Research Report – Update

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

AeroCentury Corp.

Rating: Speculative Buy

Howard Halpern

ACY $15.99 – (NYSE-AMEX)

December 2, 2009

	FY (12/07) A	FY (12/08) A	*FY (12/09) E*	*FY (12/10) E*
Total revenue (millions)	$23.9	$31.8	***$33.2***	***$33.5***
Earnings per share (diluted)	$2.36	$2.08	***$3.21***	***$3.44***

52-Week range	$24.95 – $3.15	Fiscal year ends:	December
Shares outstanding a/o 11/16/09	1.54 million	Lease revenue/share (ttm)	$16.68
Approximate float	1.20 million	Price/Sales (ttm)	1.0X
Market Capitalization	$25 million	Price/Sales (2010)E	0.9X
Book value/share	$25.00	Price/Earnings (ttm)	6.9X
Price/Book	0.6X	Price/Earnings (2010)E	4.6X

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

Key investment considerations:

We are maintaining our Speculative Buy rating on AeroCentury (NYSE-AMEX: ACY) and raising our 12-month price target to $18.80 per share (prior was $17.75 per share). The change in our price target is due in part to an increase of $0.38 per share in our earnings estimates over the next four quarters.

On November 13, 2009, ACY reported 3Q09 total revenue of $8.7 million versus $7.2 million in the year earlier quarter. Net income for the quarter was $1.1 million or $0.73 per share versus net income of $1.6 million or $1.00 per share. The year-over-year decrease in net income was due to higher maintenance costs of approximately $1.8 million.

During 3Q09, the company purchased two General Electric CF34-8E aircraft engines, re-leased one of its Saab 340B aircraft to a US regional carrier for 12 months, and began negotiation with two customers for the possible extension of their leases for the Fokker 50 aircraft currently have on lease.

Based on operating lease revenue and expense trends, we are adjusting our forecast for 2009. We now forecast total revenue of $33.2 million (prior was $32.1 million) and net income of nearly $5.0 million or $3.21 per diluted share (prior was $4.7 million or $3.08 per diluted share). The increase in our net income forecast is based on lower interest expenses (as the credit facility balance was paid down by approximately $9.0 million during the first nine months of 2009), lower SG&A expenses, and the purchase of two GE aircraft engines already on lease.

Our 2010 forecast is based on the potential for an improvement in the global economy and an improvement in operating expense margin to 92.1% from the 96.4% we forecast for 2009. For 2010, we project total revenue increasing to $33.5 million (from $32.2 million) and net income growing by 6.7% to $5.3 million or $3.44 per share (from $4.8 million or $3.12 per share).

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

Recommendation

We are maintaining our Speculative Buy rating on AeroCentury (NYSE-AMEX: ACY) and raising our twelve-month price target to $18.80 per share from $17.75 per share. Our price target is based on a relative price to earnings analysis. Industry multiples contracted over the last three months by 13.3%, but our earnings estimates for the next four quarters have increased by 10%. We are reducing our discount factor to 35% (prior was 40%), as some of the economic uncertainties have abated. Aircraft leasing industry risk; however, remains relatively high, along with stock-market risks for microcap companies.

Our price target is derived using an 8.5X price-to-earnings multiple, which is the trailing twelve month multiple for the rental & leasing industry as of December 1, 2009, applied to our earnings per share estimate of $3.40 for the next four quarters. We discounted the result by 35% to account for the risks detailed above, as well as the potential earnings volatility due to the low share count.

The Company

AeroCentury Corp. (AMEX: ACY), based in Burlingame, California, was formed in 1997. ACY leases used commercial turboprop aircraft and equipment (e.g. engines) 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.). Certain officers of ACY are also officers of JetFleet Management and JetFleet Holding and hold significant ownership positions in those entities.

Management aims to increase stockholder value by acquiring aircraft and engine assets and earning a return on those managed assets through lease revenue and their eventual sale. Management believes it can achieve its aims through the reinvestment of cash flow and correct asset and lessee selection. As of September 30, 2009, the company's aircraft portfolio consisted of 43 aircraft, one turboprop engine (that is off lease), and two GE CF34-8E aircraft engines (currently on lease).

Aircraft Type	# owned	# On Lease
deHavilland DHC-8-300s	8	8
deHavilland DHC-8-100s	3	3
eHavilland DHC-6s	3	3
Fokker 50s	14	13
Saab 340As	2	0
Saab 340Bs	6	6
Fokker 100s	7	7

Five of ACY's leases expire during the final three months of 2009. Given preliminary indications from current lessees, the company should be successful in extending the leases for a majority of the aircraft.

Recent Financials

On November 13, 2009, the company reported 3Q09 results, versus the same period last year:

- Operating lease revenue was $6.9 million versus $6.3 million. Our estimate was $6.4 million. The increase was due to more aircraft available for lease and re-leases of aircraft that were off lease for part of the 2008, and re-leases of aircraft at increased rental rates;
- Total revenue (including maintenance reserves and other) was $8.7 million versus $8.2 million. Our estimate was $7.9 million;
- Total operating expense was $6.9 million versus $5.7 million. The increase was due to maintenance costs, where were $1.8 million higher then last year; and
- Net income was $1.1 million or $0.73 per share versus net income of $1.6 million or $1.00 per share. Our estimate was $1.1 million or $0.72 per share. The primary reason for the year-over-year decrease in net income was higher maintenance costs.

For the first nine months of 2009, ACY earned revenue of $25.0 million versus $23.7 million in the same period last year. Revenue included maintenance reserves (non-refundable reserves earned based on lessee aircraft usage). Maintenance reserves decreased to $4.7 million from $5.5 million, due to lower average usage of aircraft by some of the company's lessees and a higher number of off-lease aircraft (we estimate two).

Operating lease revenues improved to $19.8 million versus $18.0 million in the first nine months of 2008 due to more aircraft available for lease and re-leases of aircraft that were off lease for part of the 2008, and re-leases of several aircraft at increased rental rates. Aircraft off lease during all or part of the first nine months of 2009 offset revenue gains.

	9 Mos. 2008	9 Mos. 2009	% Δ
Total Revenues	23,530	24,469	**4.0%**
Total Expenses	18,372	19,242	**4.7%**
Operating Income	5,372	5,715	**6.4%**
Taxes(Benefit)	1,919	1,963	**2.3%**
Tax Rate	*35.73%*	*34.35%*	
Net Income	$ 3,452	$ 3,752	**8.7%**
EPS-fully diluted	$ 2.16	$ 2.42	
Avg Shares Out-fully diluted	1,597	1,551	
Margin Analysis			
Gross Profit	20,801	21,711	
Gross margin	88.4%	88.7%	
Operating margins	22.8%	23.4%	
NI/Rev	14.7%	15.3%	
NI/Rent Income	19.2%	19.0%	
Total Exp/Rev	78.1%	78.6%	
As Per Cent of Rent Income			
Total Expenses	102.1%	97.4%	

Other income (for the first nine months of 2009) increased by $272,900 mainly due to $245,400 of interest income related to a June 2009 federal $1.6 million tax refund and a gain from insurance proceeds for damage to the company's spare Saab 340A aircraft engine.

Total operating expenses (chart to right) increased by $0.9 million to $19.2 million. Operating expense margin decreased to 97.4% from 102.1%. The increase in operating expenses was due mainly to the following:

- Maintenance expense increased by $1.4 million to $5.9 million due to the net effect of an increase in expense related to off-lease aircraft and a decrease in maintenance performed by lessees using non-refundable reserves;
- Depreciation increased by $0.4 million resulting from purchases of aircraft during 2008; and
- Management fees increased by $28,500 due to aircraft acquisitions (of note, these fees are calculated on the net book value of the aircraft owned by the company).

The overall increase in operating expenses occurred despite decreases in the following expenses for the first nine months of 2009:

- Interest expense decreased by $0.9 million to $4.1 million due to lower average interest rates on the credit facility and a gain in the fair value related to the company's interest rate swap, offset by an increase in net settlement interest related to the swap and an increase in subordinated notes interest and fee amortization; and
- SG&A expense decreased by $87,400, as there were fewer acquisitions compared to the same period last year.

Operating margin for the first nine months of 2009, contracted to 28.9% of operating lease revenue from 29.9% in the same period last year. The contraction, was impacted by 3Q09 operating margin results, which were only 20.2% versus 30.5% in 3Q08. The primary cause of the contraction was maintenance costs.

Finances

The company's debt to equity ratio of 1.7 versus 6.5 for the industry means that ACY is significantly less leveraged than other rental and leasing services companies.

For the first nine months of 2009, we estimate ACY's working capital needs decreased by $4.0 million, due to increases in maintenance deposits and accrued costs and deferred income taxes. The decrease in working capital needs resulted from the changes occurring during the third quarter of 2009.

Cash throw-off for the nine months and third quarter of 2009 totaled approximately $9.5 million and $3.4 million, respectively. Cash flow for the nine months was augmented by a June 2009 $1.6 million tax refund. Cash from operations for the nine months and quarter totaled $14.4 million and $4.0 million, respectively. As of September 30, 2009, ACY's cash position increased by $0.7 million to $2.8 million from $2.2 million at December 31, 2009. Sequentially, cash declined by $0.7 million from $3.5 million at June 30, 2009, due to the purchase of aircraft engines.

We believe ACY should have adequate cash flow to meet its ongoing operational needs, including required repayments under its credit facility and subordinated notes, based upon our forecasts for revenues and expenditures through the end of 2010. The company's credit facility should be renewed on terms that have been in place since April 2007.

Future growth will be dependent on the availability of additional financing for acquisitions of leased assets. We project that the aircraft portfolio and renewal of aircraft leases as they come due (during the final months of 2009 and throughout 2010) will provide the resources to sustain operation for the foreseeable future.

Credit Facility

At September 30, 2009, the company had outstanding $53.0 million under its $80 million senior revolving credit facility (that matures on March 31, 2010). The weighted average interest rate on the facility at September 30, 2009 and 2008 was 3.0% and 6.2%, respectively. For the nine months ended September 30, 2009, the company borrowed $4 million against the facility and repaid slightly more than $12 million of the outstanding principal under the facility and was in compliance with all covenants.

The company is currently in discussions for a renewal of the facility. There can be no assurance the line will be fully maintained, as one or more participants may withdraw. The company will either need to pay off such participant by obtaining additional commitment amounts, finding new lenders, or selling assets, etc.

During April 2007, ACY issued 16% senior unsecured subordinated notes. At September 30, 2009, the carrying amount of the subordinated notes was approximately $10.5 million (outstanding principal is $11.2 million less unamortized debt discount of approximately $0.6 million) and accrued interest payable was zero. The company was in compliance with all covenants under the subordinated notes agreement.

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 September 30, 2009 (the nine month period), the company recognized a $0.4 million liability for the swap on its balance sheet (in the notes payable and accrued interest line item). **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.**

Recent Developments

September 2009

The company purchased two General Electric CF34-8E aircraft engines, which are on lease to a US regional carrier until December 10, 2009. The lessee indicated an interest in extending the leases to March 31, 2010, but there is no binding agreement in place.

Negotiations are ongoing with two customers, each of which leases two Fokker 50 aircraft pursuant to leases expiring in December 2009, for the possible extension of the leases.

The company re-leased one of its Saab 340B aircraft to a US regional carrier for 12 months. The lease contains options to extend the lease for three additional one-year terms.

Signed a term sheet and received a deposit for the re-lease of the two Saab 340A aircraft and a spare engine. Delivery to the lessee is expected to occur in early 2010.

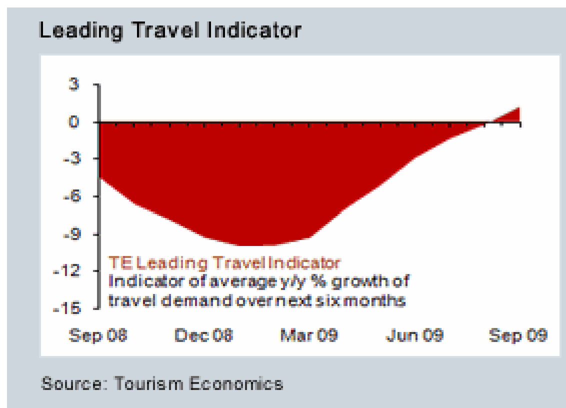
<u>October 2009</u>
The company and a customer that leases two of its Fokker 50 aircraft agreed to defer payment of rent and reserves totaling approximately $399,000 to April 2010. In addition, the lease for one of the aircraft was extended to mid-May 2010 in anticipation of negotiations for a longer-term extension.

<u>November 2009</u>
ACY and a new customer in Peru signed a term sheet for re-lease of the company's off-lease Fokker 50 aircraft for a three-year term. Delivery is expected in December 2009.

Competitive and Economic Landscape

The company targets regional commercial aircraft operators that are seeking to lease aircraft under an operating lease. The competition in this market, which is primarily based on price and lease terms, comes from companies that offer financing, including leasing companies, banks and other financial institutions, and aircraft leasing partnerships. The large participants in the aircraft leasing industry include, GE Capital Aviation Services, a subsidiary of General Electric Commercial Finance, Willis Lease Finance Corp. (NasdaqGM: WLFC), AerCap Holdings N.V. (NYSE: AER), Babcock & Brown Air Limited (NYSE: FLY), as well as AIRFUND Corporation (a private company that is a U.S. based commercial aircraft asset manager founded in 1984). All three of the publicly traded companies were profitable during the first nine months of 2009 (generating net income of approximately $21 million, $122 million, and $75 million, respectively). However, only Babcock & Brown had a year-over-year gain for the period, while Willis Lease and AerCap reported year-over-year declines in net income.

According to the Travel Industry Association of America (TIA), in its monthly newsletter (November 2009) travel demand should begin to see a modest recovery starting in November 2009 and continuing through 2010. Total inbound travel is forecasted to increase a modest 2.8% in 2009, with greater gains in travel expected from Canada and Mexico. The graph to the right, from the November 2009 TIA newsletter, indicates that the leading travel indicator has turned positive, which should translate into positive momentum during 2010.



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

- Worldwide passenger traffic for 2009 is expected to decline by 6.8% (prior forecast called for a decline of 8%) following growth of 2% during 2008. This will be the first decline since the 2.7% drop experienced during 2001;
- Worldwide passenger traffic for 2010 is expected to increase by 3.7%; and
- Globally, 2009 industry revenue is forecast to decline by 15%, with a rebound of 4.6% growth in 2010.

The company's business is dependent upon general economic conditions and the strength of the travel and transportation industry. The industry is in a period of financial difficulty and contraction due to the global recession. Also, 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, and as a result, there is a reduced demand for aircraft and a potential for a corresponding decrease in market lease rental rates and aircraft values.

In November 2009, the National Association for Business Economics (NABE) survey forecasted a GDP decline of approximately 3.6% in 2009, based on an economic recovery that commenced during the third quarter of 2009 leading to second half growth of 3.2%. 2009's contraction was largely due to a sharp retrenchment in business investment. NABE believes real GDP growth in 2010 could reach 3.2% (annualized rate) compared to its prior forecast of 2.7%.

On November 10, 2009, Reuters reported that the consensus forecast of panelists surveyed in the Blue Chip Economic Indicators newsletter predicted real GDP growth should expand 2.7% in 2010 (prior forecast was 2.5%). For 2009, the forecast is for GDP contraction of 2.4%. According to the survey, the major uncertainty surrounding growth for next year involves the degree to which private demand accelerates as the positive contribution to GDP from reduced business inventory liquidation and fiscal stimulus play out.

On November 24, 2009, The Conference Board announced that U.S. consumer confidence improved slightly in November to 49.5, up from 48.7 in October. The all time low for consumer confidence was 25.0 in February 2009. The rise in consumer confidence resulted from consumer perceptions that business and labor market conditions will not worsen.

Projections

Operations

The combination of approximately 43 aircraft and one aircraft engine within its portfolio (see page two) and the purchase of two GE aircraft engines should support our forecasts. Except for a lease termination and payment deferrals, ACY has not experienced significant changes in any of its customers' payment timeliness, but has seen some indications of a weakening in the financial condition and operating results of some customers.

For 2009, we forecast total revenue of $33.2 million and net income of nearly $5.0 million or $3.21 per share. We previously estimated total revenue of $32.1 million and net income of $4.7 million or $3.08 per diluted share. Total revenue primarily consists of operating revenue of at least 39 aircraft on lease for a major portion of 2009 and maintenance reserves income. We are not forecasting any unusual events (sale/purchase of aircraft) that might also impact total top line results.

As we expect operating expense trends seen year-to-date to continue, our profit expectations have increased. We have reduced interest and SG&A expense projections by $0.2 million and $0.3 million, respectively.

For 2010, we project total revenue of $33.5 million (prior was $32.2 million) and net income of $5.3 million or $3.44 per diluted share (prior was $4.8 million or $3.12 per diluted share). Our forecast is based on a slight improvement in the global economy, an improved operating expense margin (to 92.1% from our 2009 forecast of 96.4%), and having at least 41 aircraft on lease for the majority of the year.

If the company purchases additional aircraft, our forecasts (for 2009 and 2010) would need to be adjusted. The company has indicated that there is likely to be few acquisition opportunities for the remainder of 2009 and into early 2010. The timing of aircraft returns remains unclear. Until an aircraft is returned, rent is paid by the lessor even if the lease term has expired.

Our profit estimates for 2009 and 2010 are based in part on:

- Interest expense of $5.4 million versus $7.2 million reported in 2008. For 2010, interest expense should approximate $5.8 million. The year-over-year increase ('09 vs. '10) is based on a rise in the weighted average interest rate that could result from positive economic activity;
- SG&A expenses (including insurance), of nearly $1.0 million and $0.9 million, respectively, for 2009 and 2010. If the company purchases additional aircraft, expenses could be greater than are forecasted;
- Management fees and depreciation of $11.3 million and $11.6 million, respectively, for 2009 and 2010;
- Maintenance, impairment, and bad debt expenses of $7.8 million and $7.0 million, respectively, for 2009 and 2010. Our 2009 forecast includes approximately $0.6 million of maintenance expense for aircraft that are currently off lease that will have to be serviced in order to get them ready to be re-

leased before the end of 2009. Our 2010 estimate is just an approximation and are subject to revision; and

- A tax rate of approximately 35% for both periods.

Our forecasts are also based on the following:

- Rent payment deferrals for four of its lessees, in order to assist their difficult financial situations;
- Signing of a term sheet and receipt of a deposit for the re-lease of its two off-lease Saab 340A aircraft and one spare engine. Delivery of both aircraft to the lessee should occur in early 2010.
- The extension of terms of six leases and the re-lease of an aircraft that was returned in February 2009;
- Obtaining a new Peruvian customer for one of its Saab 340B aircraft; and
- Negotiating the extension of four of the five other aircraft leases that expire during the balance of 2009.

Finances
For 2009, we project cash throw-off of $14.7 million (versus $14.0 million in 2008) which should allow the company to continue paying down the debt on its credit facility and subordinated notes. During the first nine months of 2009, ACY has paid down approximately $12.7 million of debt and borrowed $4 million for the purchase of two aircraft engines. We project a decrease in 2009 working capital needs of $1 million, as accounts payables and accruals increase. Cash at the end of 2009 should decrease by $0.3 million to approximately $1.8 million, as we project repayment of debt for the year approaching $16 million. Cash was $2.2 million at December 31, 2008.

For 2010, we project cash throw-off growing to $13.9 million. We expect very little change in working capital needs. Our projection also reflects repayment of approximately $13 million of debt. We forecast a 2010 increase of $1.1 million in cash to approximately $3.0 million.

Our forecasts for 2009 and 2010 do not include the acquisition or sale of aircraft.

Risks

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

Lessee Credit Risk
If a customer defaults upon its lease obligations, the company may be limited in its ability to enforce remedies. 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 negatively impact interest expense (higher interest costs) and existing lease payments would be undervalued relative to what the market could bear under an increasing interest rate environment.

Financing
The company anticipates that before its facility expires in March 2010, lenders should renew the facility. However, there can be no assurance that such will actually occur. If one or more participants in the facility decides not to continue then the company will either need to pay off such participant by obtaining additional commitment amounts from the remaining lenders, finding new replacement lenders, or selling assets, or doing some combination there of.

Customer Concentration
At October 30, 2009, ACY's two largest customers located in Mexico and Antigua, accounted for approximately 14% and 12%, respectively, of monthly lease revenue. If any customers in those locations were to run into financial difficulties, it would negatively impact operating results. Concentration of credit risk with respect to lease receivables will diminish only if the company is able to lease additional assets or re-lease assets currently on lease.

Leasing
Management believes it will be able to meet its operational needs and remain in compliance with the terms of its credit facility and subordinated notes obligations. This is based on management's estimates related to rents on assets to be re-leased, the timely use of proceeds of unused debt capacity toward additional acquisitions of income producing assets, and the cost and anticipated timing of maintenance to be performed.

If aircraft off lease remain so for an extended period of time and the company is unsuccessful in extending the leases for a majority of the five aircraft with leases expiring before the end of 2009, ACY may not be able to meet its operational needs or remain in compliance with the terms of its credit facility and subordinated notes.

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

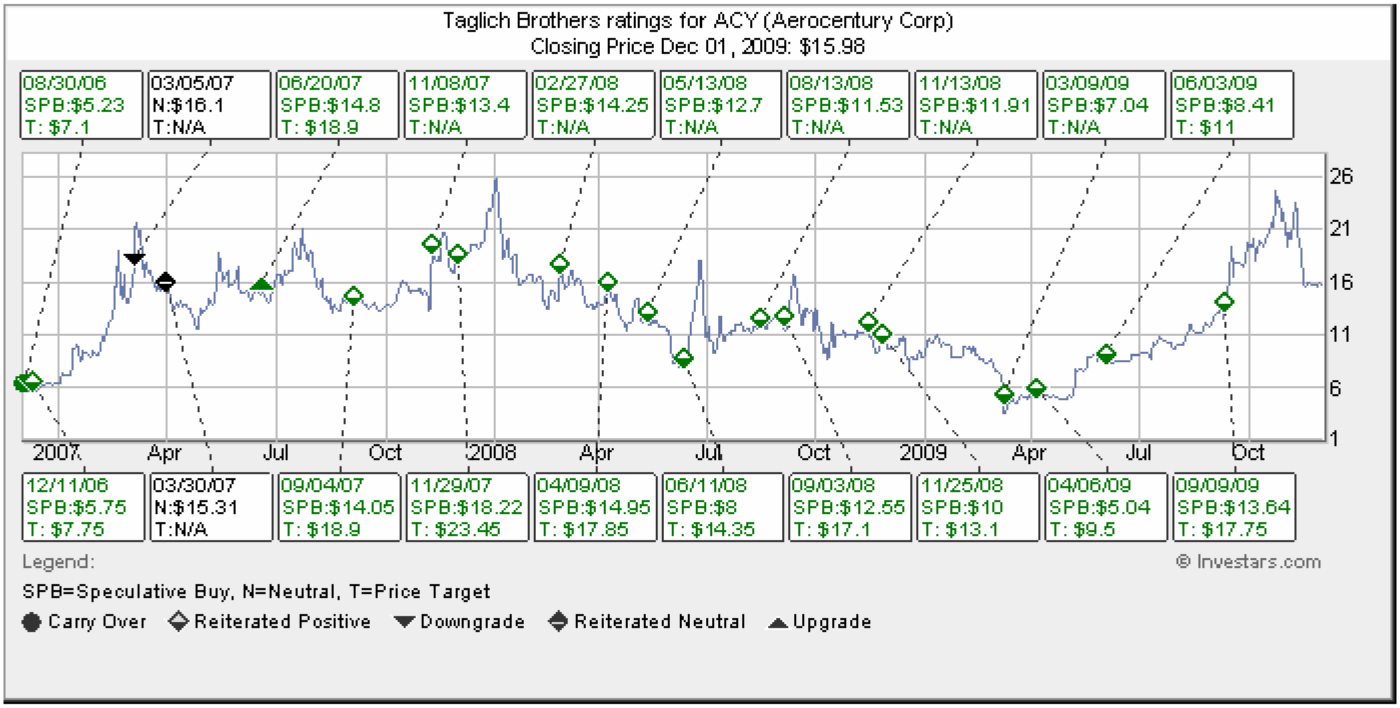
Stockholder Rights Plan
In April 1998, in connection with the adoption of a stockholder rights plan, the company filed a Certificate of Designation detailing the rights, preferences and privileges of a new Series A Preferred Stock. The company issued rights to its stockholders of record as of April 23, 1998, giving each stockholder the right to purchase one one-hundredth of a share of the Preferred Stock for each share of common held. Such rights are exercisable only under certain circumstances in connection with a proposed acquisition or merger of the company. If executed because of a proposed acquisition or merger, significant dilution would occur, which would negatively impact earnings per share.

Shareholder Control
According to the company's Form DEF 14A filing (on March 24, 2009), Neal Crispin, its chairman, president, and principal stockholder and Toni Perazzo, its CFO and senior vice president of finance (and wife of the company's chairman) combined control approximately 22% of AeroCentury Inc. common stock. Therefore, they are potentially able to significantly influence all matters requiring approval by stockholders, including the election of directors and significant corporate transactions.

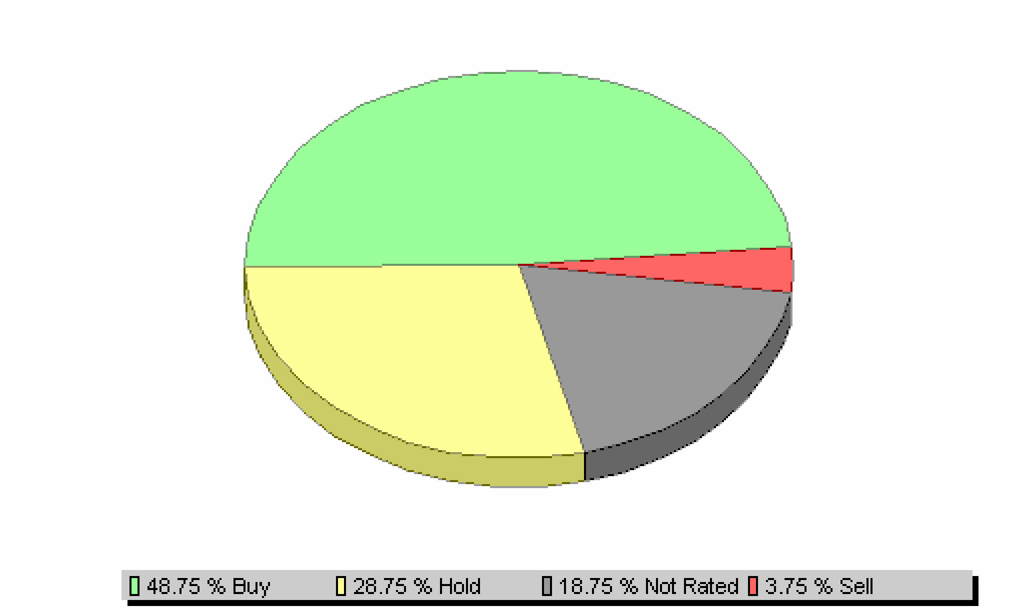
Miscellaneous
The company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume
An equity specific concern relates to liquidity. Based on our calculations, during 2007, average daily volume was 33,831 shares traded per day. During 2008, average daily volume decreased to 10,862 shares a day and during the first ten months of 2009 average daily volume decreased to 5,997 shares a day. On a relative basis, volume for this equity is very small. An equity that lacks liquidity can have significant price volatility.

`



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.57%
Hold	0	0
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

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

Speculative Buy

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

Neutral

We will remain neutral pending certain developments.

Underperform

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

Sell

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

Some notable Risks within the Microcap Market

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

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

Public Companies mentioned in this report:

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

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

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. Since February 2000, the company pays a monthly monetary fee of $1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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

AeroCentury Inc.
Consolidated Balance Sheet
(in thousands)

	Dec. '07 A Year End	Dec. '08 A Year End	Mar .'09 A 1st Qtr End	Jun. '09 A 2nd Qtr End	Sept. '09 A 3rd Qtr End	Dec. 2009 E Full Year	Dec. 2010 E Full Year
ASSETS							
Current assets:							
Cash & Equivalents	$ 2,843	$ 2,170	$ 1,967	$ 3,511	$ 2,839	$ 1,835	$ 2,964
Accounts Receivable	1,648	2,023	2,209	2,428	3,466	2,940	2,821
Tax receivable	1,836	1,627	1,627	2	4	-	-
Prepaid Expense & Other	1,402	1,001	979	836	582	1,058	1,098
Total current assets	**7,729**	**6,820**	**6,781**	**6,776**	**6,890**	**5,834**	**6,883**
Aircraft & engines, net of depreciation	118,924	124,914	123,006	121,098	124,227	124,000	124,000
Total assets	**$ 126,653**	**$ 131,734**	**$ 129,787**	**$ 127,874**	**$ 131,117**	**$ 129,834**	**$ 130,883**
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current liabilities:							
Accounts Payable and accrued expenses	$ 811	$ 599	$ 600	$ 380	$ 633	$ 892	$ 884
Notes Payable and accrued interest	73,075	72,411	68,133	63,407	63,830	63,000	58,000
Maintenance deposits and accrued costs	6,025	8,095	8,812	9,896	10,695	8,494	8,697
Security deposits	5,697	5,499	5,389	5,325	5,409	5,400	5,499
Prepaid rent	1,028	1,073	969	965	949	1,000	1,000
Income taxes payable	229	52	7	0	1	-	-
Total current liabilities	**86,864**	**87,729**	**83,910**	**79,973**	**81,517**	**78,786**	**74,080**
Deferred Income Taxes	7,649	9,169	9,804	10,459	11,013	10,000	9,500
Total Liabilities	**94,513**	**96,898**	**93,714**	**90,433**	**92,530**	**88,786**	**83,580**
Stockholders' equity:							
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2	2	2	2
Paid-in capital	15,378	14,780	14,780	14,780	14,780	14,780	14,780
Retained earnings	17,265	20,558	21,796	23,163	24,309	26,771	33,026
Treasury Stock, at cost	(504)	(504)	(504)	(504)	(504)	(504)	(504)
Total stockholders' equity	**32,140**	**34,835**	**36,073**	**37,441**	**38,587**	**41,048**	**47,303**
Total liabilities and stockholders' equity	**$ 126,653**	**$ 131,734**	**$ 129,787**	**$ 127,874**	**$ 131,117**	**$ 129,834**	**$ 130,883**
SHARES OUT	1,543	1,543	1,543	1,543	1,543	1,543	1,543

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

	FY2007A	FY2008A	**FY2009E**	**FY2010E**
Revenues:				
Operating lease revenue	$ 19,412	$ 24,407	**$ 26,462**	**$ 27,450**
Maintenance reserves income	4,310	7,170	**6,207**	**6,000**
Gain(loss) on disposal of assets	98	15	**-**	**-**
Other Income	31	203	**488**	**-**
Total Revenues	23,850	31,795	**33,157**	**33,450**
Expenses:				
Management Fees	3,017	3,676	**3,678**	**3,765**
Depreciation	5,615	7,223	**7,663**	**7,870**
Interest	6,260	7,154	**5,367**	**5,750**
SG&A	865	1,128	**965**	**885**
Maintenance	2,396	6,771	**7,767**	**7,000**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	342	714	**57**	**-**
Total Expenses	18,495	26,665	**25,497**	**25,270**
Operating Income	5,354	5,130	**7,660**	**8,180**
Taxes(Benefit)	1,579	1,837	**2,688**	**2,875**
Tax Rate	*29.49%*	*35.82%*	*35.09%*	*35.15%*
Net Income	$ 3,775	$ 3,292	**$ 4,972**	**$ 5,305**
EPS-fully diluted includes insurance settlement	$ 2.36	$ 2.08	**$ 3.21**	**$ 3.44**
Avg Shares Out-fully diluted	1,598	1,585	**1,549**	**1,543**
Margin Analysis				
Gross margin	87.3%	88.4%	**88.9%**	**88.7%**
Operating margin	22.5%	16.1%	**23.1%**	**24.5%**
NI/Rev	15.8%	10.4%	**15.0%**	**15.9%**
NI/Rent Income	19.4%	13.5%	**18.8%**	**19.3%**
Total Exp/Rev	77.5%	83.9%	**76.9%**	**75.5%**
As Percent of operating lease revenue				
Expenses:				
Management Fees	15.54%	15.06%	**13.90%**	**13.72%**
Depreciation	28.92%	29.59%	**28.96%**	**28.67%**
Interest	32.25%	29.31%	**20.28%**	**20.95%**
SG&A	4.46%	4.62%	**3.65%**	**3.22%**
Total Expenses	95.28%	109.25%	**96.35%**	**92.06%**
Percent Change Year/Year				
Operating lease revenue	22.78%	25.73%	**8.42%**	**3.73%**

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

	(3/08)Q1A	(6/08)Q2A	(9/08)Q3A	(12/08)Q4A	**FY2008A**
Revenues:					
Operating lease revenue	$ 5,894	$ 5,759	$ 6,342	$ 6,412	**$ 24,407**
Maintenance reserves income	1,750	1,901	1,884	1,635	**7,170**
Gain(loss) on disposal of assets	15	-	-	-	**15**
Other Income	164	25	10	4	**203**
Total Revenues	7,823	7,685	8,236	8,051	**31,795**
Expenses:					
Management Fees	883	889	957	947	**3,676**
Depreciation	1,707	1,743	1,877	1,896	**7,223**
Interest	2,129	1,101	1,750	2,174	**7,154**
SG&A	277	285	266	300	**1,128**
Maintenance	2,381	1,253	921	2,216	**6,771**
Provision for value of aircraft -- impairment, bad debt expense, other taxes	-	-	(46)	760	**714**
Total Expenses	7,377	5,271	5,724	8,293	**26,665**
Operating Income	446	2,414	2,512	(242)	**5,130**
Taxes(Benefit)	150	829	940	(82)	**1,837**
Tax Rate	*33.63%*	*34.34%*	*37.44%*	*33.88%*	***35.82%***
Net Income	$ 296	$ 1,585	$ 1,571	$ (160)	**$ 3,292**
EPS-fully diluted includes insurance settlement	$ 0.18	$ 0.99	$ 1.00	$ (0.10)	**$ 2.08**
Avg Shares Out-fully diluted	1,624	1,594	1,572	1,556	**1,585**
Margin Analysis					
Gross margin	88.7%	88.4%	88.4%	88.2%	**88.4%**
Operating margin	5.7%	31.4%	30.5%	-3.0%	**16.1%**
NI/Rev	3.8%	20.6%	19.1%	-2.0%	**10.4%**
NI/Rent Income	5.0%	27.5%	24.8%	-2.5%	**13.5%**
Total Exp/Rev	94.3%	68.6%	69.5%	103.0%	**83.9%**
As Percent of operating lease revenue					
Expenses:					
Management Fees	14.98%	15.44%	15.09%	14.77%	**15.06%**
Depreciation	28.96%	30.27%	29.59%	29.57%	**29.59%**
Interest	36.12%	19.12%	27.59%	33.91%	**29.31%**
SG&A	4.70%	4.95%	4.19%	4.68%	**4.62%**
Total Expenses	125.16%	91.53%	90.26%	129.34%	**109.25%**
Percent Change Year/Year					
Operating lease revenue	37.58%	36.21%	19.66%	14.50%	**25.73%**

AeroCentury Inc.
Quarterly Income Statement
For the Years Ending December 31,
(in thousands)

	Q1 (3/09)A	Q2 (6/09)A	Q3 (9/09) A	Q4 (12/09)E	**FY2009E**	Q1 (3/10)E	Q2 (6/10)E	Q3 (9/10) E	Q4 (12/10)E	**FY2010E**
Revenues:										
Operating lease revenue	$ 6,469	$ 6,441	$ 6,852	$ 6,700	**$ 26,462**	$ 6,825	$ 6,850	$ 6,875	$ 6,900	**$ 27,450**
Maintenance reserves	1,568	1,542	1,597	1,500	**6,207**	1,500	1,500	1,500	1,500	**6,000**
Total Revenues	8,043	8,241	8,673	8,200	**33,157**	8,325	8,350	8,375	8,400	**33,450**
Expenses:										
Management Fees	927	913	918	920	**3,678**	925	935	950	955	**3,765**
Depreciation	1,908	1,908	1,912	1,935	**7,663**	1,950	1,965	1,975	1,980	**7,870**
Interest	1,410	1,381	1,276	1,300	**5,367**	1,400	1,425	1,450	1,475	**5,750**
SG&A	350	252	113	250	**965**	175	185	250	275	**885**
Maintenance	1,505	1,710	2,702	1,850	**7,767**	1,750	1,750	1,750	1,750	**7,000**
Total Expenses	6,157	6,164	6,921	6,255	**25,497**	6,200	6,260	6,375	6,435	**25,270**
Operating Income	1,886	2,077	1,752	1,945	**7,660**	2,125	2,090	2,000	1,965	**8,180**
Taxes(Benefit)	648	709	606	725	**2,688**	745	735	705	690	**2,875**
Tax Rate	*34.36%*	*34.14%*	*34.59%*	*37.28%*	***35.09%***	*35.06%*	*35.17%*	*35.25%*	*35.11%*	***35.15%***
Net Income	$ 1,238	$ 1,368	$ 1,146	$ 1,220	**$ 4,972**	$ 1,380	$ 1,355	$ 1,295	$ 1,275	**$ 5,305**
EPS-fully diluted	$ 0.80	$ 0.89	$ 0.73	$ 0.79	**$ 3.21**	$ 0.89	$ 0.88	$ 0.84	$ 0.83	**$ 3.44**
Avg Shares Out-fully diluted	1,543	1,543	1,567	1,543	**1,549**	1,543	1,543	1,543	1,543	**1,543**
Margin Analysis										
Gross margin	88.5%	88.9%	89.4%	88.8%	**88.9%**	88.9%	88.8%	88.7%	88.6%	**88.7%**
Operating margin	23.4%	25.2%	20.2%	23.7%	**23.1%**	25.5%	25.0%	23.9%	21.9%	**24.5%**
NI/Rev	15.4%	16.6%	13.2%	14.9%	**15.0%**	16.6%	16.2%	15.5%	15.2%	**15.9%**
NI/Rent Income	19.1%	21.2%	16.7%	18.2%	**18.8%**	20.2%	19.8%	18.8%	18.5%	**19.3%**
Total Exp/Rev	76.6%	74.8%	79.8%	76.3%	**76.9%**	74.5%	75.0%	76.1%	76.6%	**75.5%**
% operating lease revenue										
Expenses:										
Management Fees	14.3%	14.2%	13.4%	13.7%	**13.9%**	13.6%	13.6%	13.8%	13.8%	**13.7%**
Depreciation	29.5%	29.6%	27.9%	28.9%	**29.0%**	28.6%	28.7%	28.7%	28.7%	**28.7%**
Interest	21.8%	21.4%	18.6%	19.4%	**20.3%**	20.5%	20.8%	21.1%	21.4%	**20.9%**
SG&A	5.4%	3.9%	1.6%	3.7%	**3.6%**	2.6%	2.7%	3.6%	4.0%	**3.2%**
Total Expenses	95.2%	95.7%	101.0%	93.4%	**96.4%**	90.8%	91.4%	92.7%	93.3%	**92.1%**
% Change Year/Year										
Operating lease revenue	9.8%	11.8%	8.0%	4.5%	**8.4%**	5.5%	6.3%	0.3%	3.0%	**3.7%**

AeroCentury Inc.
Annual and Projected
Cash Flow Statement
(in thousands)

	FY2007A	FY2008A	FY2009E	FY2010E
Cash Flows from Operating Activities				
Net Income	$ 3,775	$ 3,293	$ 4,972	$ 5,305
Loss (gain) on sale of aircraft and aircraft engines	(98)	(15)	-	-
Depreciation	5,615	7,222	7,663	7,870
Provision for impairment in value of aircraft	-	745	-	-
Non-cash interest	312	1,251	1,200	1,200
Provision for bad debt	16	1	-	-
Deferred Taxes	3,178	1,520	831	(500)
	12,798	14,018	14,666	13,875
Changes In:				
Accounts receivable	(165)	(376)	(917)	119
Taxes receivable	(1,812)	209	1,627	-
Prepaid expenses and other	(340)	(112)	(58)	(40)
Accounts payable and accrued expenses	157	(104)	294	(8)
Accrued interest on notes payable	(17)	(64)	(120)	(120)
Maintenance reserves and accrued costs	2,857	2,070	399	203
Security Deposits	1,509	(198)	(99)	99
Prepaid rent	554	45	(73)	-
Unearned income	-	-	-	-
Taxes payable	229	(176)	(52)	-
Net Changes in Working Capital	2,973	1,294	1,000	253
Net cash Provided by Operations	15,771	15,312	15,666	14,128
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)	(4,000)	-
Net cash used in Investing	(32,236)	(13,915)	(4,000)	-
Cash Flows from Financing Activities				
Borrowings under credit facility	25,500	12,500	4,000	-
Issuance of notes payable	9,237	3,960	-	-
Debt issuance costs	(735)	286	-	-
Repayment of credit facility and note payable	(18,078)	(18,817)	(16,000)	(13,000)
Net cash provided by Financing	15,925	(2,071)	(12,000)	(13,000)
Net change in Cash	(541)	(674)	(334)	1,128
Cash Beginning of Period	3,384	2,843	2,170	1,835
Cash End of Period	$ 2,843	$ 2,170	$ 1,835	$ 2,964