AEROCENTURY CORP
Form 10-Q
May 15, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ____________

Commission File Number: 001-13387

AeroCentury Corp.
(Exact name of small business issuer as specified in its charter)

Delaware	94-3263974
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1440 Chapin Avenue, Suite 310
Burlingame, California 94010
(Address of principal executive offices)

(650) 340-1888
(Issuer’s telephone number)

None
(Former Name, Former address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes xNo o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes oNo x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 15, 2008 the Issuer had 1,606,557 Shares of Common Stock, par value $0.001 per share, issued, of which 63,300 are held as Treasury Stock.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o
Non-accelerated filer o Smaller reporting company x

PART I
FINANCIAL INFORMATION

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (“the Exchange Act”). All statements in this Report other than statements of historical fact are "forward-looking statements" for purposes of these provisions, including any statements of plans and objectives for future operations and any statements of assumptions underlying any of the foregoing. Statements that include the use of terminology such as "may," "will," "expects," "plans," "anticipates," "estimates," "potential," or "continue," or the negative thereof, or other comparable terminology are forward-looking statements. Forward-looking statements include: (i) in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” the Company’s statements regarding its belief that it will remain in compliance with the covenants of its Credit Facility; and that the Company will have adequate cash flow to meet its ongoing operational needs, including required repayments under its Credit Facility, Subordinated Notes financing and special purpose financings; (ii) in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Outlook” the Company’s statements regarding its belief that the proceeds of the June 30, 2008 $18 million Subordinated Notes closing will be used to repay Credit Facility indebtedness; that the Credit Facility interest rate is likely to continue to be lower than the Subordinated Notes fixed rate and this is likely to result in the Company paying a higher effective interest rate on its debt once Subordinated Note proceeds are used to repay Credit Facility indebtedness; that the debt financing available to the Company is sufficient to fund planned 2008 acquisitions; that even if two returned 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; that the Company may incur significant unreimbursed expense in order to prepare the two returned aircraft for re-lease or re-sale; that the Company will be successful in extending leases or find new lessees for aircraft with leases expiring during the remainder of 2008 and that, even if the aircraft are off lease for an extended period of time, it will be able to remain in compliance with the terms of its Credit Facility and Subordinated Notes; and that the Company’s reported net income may be subject to significant fluctuations from quarter-to-quarter as a result of the adoption of FSP AUG AIR-1 and with the recent acquisitions of Fokker 100s to the portfolio the fluctuations may have greater magnitude; (iii) in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Factors that May Affect Future Results,” the Company’s statements regarding its belief that it will have sufficient cash funds to make any payment that arises due to borrowing base limitations caused by assets scheduled to come off lease in the near term; that JMC personnel's overall industry experience and its technical resources should permit the Company to effectively manage new aircraft types and engines; that the bulk of the equipment the Company acquires will be used aircraft equipment; that the Company intends to focus on regional air carriers and typically is able to obtain generally higher lease rates from regional carriers than mainline carriers; and that the Company is competitive because of JMC’s experience and operational efficiency in identifying and obtaining financing for the transaction types desired by regional air carriers and that it benefits from JMC’s reputation. These forward-looking statements involve risks and uncertainties, and it is important to note that the Company's actual results could differ materially from those projected or assumed in such forward-looking statements. Among the factors that could cause actual results to differ materially are the factors detailed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Factors That May Affect Future Results," including the compliance of the Company's lessees with obligations under their respective leases, risks related to use of debt financing for acquisitions; general economic conditions, particularly those that affect the air travel industry; the Company’s success in finding additional financing and appropriate assets to acquire with such financing; a sudden weakening in demand for regional aircraft or severe reduction in regional airline capacity; deviations from the assumption that future major maintenance expenses will be relatively evenly spaced over the entire portfolio; and future trends and results which cannot be predicted with certainty. The cautionary statements made in this Report should be read as being applicable to all related forward-looking statements wherever they appear

herein. All forward-looking statements and risk factors included in this document are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update any forward-looking statement or risk factor. You should consult the risk factors listed from time to time in the Company's filings with the Securities and Exchange Commission.

Item 1.Financial Statements.

AeroCentury Corp.
Condensed Consolidated Balance Sheet
Unaudited

ASSETS		
	March 31, 2008	December 31, 2007
Assets:		
Cash and cash equivalents	$ 5,539,200	$ 2,843,200
Accounts receivable, including deferred rent of $298,600 and $675,550 at March 31, 2008 and December 31, 2007, respectively	1,747,700	1,647,700
Aircraft and aircraft engine held for lease, net of accumulated depreciation of $28,870,000 and $26,163,170 at March 31, 2008 and December 31, 2007, respectively	117,242,300	118,924,000
Taxes receivable	1,625,100	1,835,600
Prepaid expenses and other	1,490,700	1,402,300
Total assets	$ 127,645,000	$ 126,652,800
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued expenses	$ 1,387,500	$ 811,000
Notes payable and accrued interest	71,731,400	73,074,500
Maintenance reserves and accrued costs	7,776,400	6,025,500
Security deposits	5,391,000	5,696,500
Prepaid rent	1,037,400	1,028,000
Deferred income taxes	7,711,300	7,649,000
Taxes payable	174,700	228,600
Total liabilities	95,209,700	94,513,100
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 2,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $0.001 par value, 3,000,000 shares authorized, 1,606,557 shares issued and outstanding	1,600	1,600
Paid in capital	15,377,600	15,377,600
Retained earnings	17,560,200	17,264,600
	32,939,400	32,643,800
Treasury stock at cost, 63,300 shares	(504,100)	(504,100)
Total stockholders' equity	32,435,300	32,139,700
Total liabilities and stockholders' equity	$ 127,645,000	$ 126,652,800

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Condensed Consolidated Statements of Operations
Unaudited

	For the Three Months Ended March 31,	
	2008	2007
		(as restated)
Revenues and other income:		
Operating lease revenue	$ 5,893,900	$ 4,283,000
Maintenance reserves income	1,749,500	827,400
Other	179,500	7,400
	7,822,900	5,117,800
Expenses:		
Interest	2,129,200	1,221,700
Depreciation	1,706,900	1,234,800
Management fees	883,400	683,400
Maintenance costs	2,381,400	225,400
Professional fees and general and administrative	278,400	156,300
Other taxes	(79,800)	12,200
Insurance	78,100	26,700
Bad debt expense	-	15,700
	7,377,600	3,576,200
Income before income taxes	445,300	1,541,600
Income tax provision	149,700	517,800
Net income	$ 295,600	$ 1,023,800
Earnings per share:		
Basic	$ 0.19	$ 0.66
Diluted	$ 0.18	$ 0.66
Shares used in per share computations:		
Basic	1,543,257	1,543,257
Diluted	1,624,017	1,543,257

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Condensed Consolidated Statements of Cash Flows
Unaudited

	For the Three Months Ended March 31,	
	2008	2007
		(as restated)
Net cash provided by operating activities	$ 4,563,200	$ 3,060,100
Investing activity -		
Equipment additions to aircraft	(25,300)	-
Net cash used by investing activity	(25,300)	-
Financing activity -		
Repayment of notes payable	(1,841,900)	(3,312,700)
Net cash used by financing activity	(1,841,900)	(3,312,700)
Net increase/(decrease) in cash and cash equivalents	2,696,000	(252,600)
Cash and cash equivalents, beginning of period	2,843,200	3,383,900
Cash and cash equivalents, end of period	$ 5,539,200	$ 3,131,300

During the three months ended March 31, 2008 and 2007, the Company paid interest totaling $1,570,400 and $1,211,900 respectively.

During the three months ended March 31, 2008, the Company paid income taxes totaling $400 and received $210,500 of Federal tax refunds. During the three months ended March 31, 2007, the Company paid income taxes totaling $400.

At March 31, 2008, capital purchases included in accounts payable and accrued expenses were $303,000.

The accompanying notes are an integral part of these statements.

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

1. Organization and Summary of Significant Accounting Policies

(a) Basis of Presentation

AeroCentury Corp., a Delaware corporation (the Company, as defined below) acquires used regional aircraft for lease to foreign and domestic regional carriers. Financial information for AeroCentury Corp. and its wholly-owned subsidiaries, AeroCentury Investments V LLC ("AeroCentury V LLC") and AeroCentury Investments VI LLC ("AeroCentury VI LLC") (collectively, the "Company"), is presented on a consolidated basis. All intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the year ended December 31, 2007.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable for making judgments that are not readily apparent from other sources.

(c) Fair Value of Financial Instruments and Accounting for Derivative Instrument

The Company's financial instruments, other than cash, consist principally of cash equivalents, accounts receivable, accounts payable, amounts borrowed under a credit facility, borrowings under notes payable and a derivative instrument. The fair value of cash, cash equivalents, accounts receivable and accounts payable approximates the carrying value of these financial instruments because of their short-term nature.

Borrowings under the Company's Credit Facility and certain notes payable bear floating rates of interest that reset periodically to a market benchmark rate plus a credit margin. The Company believes the effective rate of the Credit Facility and debt agreements approximates current market rates for such agreements at the balance sheet date. The Company believes the carrying amount of its fixed rate debt approximates fair value at the balance sheet date. As discussed in Note 5, the fair value of the Company's interest rate swap derivative instrument is determined by reference to banker quotations.

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AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

1. Organization and Summary of Significant Accounting Policies (continued)

(d) Recent Accounting Pronouncements

On March 19, 2008, the FASB issued SFAS 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”), which is effective for fiscal years and interim periods beginning after November 15, 2008 and which requires enhanced disclosure about derivatives and hedging transactions. Early adoption is encouraged. SFAS 161 amends SFAS 133, and requires that objectives for using derivative instruments be disclosed in terms of the underlying risk and accounting designation, better conveying the purpose underlying the derivatives use in terms of the risk the reporting entity is intending to manage. It further requires disclosure of the fair value of derivative instruments and their gains or losses in tabular format, information about credit risk-related contingent features providing information on the potential effect on the reporting entity’s liquidity from using derivatives, and cross-referencing within footnotes. The Company has not yet adopted the provisions of SFAS 161. Adoption of SFAS 161 will require additional footnote disclosure but will not impact the amount of gain or loss recognized, or the financial position, of the Company.

The Company adopted SFAS 157, “Fair Value Measurements,” on January 1, 2008. Information regarding the Company’s fair value measurements is presented in Note 5. During February 2008, two FASB Staff Positions (“FSP”) related to implementation of SFAS 157 were issued. SFAS 157 provides guidance on the use of fair value measurements in generally accepted accounting standards. FSP 157-1, “Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13”, amends SFAS 157 to exclude SFAS 13 and other pronouncements that address fair value measurements for purposes of lease classification or amendment from the provisions of SFAS 157, except in the case of a business combination where such measures are governed by SFAS 141. FSP 157-1 is effective upon adoption of SFAS 157. FSP 157-2, “Effective Date of FASB Statement No. 157,” delays the effective date of SFAS 157 for non-financial assets and liabilities that are not recognized or disclosed at fair value, to fiscal years beginning after November 15, 2008 and interim periods within such years. The Company does not believe that adoption of either of these FSPs will have a material effect upon its financial statements.

2. Restatement of Previously Issued Financial Statements – Correction of an Error

In connection with the year-end audit of the Company’s 2007 consolidated financial statements, the Company identified certain errors in the unaudited interim financial statements for each of the fiscal quarters during years 2007 and 2006 and the annual financial statements for the year ended December 31, 2006. The errors principally related to incorrect treatment of two $450,000 non-contingent termination payments due from a lessee under two leases terminating in October 2007 and February 2008, respectively, that should have been recognized as operating lease revenue ratably over the three year terms of the leases.

The Company restated its 2006 and 2007 quarterly and its 2006 annual results to correct the errors and reported the effects of such restatements in its Form 8-K filing dated February 27, 2008.

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

2. Restatement of Previously Issued Financial Statements – Correction of an Error (continued)

The following tables show the effect of that restatement at March 31, 2007 and for the quarter then ended.

Condensed Consolidated Statement of Operations

	For the Quarter Ended March 31, 2007		
	As previously reported	As restated due to correction of an error	Increase/ (decrease)
Operating lease revenue	$ 4,206,800	$ 4,283,000	$ 76,200
Maintenance reserves income	827,400	827,400	-
Other	7,400	7,400	-
	5,041,600	5,117,800	76,200
Interest	1,221,700	1,221,700	-
Depreciation	1,234,800	1,234,800	-
Maintenance	225,400	225,400	-
Management fees	683,400	683,400	-
Professional fees and other	210,900	210,900	-
	3,576,200	3,576,200	-
Income before taxes	1,465,400	1,541,600	76,200
Income tax provision	491,600	517,800	26,200
Net income	$ 973,800	$ 1,023,800	$ 50,000
Earnings per share:			
Basic	$ 0.63	$ 0.66	$ 0.03
Diluted	$ 0.63	$ 0.66	$ 0.03
Shares used in per share computations:			
Basic	1,543,257	1,543,257	1,543,257
Diluted	1,543,257	1,543,257	1,543,257

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

2. Restatement of Previously Issued Financial Statements – Correction of an Error

Condensed Consolidated Statements of Cash Flows

	For the Three Months Ended March 31, 2007		
	As previously reported	As restated due to correction of an error	Increase/ (decrease)
Net cash provided by operating activities	$ 3,060,100	$ 3,060,100	$ -
Financing activity -			
Repayment of notes payable	(3,312,700)	(3,312,700)	-
Net cash used by financing activity	(3,312,700)	(3,312,700)	-
Net increase in cash and cash equivalents	(252,600)	(252,600)	-
Cash and cash equivalents, beginning of period	3,383,900	3,383,900	-
Cash and cash equivalents, end of period	$ 3,131,300	$ 3,131,300	$ -

3. Aircraft and Aircraft Engine Held for Lease

During the three months ended March 31, 2008, the Company did not purchase or sell any aircraft. In January 2008, one of the Company's DHC-8-300 aircraft, which was off lease at December 31, 2007, was re-leased to an existing customer for a 36-month term. The Company also extended the leases for three of its aircraft. In March 2008, another of the Company's deHavilland DHC-8-300 aircraft was returned at lease end and the Company is seeking re-lease opportunities for it. At March 31, 2008, the Company's two Saab 340A aircraft and one turboprop engine were also off lease.

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

4. Maintenance Reserves and Accrued Costs

The accompanying condensed consolidated balance sheet reflects liabilities for maintenance reserves and accrued costs, which include refundable maintenance payments received from lessees based on usage. At March 31, 2008, the Company's maintenance reserves and accruals consisted of the following:

Refundable maintenance reserves	$ 4,565,900
Accrued costs	3,210,500
	$ 7,776,400

Additions to and deductions from the Company's accrued costs during the quarters ended March 31, 2008 and 2007 for aircraft maintenance were as follows:

	For the Three Months Ended March 31,	
	2008	2007
		(as restated)
Balance, beginning of period	$ 1,591,300	$ 3,846,700
Adjustment pursuant to FSP AUG AIR-1	-	(3,499,300)
Balance, beginning of period, adjusted for adoption of FSP AUG AIR-1	1,591,300	347,400
Additions:		
Charged to expense	2,424,000	191,200
Deductions:		
Paid for previously accrued maintenance	804,800	-
Reversals of over-accrued maintenance	-	12,500
	804,800	12,500
Net increase in accrued maintenance costs	1,619,200	178,700
Balance, end of period	$ 3,210,500	$ 526,100

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

5. Notes Payable and Accrued Interest

At March 31, 2008, the Company's notes payable and accrued interest consisted of the following:

Credit Facility principal	$ 58,096,000
Credit Facility accrued interest	90,000
Subordinated Notes principal	10,000,000
Subordinated Notes discount	(2,321,200)
Special purpose financing principal	5,222,600
Special purpose financing accrued interest	7,500
Interest Swap valuation	620,700
Interest Swap interest	15,800
	$ 71,731,400

(a) Credit Facility

During the three months ended March 31, 2008, the Company borrowed $0 and repaid $1,500,000 of the outstanding principal under its revolving credit facility (the "Credit Facility"). As of March 31, 2008, the Company was in compliance with all covenants under the Credit Facility agreement, $58,096,000 in principal amount was outstanding, and interest of $90,000 was accrued.

The weighted average interest rate on the Credit Facility at March 31, 2008 and 2007 was 5.56% and 8.38%, respectively.

(b) Derivative instrument

In December 2007, the Company entered into an interest rate swap (the "Swap") with a notional amount of $20 million, under which it 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.

At March 31, 2008, the Company recognized a $620,700 liability for the Swap on its condensed consolidated balance sheet in notes payable and accrued interest. The Company also recognized both a net settlement amount of $14,300 and a loss of $470,600 for the three months ended March 31, 2008 as a component of interest expense.

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

5. Notes Payable and Accrued Interest (continued)

(b) Derivative instrument (continued)

SFAS No. 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or
liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The following table summarizes the bases used to measure applicable financial assets and liabilities at fair value on a recurring basis in the balance sheet:

	Basis of Fair Value Measurements			
	Balance at March 31, 2008	Quoted prices in active markets for identical items (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Interest rate swap derivative financial instruments (part of Notes payable and accrued interest)	$ 620,700	$ -	$ 620,700	$ -

The Company's interest rate swap agreement effectively converts a portion of the Company's short-term variable rate debt to fixed rate. Under this agreement, the Company pays a fixed rate and receives a variable rate of LIBOR. The fair value of this interest rate derivative is based on quoted prices for similar instruments from a commercial bank and, therefore, the interest rate derivative is considered a level 2 input.

(c) Senior unsecured subordinated debt

As of March 31, 2008, the carrying amount of the senior unsecured subordinated debt ("Subordinated Debt") was $7,678,800 (outstanding principal amount of $10,000,000 less unamortized debt discount of $2,321,200) and accrued interest payable was $0. The Company was in compliance with all covenants under the securities purchase agreement which governs the Subordinated Debt.

AeroCentury Corp.
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2008

5. Notes Payable and Accrued Interest (continued)

(d) Special purpose financings

The Company has two special purpose financings in connection with AeroCentury V LLC and AeroCentury VI LLC. During the three months ended March 31, 2008, AeroCentury V LLC repaid $257,100 of principal. The principal amount owed under the note at March 31, 2008 was $4,198,200 and interest of $6,400 was accrued. During the same period, AeroCentury VI LLC repaid $84,800 of principal. The principal amount owed under that note was $1,024,400 and interest of $1,100 was accrued at March 31, 2008. As of March 31, 2008, the Company was in compliance with all covenants of both note obligations. As discussed in Note 8, in April 2008, the Company repaid the outstanding principal amount due under the AeroCentry V LLC note.

6. Computation of Earnings Per Share

Basic and diluted earnings per share are calculated as follows:

	For the Three Months Ended March 31,	
	2008	2007
		(as restated)
Net income	$ 295,600	$ 1,023,800
Weighted average shares outstanding for the period	1,543,257	1,543,257
Dilutive effect of warrants	80,760	-
Weighted average diluted shares outstanding	1,624,017	1,543,257
Basic earnings per share	$ 0.19	$ 0.66
Diluted earnings per share	$ 0.18	$ 0.66

Basic earnings per common share is computed using net income and the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed using net income and the weighted average number of common shares outstanding, assuming dilution. Weighted average common shares outstanding, assuming dilution, includes potentially dilutive common shares outstanding during the period. Potentially dilutive common shares include the assumed exercise of warrants using the treasury stock method.

7. Related Party Transactions

The Company has no employees. Its portfolio of leased aircraft assets is managed and administered under the terms of a management agreement with JetFleet Management Corp. (“JMC”), which is an integrated aircraft management, marketing and financing business and a subsidiary of JetFleet Holding Corp. ("JHC"). Certain officers of the Company are also officers of JHC and JMC and hold significant ownership positions in both JHC and the Company. The Company recorded management fees of $883,400 and $683,400 for the periods ended March 31, 2008 and 2007, respectively. There were no acquisition or remarketing fees in either quarter.

8. Subsequent Events

In April 2008, the Company repaid the outstanding principal 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 AerioCentury V LLC to AeroCentury Corp., upon which the aircraft will be eligible as collateral under the Credit Facility. Additionally, the leases for the two aircraft have been extended for two years to May 2010.

On May 1, 2008, the stockholders of the Company approved an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 3,000,000 to 10,000,000 shares. On May 6, 2008, the Company filed the amendment with the Delaware Secretary of State effecting such increase.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Company's Form 10-KSB for the year ended December 31, 2007 and the unaudited financial statements and the related notes that appear elsewhere in this report.

Results of Operations for the Fiscal Quarters Ended March 31, 2008 and 2007

a. Revenues

Operating lease revenue was $1,610,900 higher in the three months ended March 31, 2008 versus the same period in 2007, primarily because of increased operating lease revenue from aircraft purchased during 2007 and re-leases during 2007 at increased rental rates for several of the Company's aircraft. The aggregate effect of these increases was partially offset by a decrease in revenue related to aircraft that were off lease for all or part of the 2008 period.

Maintenance reserves income was $922,100 higher in the three months ended March 31, 2008 versus the three months ended March 31, 2007 as a result of the acquisition of aircraft in 2007.

Other income was $172,100 higher in the three months ended March 31, 2008 versus the same period in 2007, primarily as a result of $150,000 of compensation related to a re-lease transaction which was not consummated.

b. Expense items

Interest expense was $907,500 higher in the three months ended March 31, 2008 versus the three months ended March 31, 2007. This is primarily the result of the change in fair value of the Company's interest swap entered into in December 2007 and an increase in the Company's average outstanding debt balance during the first quarter of 2008 compared to the same period in 2007.

Depreciation was $472,100 higher in the first three months of 2008 versus the same period in 2007, primarily because of purchases of aircraft during 2007. Management fees, which are calculated on the net book value of the aircraft owned by the Company, were $200,000 higher in 2008 compared to 2007 because of higher net book values as a result of aircraft acquisitions. The effects of this increase were partially offset by the effect of depreciation on the net book value of the Company's aircraft.

The Company's maintenance expense is dependent on the aggregate amount of the maintenance claims submitted by lessees for reimbursement and expenses incurred in connection with off-lease aircraft. As a result of higher total lessee claims, the Company incurred $2,156,000 more in maintenance expense in the first three months of 2008 versus 2007.

Total professional fees and general and administrative expenses were $122,100 higher in the three months ended March 31, 2008 versus the same period in 2007, primarily because of additional costs incurred in connection with the audit of the Company's 2007 financial statements.

The Company records non-income based sales, use, value-added and franchise taxes as other tax expense. Such expenses were $92,000 lower in the first three months of 2008 versus 2007 because, in 2008, the Company completed further analysis and reduced the accruals for value-added taxes, penalties and interest due in connection with an aircraft leased in Australia in the amount of $113,700.

The Company's insurance expense consists primarily of directors and officers insurance, as well as product liability insurance and insurance for off-lease aircraft and aircraft engines, which varies depending on the type and length of

time each off-lease asset is insured. Aircraft insurance expense was $36,700 higher in the three months ended March 31, 2008 versus the same period in 2007 as a result of off-lease assets.

The Company recorded no bad debt expense during the first three months of 2008. During the same period of 2007, the Company recorded bad debt expense of $15,700 for maintenance reserves that were written off in connection with a lessee's early return of two aircraft.

The Company's effective tax rates for thee months ended March 31, 2008 and 207 were approximately 34% for both periods.

Liquidity and Capital Resources

The Company is currently financing its assets primarily through debt borrowings, special purpose financing and excess cash flows.

(a) Credit Facility

During the three months ended March 31, 2008, the Company borrowed $0 and repaid $1,500,000 of the outstanding principal under its revolving credit facility (the "Credit Facility"). The balance of the principal amount owed under the Credit Facility at March 31, 2008 was $58,096,000 and interest of $90,000 was accrued.

The Company is currently in compliance with all covenants and, based on its current projections, the Company believes it will continue to be in compliance with all covenants of its Credit Facility, but there can be no assurance of such compliance in the future. See "Factors That May Affect Future Results – 'Risks of Debt Financing' and 'Credit Facility Obligations,'" below.

The Company's interest expense in connection with the Credit Facility generally moves up and down with prevailing interest rates. Because aircraft owners seeking financing generally can obtain financing through either leasing transactions or traditional secured debt financings, prevailing interest rates are a significant factor in determining market lease rates, and market lease rates generally move up or down with prevailing interest rates, assuming supply and demand of the desired equipment remain constant. However, because lease rates for the Company's assets typically are fixed under existing leases, the Company normally does not experience any positive or negative impact in revenue from changes in market lease rates due to interest rate changes until existing leases have terminated and new lease rates are set as aircraft are re-leased. As discussed in (b) below, the Company entered into an interest rate swap in December 2007.

(b) Derivative instrument

In December 2007, the Company entered into an interest rate swap (the "Swap") with a notional amount of $20 million, under which it 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.

At March 31, 2008, the Company recognized a $620,700 liability for the Swap on its condensed consolidated balance sheet in Notes Payable and Accrued Interest. The Company also recognized both a net settlement amount of $14,300 and a loss of $470,600 for the three months ended March 31, 2008 as a component of interest expense. If short-term interest rates continue to decline, the Company will incur additional interest expense as a result of the Swap.

(c) Senior unsecured subordinated debt

As of March 31, 2008, the carrying amount of the senior unsecured subordinated debt ("Subordinated Debt") was $7,678,800 (outstanding principal amount of $10,000,000 less unamortized debt discount of $2,321,200) and accrued interest payable was $0. As of March 31, 2008, the Company was in compliance with all covenants under the Securities Purchase Agreement and is currently in compliance.

(d) Special purpose financings

The Company has two special purpose financings in connection with AeroCentury V LLC and AeroCentury VI LLC. During the three months ended March 31, 2008, AeroCentury V LLC repaid $257,100 of principal. The principal amount owed under the note at March 31, 2008 was $4,198,200 and interest of $6,400 was accrued. During the same period, AeroCentury VI LLC repaid $84,800 of principal. The principal amount owed under that note was $1,024,400 and interest of $1,100 was accrued at March 31, 2008. As of March 31, 2008, the Company was in compliance with all covenants of both note obligations and is currently in compliance.

(e) Cash flow

The Company's primary source of revenue is lease rentals of its aircraft assets. It is the Company's policy to monitor each lessee's needs in periods before leases are due to expire. If it appears that a customer will not be renewing its lease, the Company immediately initiates marketing efforts to locate a potential new lessee or purchaser for the aircraft assets, in an attempt to reduce the time that an asset will be off lease. The Company's aircraft assets are subject to leases with varying expiration dates through January 2012. At March 31, 2008, the Company's two Saab 340A aircraft, one of its deHavilland DHC-8-300 aircraft and one turboprop engine were off lease.

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 financing and special purpose financings, based upon its estimates of future revenues and expenditures. The Company's expectations concerning such cash flows are based on existing lease terms and rents, as well as numerous estimates, including (i) rents on assets to be re-leased, (ii) timely use of proceeds of unused debt capacity toward additional acquisitions of income producing assets, and (iii) the cost and anticipated timing of maintenance to be performed. While the Company believes that the assumptions it has made in forecasting its cash flow are reasonable in light of experience, actual results could deviate from such assumptions. Among the more significant external factors outside the Company's control that could have an impact on the accuracy of cash flow assumptions are (i) an increase in interest rates that negatively affects the Company's profitability and causes the Company to violate covenants of its Credit Facility or its Subordinated Notes, which may in turn require repayment of some or all of the amounts outstanding under the Credit Facility or the Subordinated Notes, (ii) lessee non-performance or non-compliance with lease obligations (which may affect Credit Facility collateral limitations and Subordinated Notes covenants, as well as revenue and expenses) and (iii) inability to locate and acquire a sufficient volume of additional aircraft assets at prices that will produce acceptable net returns.

(i) Operating activities

The Company's cash flow from operations for the three months ended March 31, 2008 versus 2007 increased by $1,503,100. The change in cash flow is a result of changes in several cash flow items during the year, including principally the following:

Lease rents, maintenance reserves and security deposits

Payments received from lessees for rent were $1,944,300 higher in the three months ended March 31, 2008 versus 2007, due primarily to the effect of increased payments for aircraft purchased during 2007, and re-leases during 2007 at increased rental rates for several of the Company's aircraft. The aggregate effect of these increases was partially offset by a decrease in revenue related to aircraft that were off lease for all or part of the 2008 period.

Although increased demand generally in the turboprop market has caused lease rates to stabilize and, in some cases, rise, there can be no assurance that rental rates on aircraft to be re-leased will not decline, so that, absent additional acquisitions by the Company beyond those made in 2007, aggregate lease revenues for the current portfolio could

decline in the future.

Payments received for refundable and non-refundable maintenance reserves were $795,000 higher in the first three months of 2008 than in the first three months of 2007 as a result of a net increase in average aircraft usage by the Company's lessees, on which the amount of reserves is based, and additional usage in connection with aircraft acquired in 2007.

During the three months ended March 31, 2008, the Company returned a $308,000 security deposit to a lessee upon return of an aircraft at lease end. During the same period in 2007, the Company neither collected nor refunded any security deposits.

Payments for maintenance

Payments for maintenance were $615,600 higher in the first three months of 2008 versus the same period in 2007 primarily as a result of higher payments during 2008 in connection with maintenance reserves claims submitted by lessees. The amount of payments for maintenance in future periods will be dependent on the amount and timing of maintenance paid from lessee maintenance reserves held by the Company and maintenance paid for off-lease aircraft.

Payments for interest

Payments for interest increased by $358,500 in the first three months of 2008 compared to the same period in 2007, primarily as a result of an increase in the Company's outstanding indebtedness under the Subordinated Notes and Credit Facility in 2008. The effects of these increases were partially offset by a decrease in the average index rates upon which the Company's senior debt interest rates were based and a lower margin in 2008 compared to 2007.

Interest payments in future periods will be determined by prevailing interest rates and the aggregate principal balance owed under the Credit Facility and the Subordinated Notes, which may be influenced by future acquisitions and/or required repayments of principal resulting from changes in the collateral base pursuant to the Company's debt agreements with its lenders. Interest expense will increase significantly when further borrowings are made under the Credit Facility and the Subordinated Notes.

Payments for management fees

Payments for management fees increased by $231,100 in the three months ended March 31, 2008 versus the same period in 2007 because of higher net book values as a result of aircraft acquisitions.

Income taxes

During the three months ended March 31, 2008, the Company received $210,500 of Federal tax refunds. The Company paid taxes of $400 in the three months ended March 31, 2008 and 2007.

(ii) Investing activities

During the three months ended March 31, 2008 and 2007, the Company used cash of $25,300 and $0, respectively, for capital equipment installed on aircraft.

(iii) Financing activities

The Company did not borrow funds in the first three months of 2008 or 2007. The Company repaid $1,841,900 and $3,312,700 of its outstanding indebtedness in the three months ended March 31, 2008 and 2007, respectively.

Outlook

The Company is required to borrow an additional $18 million under its Subordinated Notes financing on or before June 30, 2008. Because the Subordinated Notes bear fixed interest of 16% per annum immediately upon issuance, an important factor in the Company's near- and mid-term results will be the Company's ability to expediently locate and acquire additional assets utilizing these funds. It is likely that the remaining Subordinated Notes proceeds will be used to repay a portion of the indebtedness outstanding under the Credit Facility. Since the Credit Facility interest rate is now, and is likely to continue to be, lower than the Subordinated Notes fixed rate, using Subordinated Notes proceeds to pay down Credit Facility debt would probably result in a higher effective interest rate and interest expense, without a corresponding increase in operating revenue. Acquisitions occurring after the June 30, 2008 Subordinated Notes issuance would be financed from funds available under the Credit Facility. The Company anticipates that the available debt capacity will be sufficient to fund planned acquisitions for 2008.

In March 2007, the Company and the lessee of two aircraft, which had leases expiring in May and July 2008, agreed to an early return of the aircraft based on the lessee's financial difficulties. The Company is seeking re-lease or sale opportunities for these aircraft. There is no assurance as to when the Company will be successful in its efforts to re-lease or sell the aircraft, but the Company believes that, even if the aircraft are off lease for an extended period of time, it will be able to remain in compliance with the terms of its Credit Facility and Subordinated Notes. Since the lessee of the aircraft has essentially ceased operations, the Company may incur significant unreimbursed expense in order to prepare the aircraft for re-lease or resale, which is expected to total approximately $600,000 based on current estimates.

One of the Company's aircraft leases expired during the first quarter of 2008 and the Company is seeking re-lease opportunities for it. Three of the Company's other leases expire in 2008. The Company believes that it will be successful in extending the leases for these aircraft or be able to re-lease them within an acceptable period after return at lease end and that, even if the aircraft are off lease for an extended period of time, it will be able to remain in compliance with the terms of its Credit Facility and Subordinated Notes.

The Company continually monitors the financial condition of its lessees to avoid unanticipated creditworthiness issues, and where necessary, works with lessees to ensure continued compliance with obligations under their respective leases. Currently, the Company is closely monitoring the performance of three lessees with a total of four aircraft under lease. The Company continues to work closely with these lessees to ensure compliance with their current obligations. If any of the Company's current lessees are unable to meet their lease payment obligations, the Company's future results could be materially impacted. Any weakening in the aircraft industry may also affect the performance of lessees that currently appear to the Company to be creditworthy. See "Factors that May Affect Future Results – General Economic Conditions," below.

Beginning on January 1, 2007, due to the adoption of FSP AUG AIR-1, the Company began to accrue non-refundable maintenance reserves received from lessees as income based on aircraft usage and record maintenance expenses as incurred. The Company accrues estimated maintenance costs based on information provided by its third party lessees and, accordingly, estimates of such expenses depend on timely and accurate reporting by such parties. The Company believes that its reported net income may be subject to significant fluctuations from quarter-to-quarter as a result of the adoption of FSP AUG AIR-1. Due to the recent acquisition of Fokker 100 jet engine powered aircraft, the magnitude of these fluctuations may be greater as a result of the higher maintenance reserve rates and related maintenance expense for jet engines as compared to turboprop engines.

Factors that May Affect Future Results

Risks of Debt Financing. The Company's use of debt as the primary form of acquisition financing subjects the Company to increased risks of leveraging. Indebtedness owed under the Credit Facility is secured by the Company's existing assets as well as the specific assets acquired with each financing. In addition to payment obligations, the Credit Facility also requires the Company to comply with certain financial covenants, including a requirement of positive earnings, interest coverage and net worth ratios. Any default under the Credit Facility, if not waived by the lenders, could result in foreclosure upon not only the asset acquired using such financing, but also the existing assets of the Company securing the loan. Any such default could also result in a cross default under the Subordinated Notes.

The addition of the Subordinated Notes debt, while providing additional resources for acquisition by the Company of revenue generating assets, also has the effect of increasing the Company's overall cost of capital, as the Subordinated Notes bear an effective overall interest rate that is currently higher than the rate charged on the Credit Facility. Since the Subordinated Notes bear interest immediately upon issuance, the Company's success in utilizing the proceeds to purchase income generating assets will be critical to the financial results of the Company. The agreement under which the Subordinated Notes were issued also contains financial and other covenants which, if violated, could cause a default under the Subordinated Notes.

Credit Facility Obligations. The Company is obligated to make repayments of principal under the Credit Facility in order to maintain certain debt ratios with respect to its assets in the borrowing base. Assets that come off lease and remain off-lease for a period of time, as well as assets with lease payments more than 30 days past due, are excluded from the borrowing base. The Company believes it will have sufficient cash funds to make any payment that arises due to borrowing base limitations caused by assets scheduled to come off lease in the near term. The Company's belief is based on certain assumptions regarding renewal of existing leases, a lack of extraordinary interest rate increases, continuing profitability, no lessee defaults or bankruptcies, and certain other matters that the Company deems reasonable in light of its experience in the industry. There can be no assurance that the Company's assumptions will prove to be correct. If the assumptions are incorrect (for example, if an asset in the collateral base unexpectedly goes off lease for an extended period of time) and the Company has not obtained an applicable waiver or amendment of applicable covenants from its lenders to mitigate the situation, the Company may have to sell a significant portion of its portfolio in order to maintain compliance with covenants or face default on its Credit Facility.

Investment in New Aircraft Types. The Company has traditionally invested in a limited number of types of turboprop aircraft and engines. While the Company intends to continue to focus solely on regional aircraft and engines, the Company has 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 by the Company entails greater ownership risk due to the Company's lack of experience managing those aircraft and engine types. The Company believes, however, that JMC personnel's overall industry experience and its technical resources should permit the Company to effectively manage such new aircraft types and engines. Further, the broadening of the asset types in the aircraft portfolio may have a benefit of diversifying the Company's portfolio (See "Factors That May Affect Future Results – Concentration of Lessees and Aircraft Type," below).

General Economic Conditions. The Company's business is dependent upon general economic conditions and the strength of the travel and transportation industry. The industry appears to be entering a period of financial difficulty and contraction caused primarily by record-high fuel prices. A number of carriers have ceased operations due to the inability to cover increased costs, and a possible global economic recession, which will certainly affect carriers' revenue, may result in more failures.

A widespread economic setback in the industry may result in the increased possibility of an economic failure of one or more of the Company's lessees. If lessees experience financial difficulties, this could, in turn, affect the Company's financial performance.

During any 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 corresponding decrease in market lease rental rates and aircraft values. This reduced market value for aircraft could affect the Company's results if the market value of an asset or assets in the Company's aircraft portfolio falls below carrying value, and the Company determines that a write-down of the value on the Company's balance sheet is appropriate. Furthermore, as older leases expire and are replaced by lease renewals or re-leases at decreasing lease rates, the lease revenue from the Company's existing portfolio is likely to decline, with the magnitude of the decline dependent on the length of the downturn and the depth of the decline in market rents.

Economic downturns can affect specific regions of the world exclusively. As the Company's portfolio is not entirely globally diversified, a localized downturn in one of the key regions in which the Company leases aircraft (e.g., Latin America or Europe) could have a significant adverse impact on the Company.

Warrant Issuance. As part of the Subordinated Notes financing, the Company issued warrants to purchase up to 171,473 shares of the Company's common stock, which represents 10% of the post-exercise fully diluted capitalization of the Company as of the initial closing of the Subordinated Notes financing. The exercise price under the Warrants is $8.75 per share. If the warrants to purchase shares are exercised, there could be dilution to the existing holders of Common Stock. This dilution of the Company's common stock could depress its trading price.

Concentration of Lessees and Aircraft Type. Currently, the Company's five largest customers are located in Mexico, Antigua, Netherlands Antilles, Sweden and Belgium and currently account for approximately 18%, 16%, 11%, 11% and 10%, respectively, of the Company's monthly lease revenue. A lease default by or collection problem with one or a combination of any of these significant customers could have a disproportionate negative impact on the Company's financial results, and therefore, the Company's operating results are especially sensitive to any negative developments with respect to these customers in terms of lease compliance or collection. Such concentration of lessee credit risk decreases as the Company leases additional assets to new lessees.

Currently, the Company owns eight DHC-8-300, fourteen Fokker 50 and five Fokker 100 aircraft, making these three aircraft types the dominant types in the portfolio and representing 28%, 26% and 26%, respectively, based on net book value. As a result, a change in the desirability and availability of any of these types of aircraft, which would in turn affect valuations of such aircraft, would have a disproportionately large impact on the Company's portfolio value. Such aircraft type concentration will diminish if the Company acquires additional assets of other types. Conversely, acquisition of these types of aircraft will increase the Company's risks related to its concentration of those aircraft types.

Lessee Credit Risk. If a customer defaults upon its lease obligations, the Company may be limited in its ability to enforce remedies. Most of the Company's 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 a material adverse effect on the Company's revenue. If a lessee that is a certified U.S. airline is in default under the lease and seeks protection under Chapter 11 of the United States Bankruptcy Code, Section 1110 of the Bankruptcy Code would automatically prevent the Company from exercising any remedies for a period of 60 days. After the 60-day period has passed, the lessee must agree to perform the obligations and cure any defaults, or the Company will have the right to repossess the equipment. This procedure under the Bankruptcy Code has been subject to significant litigation, however, and it is possible that the Company's enforcement rights may be further adversely affected by a declaration of bankruptcy by a defaulting lessee. Most of the Company's lessees are foreign and not subject to U.S. bankruptcy laws but there may be similar applicable foreign bankruptcy debtor protection schemes available to foreign lessees.

Leasing Risks. The Company's successful negotiation of lease extensions, re-leases and sales may be critical to its ability to achieve its financial objectives, and involves a number of risks. Demand for lease or purchase of the assets depends on the economic condition of the airline industry which is, in turn, sensitive to general economic conditions. The ability to remarket equipment at acceptable rates may depend on the demand and market values at the time of remarketing. The Company anticipates that the bulk of the equipment it acquires will be used aircraft equipment. The market for used aircraft equipment is cyclical, and generally reflects economic conditions and the strength of the travel and transportation industry. The demand for and value of many types of used aircraft in the recent past has been depressed by such factors as airline financial difficulties, increased fuel costs, the number of new aircraft on order and the number of aircraft coming off-lease. Values may also increase for certain aircraft types that become desirable based on market conditions and changing airline capacity. If the Company were to purchase an aircraft during a period of increasing values, it would in turn need to lease such aircraft at a corresponding higher lease rate.

Risks Related to Regional Air Carriers. Because the Company has concentrated its existing leases, and intends to continue to concentrate future leases, on regional air carriers, it is subject to additional risks. Some of the lessees in the regional air carrier market are companies that are start-up, low capital, low margin operations. Often, the success of such carriers is dependent upon contractual arrangements with major trunk carriers or franchises from governmental agencies that provide subsidies for operating essential air routes, both of which may be subject to termination or cancellation with short notice periods. Because of this exposure, the Company typically is able to obtain generally higher lease rates from these types of lessees. In the event of a business failure or bankruptcy of the lessee, the Company can generally regain possession of its aircraft, but the aircraft could be in substantially worse condition than would be the case if the aircraft were returned in accordance with the provisions of the lease at lease

expiration.

The Company evaluates the credit risk of each lessee carefully, and attempts to obtain a third party guaranty, letters of credit or other credit enhancements, if it deems them necessary in addition to customary security deposits. There is no assurance, however, that such enhancements will be available or that, if obtained, they will fully protect the Company from losses resulting from a lessee default or bankruptcy. Also, a significant area of market growth is outside of the United States, where collection and enforcement are often more difficult and complicated than in the United States. If any of the Company's current or future lessees are unable to meet their lease obligations, the Company's future results could be materially impacted.

Interest Rate Risk. 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. 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 as well.

The Company has chosen to hedge some, but not all, of its variable interest rate exposure. Nonetheless, 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 Creit Facility or indebtedness of one of its special purpose subsidiaries. Furthermore, a drop in prevailing LIBOR rates would cause the hedge transaction to have a negative impact on the Company's results. If the one-month LIBOR rate applicable for an interest period is below the fixed swap rate set in the hedge, the Company will be obligated to pay the swap counterparty the difference between the fixed swap rate of 4.04% and that one-month LIBOR rate. As of May 14, 2008, the one-month LIBOR rate was 2.505%.

International Risks. The Company has focused on leases in overseas markets. Leases with foreign lessees, however, may present 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. The Company could experience collection or repossession problems related to the enforcement of its lease agreements under foreign local laws and remedies in foreign jurisdictions. The protections potentially offered by Section 1110 of the Bankruptcy Code do not apply to non-U.S. carriers, and applicable local law may not offer similar protections. Certain countries do not have a central registration or recording system with which to locally establish the Company's interest in equipment and related leases. This could make it more difficult for the Company to recover an aircraft in the event of a default by a foreign lessee.

A lease with a foreign lessee is subject to risks related to the economy of the country or region in which such lessee is located, which may be weaker than the U.S. economy. On the other hand, a foreign economy may remain strong even though the U.S. economy does not. A foreign economic downturn may impact a foreign lessee's ability to make lease payments, even though the U.S. and other economies remain stable.

Furthermore, foreign lessees are subject to risks related to currency conversion fluctuations. Although the Company's current leases are all payable in U.S. dollars, the Company may agree in the future to leases that permit payment in foreign currency, which would subject such lease revenue to monetary risk due to currency fluctuations. In addition, if the Company undertakes certain obligations under a lease to contribute to a repair or improvement and if the work is performed in a foreign jurisdiction and paid for in foreign currency, currency fluctuations causing a weaker dollar between the time such agreement is made and the time payment for the work is made may result in an unanticipated increase in dollar cost for the Company.

Even with U.S. dollar-denominated lease payment provisions, the Company could still be affected by a devaluation of the lessee's local currency that would make it more difficult for a lessee to meet its U.S. dollar-denominated lease payments, increasing the risk of default of that lessee, particularly if its revenue is primarily derived in the local currency.

Finally, ownership of a leased asset operating in a foreign country and/or by a foreign carrier may subject the Company to additional tax liabilities that are not present with domestically operated aircraft. Depending on the jurisdiction, laws governing such tax liabilities may be complex or not well formed or not uniformly enforced. In such jurisdictions, the Company may decide to take an uncertain tax position based on the best advice of the local tax

experts it engages, which position may be challenged by the taxing authority. If the taxing authority later assesses a liability, the Company may be required to pay penalties and interest on the assessed amount, which penalties and interest would not give rise to a corresponding foreign tax credit on the Company's U. S. tax return.

Reliance on JMC. All management of the Company is performed by JMC under the Management Agreement, which is in the eleventh year of a 20-year term and provides for an asset-based management fee. JMC is not a fiduciary to the Company or its stockholders. The Company's Board of Directors has ultimate control and supervisory responsibility over all aspects of the Company and owes fiduciary duties to the Company and its stockholders. The Board has no control over the internal operations of JMC, but the Board does have the ability and responsibility to manage the Company's relationship with JMC and the performance of JMC's obligations to the Company under the Management Agreement, as it would have for any third party service provider to the Company. While JMC may not owe any fiduciary duties to the Company by virtue of the Management Agreement, all of the officers of JMC are also officers of the Company, and in that capacity owe fiduciary duties to the Company and its stockholders. In addition, certain officers of the Company hold significant ownership positions in the Company and JHC, the parent company of JMC.

The Management Agreement may be terminated if JMC defaults on its obligations to the Company. However, the agreement provides for liquidated damages in the event of its wrongful termination by the Company. All of the officers of JMC are also officers of the Company, and certain directors of the Company are also directors of JMC. Consequently, the directors and officers of JMC may have a conflict of interest in the event of a dispute between the Company and JMC. Although the Company has taken steps to prevent conflicts of interest arising from such dual roles, such conflicts may still occur.

JMC has acted as the management company for two other aircraft portfolio owners, JetFleet III, which raised approximately $13,000,000 in bond issuance proceeds, and AeroCentury IV, Inc. ("AeroCentury IV"), which raised approximately $5,000,000 in bond issuance proceeds. In the first quarter of 2002, AeroCentury IV defaulted on certain bond obligations. In June 2002, the indenture trustee for AeroCentury IV's bondholders repossessed AeroCentury IV's assets and took over management of AeroCentury IV's remaining assets. JetFleet III defaulted on its bond obligation of $11,076,350 in May 2004. The indenture trustee for JetFleet III bondholders repossessed JetFleet III's unsold assets in late May 2004.

Ownership Risks. The Company's portfolio is leased under operating leases, where the terms of the leases are less than the entire anticipated useful life of an asset. The Company's ability to recover its purchase investment in an asset subject to an operating lease is dependent upon the Company's ability to profitably re-lease or sell the asset after the expiration of the initial lease term. Some of the factors that have an impact on the Company's ability to re-lease or sell include worldwide economic conditions, general aircraft market conditions, regulatory changes that may make an asset's use more expensive or preclude use unless the asset is modified, changes in the supply or cost of aircraft equipment and technological developments which cause the asset to become obsolete. In addition, a successful investment in an asset subject to an operating lease depends in part upon having the asset returned by the lessee in the condition as required under the lease. If the Company is unable to remarket its aircraft equipment on favorable terms when the operating leases for such equipment expire, the Company's business, financial condition, cash flow, ability to service debt and results of operations could be adversely affected.

Furthermore, an asset impairment charge against the Company's earnings may result from the occurrence of unexpected adverse changes that impact the Company's estimates of expected cash flows generated from such asset. The Company periodically reviews long-term assets for impairment, in particular, when events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the carrying amount of an asset is not recoverable and exceeds its fair value. The Company may be required to recognize asset impairment charges in the future as a result of a prolonged weak economic environment, challenging market conditions in the airline industry or events related to particular lessees, assets or asset types.

Government Regulation. There are a number of areas in which government regulation may result in costs to the Company. These include aircraft registration, safety requirements, required equipment modifications, and aircraft noise requirements. Although it is contemplated that the burden and cost of complying with such requirements will fall primarily upon lessees of equipment, there can be no assurance that the cost will not fall on the Company. Furthermore, future government regulations could cause the value of any non-complying equipment owned by the Company to decline substantially.

Competition. The aircraft leasing industry is highly competitive. The Company competes with aircraft manufacturers, distributors, airlines and other operators, equipment managers, leasing companies, equipment leasing programs, financial institutions and other parties engaged in leasing, managing or remarketing aircraft, many of which have significantly greater financial resources. However, the Company believes that it is competitive because of JMC's experience and operational efficiency in identifying and obtaining financing for the transaction types desired by regional air carriers. This market segment, which is characterized by transaction sizes of less than $10 million and lessee creditworthiness that may be strong, but generally unrated, is not well served by the Company's larger competitors. JMC has developed a reputation as a global participant in this segment of the market, and the Company believes that JMC's reputation benefits the Company. There is, however, no assurance that the lack of significant competition from larger aircraft leasing companies will continue or that JMC's reputation will continue to be strong in this market segment.

Casualties, Insurance Coverage. The Company, as owner of transportation equipment, 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, since the lessee would be responsible for, insure against and indemnify the Company for such claims. Further, some protection may be provided by the United States Aviation Act with respect to the Company's aircraft assets. It is, however, not clear to what extent such statutory protection would be available to the Company, and the United States Aviation Act may not apply to aircraft operated in foreign countries. Also, although the Company's leases generally require a lessee to insure against likely risks, there may be certain cases where the loss is not entirely covered by the lessee or its insurance. Though this is a remote possibility, an uninsured loss with respect to the equipment, or an insured loss for which insurance proceeds are inadequate, would result in a possible loss of invested capital in and any profits anticipated from, such equipment, as well as a potential claim directly against the Company.

Possible Volatility of Stock Price. The market price of the Company’s common stock has been subject to fluctuations in response to the Company’s operating results, changes in general conditions in the economy, the financial markets, the airline industry, changes in accounting principles or tax laws applicable to the Company or its lessees, or other developments affecting the Company, its customers or its competitors, some of which may be unrelated to the Company’s performance. Also, because the Company has a relatively small capitalization of approximately 1.5 million shares outstanding, there is a correspondingly limited amount of trading of the Company’s shares. Consequently, a single or small number of trades could result in a market fluctuation not related to any business or financial development concerning the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This report does not include information described under Item 3 of Form 10-Q pursuant to the rules of the Securities and Exchange Commission that permit “smaller reporting companies” to omit such information.

Item 4T. Controls and Procedures.

Quarterly evaluation of the Company’s Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company evaluated the effectiveness of the design and operation of its “disclosure controls and procedures” (“Disclosure Controls”). This evaluation (the “Controls Evaluation”) was done under the supervision and with the participation of management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Rules adopted by the Securities and Exchange Commission (“SEC”) require that in this section of the report, the Company present the conclusions of the CEO and the CFO about the effectiveness of our Disclosure Controls as of March 31, 2008.

Disclosure Controls. Disclosure Controls are procedures that are designed with the objective of ensuring that information required to be disclosed in the Company’s reports filed under the Securities Exchange Act of 1934 (the “Exchange Act”), such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to the Company’s management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Disclosure Controls. The Company’s management, including the CEO and CFO, does not expect that its Disclosure Controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Scope of the Controls Evaluation. The CEO/CFO evaluation of the Company’s Disclosure Controls included a review of the controls objectives and design, the controls implementation by the Company and the effect of the controls on the information generated for use in this report. In the course of the Controls Evaluation, the CEO and CFO sought to identify data errors, controls problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation is be done on a quarterly basis so that the conclusions concerning controls effectiveness can be reported in the Company’s quarterly reports on Form 10-Q and annual report on Form 10-K. The overall goals of these various evaluation activities are to monitor the Company’s Disclosure Controls and to make modifications as necessary; the Company’s intent in this regard is that the Disclosure Controls and the Internal Controls will be maintained as dynamic systems that change (reflecting improvements and corrections) as conditions warrant.

Conclusions. Based upon the Controls Evaluation, the Company’s CEO and CFO have concluded that, as of March 31, 2008, the Company’s Disclosure Controls are effective to ensure that the information required to be disclosed by the

Company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms and then accumulated and communicated to Company management, including the CEO and CFO, as appropriate to make timely decisions regarding required disclosures.

Changes in Internal Controls Over Financial Reporting. In accordance with SEC requirements, the CEO and CFO note that there has been no significant change in the Company's internal controls over financial reporting that occurred during the first quarter that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 6. Exhibits

Exhibits

Exhibit Number	Description
3.6	Form of Certificate of Amendment of Certificate of Incorporation, incorporated herein by reference to Exhibit 99.1 of the Company's Report on Form 8-K filed with the Securities & Exchage Commission on May 7, 2008
31.1	Certification of Neal D. Crispin, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Toni M. Perazzo, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Neal D. Crispin, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Toni M. Perazzo, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* These certificates are furnished to, but shall not be deemed to be filed with, the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AEREOCENTURY CORP.

Date: May 15, 2008	By:	/s/ Toni M. Perazzo Name: Toni M. Perazzo Title: Sr. Vice President - Finance and CFO