loss) on disposal of assets	-	-	-	-	-
Other Income	<u>179</u>	<u>25</u>	<u>-</u>	<u>-</u>	<u><b>204</b></u>
<b>Total Revenues</b>	<u>7,823</u>	<u>7,685</u>	<u>7,200</u>	<u>7,215</u>	<u><b>29,923</b></u>
<b>Expenses:</b>					
Management Fees	883	889	890	895	<b>3,557</b>
Depreciation	1,707	1,743	1,750	1,765	<b>6,965</b>
Interest	2,129	1,101	1,600	1,800	<b>6,630</b>
SG&A	277	285	290	295	<b>1,147</b>
Maintenance	<u>2,381</u>	<u>1,253</u>	<u>1,350</u>	<u>1,510</u>	<u><b>6,494</b></u>
<b>Total Expenses</b>	<u>7,377</u>	<u>5,271</u>	<u>5,880</u>	<u>6,265</u>	<u><b>24,793</b></u>
<b>Operating Income</b>	<u>446</u>	<u>2,414</u>	<u>1,320</u>	<u>950</u>	<u><b>5,130</b></u>
<i>Operating Margin</i>	5.70%	31.41%	18.33%	13.17%	<b>17.14%</b>
Taxes(Benefit)	<u>150</u>	<u>829</u>	<u>450</u>	<u>325</u>	<u><b>1,754</b></u>
<i>Tax Rate</i>	33.63%	34.34%	34.09%	34.21%	<b>34.19%</b>
<b>Net Income</b>	<u>\$ 296</u>	<u>\$ 1,585</u>	<u>\$ 870</u>	<u>\$ 625</u>	<u><b>\$ 3,376</b></u>
<b>EPS-fully diluted includes insurance settlement</b>	<u>\$ 0.18</u>	<u>\$ 0.99</u>	<u>\$ 0.55</u>	<u>\$ 0.39</u>	<u><b>\$ 2.11</b></u>
Avg Shares Out-fully diluted	<u>1,624</u>	<u>1,594</u>	<u>1,594</u>	<u>1,594</u>	<u><b>1,602</b></u>
<b>Margin Analysis</b>					
GPM	88.7%	88.4%	87.6%	87.6%	<b>88.1%</b>
NI/Rev	3.8%	20.6%	12.1%	8.7%	<b>11.3%</b>
NI/Rent Income	5.0%	27.5%	15.0%	10.8%	<b>14.5%</b>
Total Exp/Rev	94.3%	68.6%	81.7%	86.8%	<b>82.9%</b>
<b>As Percent of operating lease revenue</b>					
<b>Expenses:</b>					
Management Fees	14.98%	15.44%	15.38%	15.43%	<b>15.31%</b>
Depreciation	28.96%	30.27%	30.25%	30.43%	<b>29.97%</b>
Interest	36.12%	19.12%	27.66%	31.03%	<b>28.53%</b>
SG&A	4.70%	4.95%	5.01%	5.09%	<b>4.94%</b>
<b>Total Expenses</b>	125.16%	91.53%	101.64%	108.02%	<b>106.69%</b>
<b>Percent Change Year/Year</b>					
Operating lease revenue	37.58%	36.21%	9.15%	3.57%	<b>19.71%</b>

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

	<u>Q1 (3/09)E</u>	<u>Q2 (6/09)E</u>	<u>Q3 (9/09) E</u>	<u>Q4 (12/09)E</u>	<u>FY2009E</u>
<b>Revenues:</b>					
Operating lease revenue	\$ 5,900	\$ 5,975	\$ 6,000	\$ 6,025	\$ <b>23,900</b>
Maintenance reserves income	<u>1,750</u>	<u>1,750</u>	<u>1,750</u>	<u>1,750</u>	<u><b>7,000</b></u>
<b>Total Revenues</b>	<u>7,650</u>	<u>7,725</u>	<u>7,750</u>	<u>7,775</u>	<u><b>30,900</b></u>
<b>Expenses:</b>					
Management Fees	880	885	890	895	<b>3,550</b>
Depreciation	1,760	1,765	1,775	1,785	<b>7,085</b>
Interest	1,825	1,975	2,025	2,150	<b>7,975</b>
SG&A	290	300	305	315	<b>1,210</b>
Maintenance	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u><b>4,000</b></u>
<b>Total Expenses</b>	<u>5,755</u>	<u>5,925</u>	<u>5,995</u>	<u>6,145</u>	<u><b>23,820</b></u>
<b>Operating Income</b>	<u>1,895</u>	<u>1,800</u>	<u>1,755</u>	<u>1,630</u>	<u><b>7,080</b></u>
<i>Operating Margin</i>	24.77%	23.30%	22.65%	20.96%	<b>22.91%</b>
Taxes(Benefit)	<u>645</u>	<u>615</u>	<u>600</u>	<u>555</u>	<u><b>2,415</b></u>
<i>Tax Rate</i>	34.04%	34.17%	34.19%	34.05%	<b>34.11%</b>
<b>Net Income</b>	<u>\$ 1,250</u>	<u>\$ 1,185</u>	<u>\$ 1,155</u>	<u>\$ 1,075</u>	<u><b>\$ 4,665</b></u>
<b>EPS-fully diluted includes insurance settlement</b>	<u>\$ 0.78</u>	<u>\$ 0.74</u>	<u>\$ 0.72</u>	<u>\$ 0.67</u>	<u><b>\$ 2.93</b></u>
Avg Shares Out-fully diluted	<u>1,594</u>	<u>1,594</u>	<u>1,594</u>	<u>1,594</u>	<u><b>1,594</b></u>
<b>Margin Analysis</b>					
GPM	88.5%	88.5%	88.5%	88.5%	<b>88.5%</b>
NI/Rev	16.3%	15.3%	14.9%	13.8%	<b>15.1%</b>
NI/Rent Income	21.2%	19.8%	19.3%	17.8%	<b>19.5%</b>
Total Exp/Rev	75.2%	76.7%	77.4%	79.0%	<b>77.1%</b>
<b>As Percent of operating lease revenue</b>					
<b>Expenses:</b>					
Management Fees	14.92%	14.81%	14.83%	14.85%	<b>14.85%</b>
Depreciation	29.83%	29.54%	29.58%	29.63%	<b>29.64%</b>
Interest	30.93%	33.05%	33.75%	35.68%	<b>33.37%</b>
SG&A	4.92%	5.02%	5.08%	5.23%	<b>5.06%</b>
<b>Total Expenses</b>	97.54%	99.16%	99.92%	101.99%	<b>99.67%</b>
<b>Percent Change Year/Year</b>					
Operating lease revenue	0.10%	3.75%	3.72%	3.88%	<b>2.85%</b>