

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

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Research Report Update

AeroCentury Corp.

Rating: Buy

Howard Halpern

ACY - \$6.00- (AMEX)

August 15, 2001

	FYE 12/99	FYE 12/00**	FYE 12/01*	FYE 12/02*
Revenues (millions)	\$7.4	\$12.1	\$10.7	\$10.9
Earnings per share (diluted)	\$0.90	\$1.08	\$1.08	\$1.20
52week range		\$6.75 – \$4.38	Fiscal year ends:	December
Shares outstanding		1.54million	Revenue/shares (TTM)	\$7.96
Trading float		1.20 million	Price/Sales (TTM)	0.75X
Institutional ownership		8%	Price/Sales (2001)*	0.87X
Estimated book value/share <small>a/o 6/31/01</small>		\$11.31	Price/Earnings (2001)*	5.6X
Price/Book		0.53X	Price/Earnings (2002)*	5.0X

* Taglich Brothers Estimates ** Includes write-down of two aircrafts to market value

AeroCentury Corp., is engaged in the business of ownership, management, leasing and acquisition of aircraft, focused on used commercial turboprop aircraft equipment for lease to domestic and foreign regional air carriers. Web-site address is: www.aerocentury.com

Key investment considerations:

- We are reiterating our Buy rating on AeroCentury (ACY) and have a 15-month price target of \$10.75. We continue to believe that this equity has solid upside potential based on its current book value and on our earnings per share estimate for 2002.
- The Company is undervalued on a P/E, Price/Sales, and Price/Book basis. Currently, the Company's peers are trading at 11.3X trailing twelve months (TTM) earnings, while ACY is trading at only 5.0X our earnings per share estimate for 2002.
- Second quarter revenues were \$2.71 million and net income was \$0.506 million or \$0.33 per fully diluted share. Revenues exceeded our forecast by \$90,000, while net income exceeded our forecast of \$0.280 million or \$0.18 per fully diluted share.
- Management is focused on its portfolio of aircraft and as a result the Company has been able to re-lease three aircraft to new customers and extend the lease on a fourth aircraft.
- AeroCentury has four aircraft off lease and one additional aircraft with lease terms that will expire by the end of 2001. This circumstance continues to limit the Company's ability to increase its asset base and grow its earnings. We believe that for 2001, revenues will be \$10.7 million and net income will be \$1.67 million or \$1.08 per fully diluted share. Our estimate for 2002 is for revenues of \$10.9 million and net income of \$1.86 million or \$1.20 per fully diluted share.

* Please view our disclaimer located at the end of the text portion of this report.

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Recent Financials

AeroCentury reported second quarter revenues of \$2.71 million, compared to \$2.72 million in the second quarter last year. The Company reported net income of \$0.506 million or \$0.33 per share, versus net income of \$0.501 million or \$0.32 per fully diluted share in the prior year.

Total revenues exceeded Taglich Brothers' estimate of \$2.615 million. Also, net income and earnings per share exceeded Taglich Brothers' estimates of \$0.280 million or \$0.18 per fully diluted share.

Second quarter results exceeded our expectations due to total expenses as a percent of rental income declining to 74.6% versus 75.2% in last year's second quarter.

At the end of second quarter, cash and cash equivalents were \$0.97 million. During 2000, the Company signed an agreement with a new agent for a revolving line of credit totaling \$50 million. This credit facility will expire on June 28, 2003. As long as management is able to keep its assets on lease and interest rates remain stable, cash flow should be sufficient to cover management fees, professional fees, and interest expense. A balloon principal payment in connection with the special purpose financing of two aircraft is due at the time the leases expire during the first quarter of 2002. The financing of this payment will depend on the Company's ability to sell or re-lease the aircraft, which serve as collateral. We will continue to update the status of the aircraft involved over the next two quarters of 2001.

Recent Events

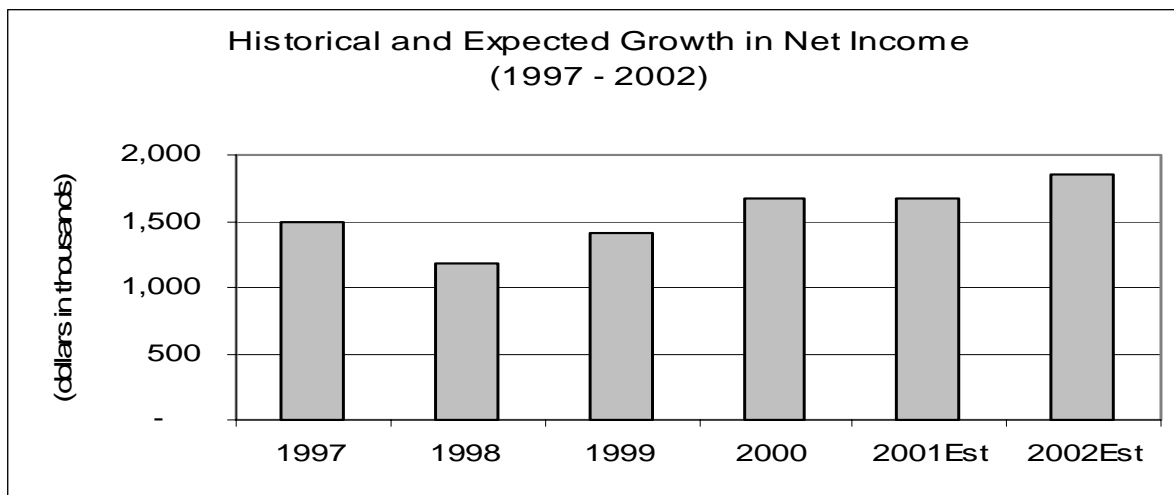
During the second quarter of 2001, the Company signed an agreement for the re-lease of one of its Shorts SD 3-60 aircraft. The lessee took possession of the aircraft before the end of June 2001. As of the end of the second quarter, the Company has two Shorts SD 3-60 aircraft available for re-lease or sale.

Also, the Company currently has two DHC-7 aircraft available for sale or re-lease. These two aircraft became available for sale or re-lease after their return inspections were completed on May 31, 2001.

Projections

We believe that revenues for 2001 will be approximately \$10.7 million (excluding gains on asset sales) and net income should be approximately \$1.67 million or \$1.08 per fully diluted share. This is a reduction from 2000 revenues of \$12.8 million, however we believe that management should be able to control expenses, allowing net income for 2001 to approximate the \$1.7 million or \$1.08 per fully diluted share reported in 2000. Our estimated revenue reduction for 2001 is based on the current tough operating environment caused by the economic slowdown and the aircraft that will not be generating rental income until they are re-leased. Four aircraft are currently available for re-lease or sale with one lease due to expire on December 31, 2001. Until these aircraft are either sold or leased, the Company is precluded from fully utilizing the \$22.8 million of unused credit in its existing facility. This is the reason why management will be focusing its efforts on marketing and why we have increased the Company's SG&A expenses relative its percentage of rental income for the rest of 2001. We anticipate that based on the Company's prior track record and intense marketing efforts that they should be successful in either re-leasing or selling its aircraft, which would solve the credit line limitations and allow for the purchase of additional assets in 2002.

We believe that due to the Company's focus on marketing, it is likely that lease rental revenues for the remainder of 2001 will be lower than for the same period last year. Also, it is likely that total revenues for the year will be lower than in 2000. However, we believe that net income for 2001 will approximate that of 2000, and that the Company should have cash earnings of approximately \$2.89 per share (net income plus depreciation, divided by average number of shares) versus cash earnings of \$2.81 in 2000.



Source: Company financials; Taglich Brothers estimates

Our 2002 forecast remains tentative, as the timing of any re-lease or sale of aircraft remains uncertain. Therefore our 2002 estimates do not include the purchase of any additional assets and assume that only some of the leases that expire will be re-leased. Also, due to the lack of visibility and the pending re-leasing issues, we are not yet providing a quarterly breakdown of our 2002 forecast. We believe that for 2002, revenues should be \$10.9 million and net income should be \$1.86 million or \$1.20 per fully diluted share.

Conclusion

We are maintaining our Buy rating for AeroCentury and have a 15-month price target of \$10.75 per share. At current price levels, we still believe that AeroCentury is undervalued, especially in comparison to its peers. Currently, the Company's peer group (see chart on next page) is trading at 11.3X TTM earnings. AeroCentury is trading at 5.4X TTM earnings and 5.0X our expected earnings for 2002. Our price target is based upon:

- The belief that the Company should be trading at or near the current book value multiple of its peers of 0.7X; and
- Application of the Company's peer group TTM earnings multiple of 11.3X to our 2002 earnings estimate of \$1.20 per share.

In the comparative valuation table (on the next page), only Airlease Ltd. (Symbol: FLY) is trading slightly below its current book value. This is most likely due to its practice of paying a quarterly cash dividend. It is our belief that if AeroCentury's stock price remains at its current level, management will need to pursue one of two courses of action in order to attract the interest of a broader segment of the investment community:

1. Take the Company private at book value; or
2. Begin paying dividends. We believe that this would likely result in share values increasing toward book value.

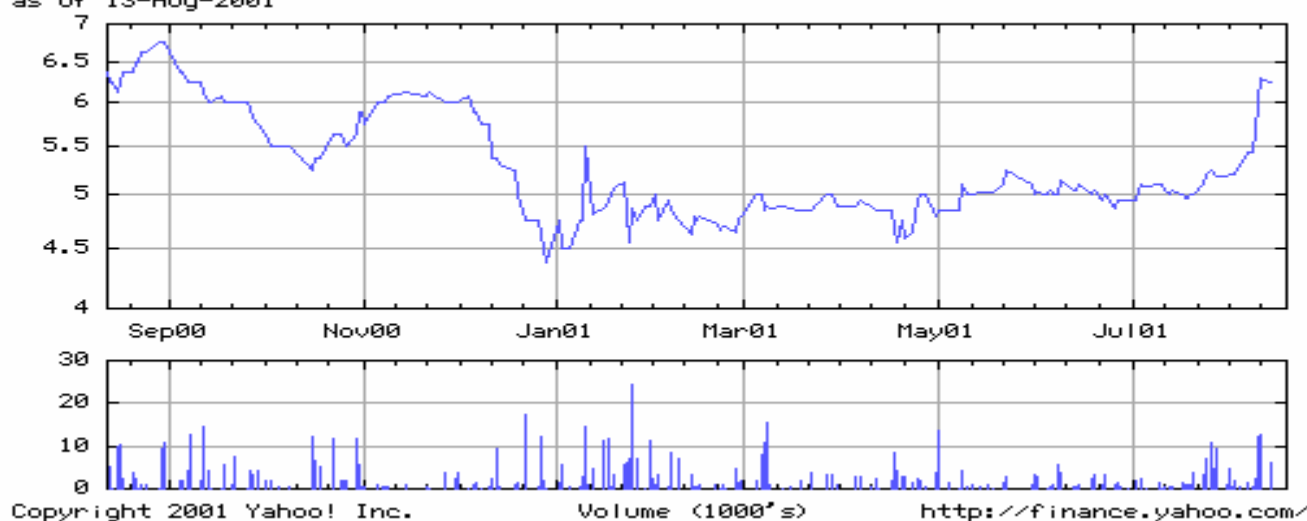
We believe that at current price levels, there is limited downside risk for investors due to the intrinsic value of AeroCentury's assets. We expect that the Company should be able to resume its growth strategy by early 2002. While this will increase interest exposure and expenses in 2002, over the longer-term, the Company should be able to pass those costs on to its customers.

Comparative Valuation Summary

Company Name	Symbol	Current Price	Shrs Out (M)	Market Cap. (Mil)	P/E (TTM)	Price / Sales (TTM)	Book Value / Share	Price / Book
Airlease Ltd.	FLY	10.23	4.62	47.26	12.7	7.4	10.65	0.96
Continental Information Systems	CISC	1.00	5.92	5.92	NMF	1.8	1.90	0.53
International Aircraft Investors	IAIS	4.79	3.84	18.39	NMF	0.4	9.75	0.49
Willis Lease Finance Corp.	*WLFC	10.70	7.41	79.29	9.8	1.5	11.13	0.96
Peer Group Average					11.3	2.8		0.7
AeroCentury Inc.	ACY	6.00	1.54	9.2	4.5	0.63	11.31	0.5

* WLFC sold a 15% stake to SAIRGroup for \$15 per share or 1.5x Book Value

AeroCentury Corp
as of 13-Aug-2001



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Volume (1000's)

<http://finance.yahoo.com/>

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AeroCentury Inc.
Consolidated Balance Sheets
(in thousands)

	December 1998 Full Year	December 1999 Full Year	December 2000 Full Year	March 2001 First Quarter	June 2001 Second Quarter
ASSETS					
Current assets:					
Cash & Equivalents	\$ 1,852	\$ 1,252	\$ 3,184	\$ 1,320	\$ 973
Deposits	1,584	5,419	6,864	6,969	7,501
Accounts Receivable	166	308	571	553	414
Note receivable	-	-	118	105	93
Prepaid Expense & Other	147	359	617	582	607
Total current assets	3,749	7,338	11,353	9,529	9,588
Deferred Tax Asset	-	-	-	-	-
Aircraft & engines, net of depreciation	22,813	55,854	60,111	59,413	58,991
Total assets	\$ 26,562	\$ 63,192	\$ 71,465	\$ 68,942	\$ 68,579
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts Payable and accrued expenses	\$ 249	\$ 907	\$ 1,885	\$ 629	\$ 829
Notes Payable and accrued interest	6,440	37,095	41,221	39,255	38,003
Maintenance deposits and accrued costs	1,661	4,390	6,310	6,219	6,450
Security deposits	479	1,785	1,814	1,934	1,766
Prepaid rent	60	296	355	305	316
Income Taxes Payable	-	-	-	-	-
Total current liabilities	8,890	44,473	51,585	48,342	47,364
Long-Term debt-net of current	-	-	-	-	-
Deferred Income Taxes	3,160	3,228	2,716	2,928	3,038
Total Liabilities	12,050	47,700	54,301	51,270	50,402
Stockholders' equity:					
Common stock, par value \$0.01; authorized 10,000,000 shares;	2	2	2	2	2
Paid-in capital	13,821	13,821	13,821	13,821	13,821
Retained earnings	767	2,173	3,844	4,353	4,858
Accumulated deficit	-	-	-	-	-
Treasury Stock, at cost	(78)	(504)	(504)	(504)	(504)
Total stockholders' equity	14,512	15,491	17,163	17,672	18,177
Total liabilities and stockholders' equity	\$ 26,562	\$ 63,192	\$ 71,464	\$ 68,942	\$ 68,579
SHARES OUT	1,607	1,607	1,607	1,607	1,607

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

	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000</u>	<u>FY2001E</u>	<u>FY2002E</u>
Revenues:					
Rent Income	\$ 3,494	\$ 7,129	\$ 10,880	\$ 10,351	\$ 10,585
Gain(loss) on disposal of assets	228	98	747	-	-
Other Income	<u>55</u>	<u>153</u>	<u>481</u>	<u>309</u>	<u>310</u>
Total Revenues	3,778	7,380	12,108	10,661	10,895
Expenses:					
Management Fees	596	1,149	1,725	1,786	1,790
Depreciation	714	1,700	2,674	2,795	2,720
Interest	84	1,534	3,471	3,048	2,920
SG&A	339	582	494	525	655
Maintenance	-	374	763	(14)	-
Provision for impairment in value of aircraft	-	-	463	-	-
Total Expenses	<u>1,733</u>	<u>5,339</u>	<u>9,590</u>	8,140	8,085
Operating Income	<u>2,045</u>	<u>2,041</u>	<u>2,517</u>	2,521	2,810
<i>Operating Margin</i>	54.12%	27.66%	20.79%	23.65%	25.79%
Taxes(Benefit)	<u>854</u>	<u>636</u>	<u>846</u>	852	955
<i>Tax Rate</i>	41.79%	31.14%	33.61%	33.80%	33.99%
Net Income	<u>\$ 1,190</u>	<u>\$ 1,405</u>	<u>\$ 1,671</u>	\$ 1,669	\$ 1,855
EPS-fully diluted	<u>\$ 0.74</u>	<u>\$ 0.90</u>	<u>\$ 1.08</u>	\$ 1.08	\$ 1.20
Avg Shares Out-fully diluted	<u>1,607</u>	<u>1,564</u>	<u>1,543</u>	1,543	1,543
Margin Analysis					
Gross Profit	3,181	6,231	10,383	8,875	9,105
GPM	84.2%	84.4%	85.8%	83.2%	83.6%
NI/Rev	31.5%	19.0%	13.8%	15.7%	17.0%
NI/Rent Income	34.1%	19.7%	15.4%	16.1%	17.5%
Total Exp/Rev	45.9%	72.3%	79.2%	76.4%	74.2%
As Per Cent of Rent Income					
Expenses:					
Management Fees	17.07%	16.12%	15.86%	17.25%	16.91%
Depreciation	20.43%	23.85%	24.58%	27.00%	25.70%
Interest	2.39%	21.52%	31.91%	29.44%	27.59%
SG&A	9.70%	8.16%	4.54%	5.07%	6.19%
Total Expenses	49.59%	74.90%	88.15%	78.63%	76.38%
<u>Percent Change Year/Year</u>					
Rent Income	9.26%	104.01%	52.62%	-4.86%	2.26%
Operating Income	45.67%	-0.17%	23.34%	0.15%	11.45%
Net Income	-20.15%	18.09%	18.92%	-0.13%	11.14%

* Includes a write-down of two aircraft to market value

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2000
(in thousands)

	<u>(3/00)Q1A</u>	<u>(6/00)Q2A</u>	<u>(9/00)Q3A</u>	<u>(12/00)Q4A*</u>	<u>FY2000</u>
Revenues:					
Rent Income	\$ 2,604	\$ 2,613	\$ 2,849	\$ 2,814	\$ 10,880
Gain(loss) on disposal of assets	-	-	-	747	747
Other Income	<u>74</u>	<u>109</u>	<u>121</u>	<u>177</u>	<u>481</u>
Total Revenues	<u>2,678</u>	<u>2,722</u>	<u>2,970</u>	<u>3,738</u>	<u>12,108</u>
Expenses:					
Management Fees	416	411	436	463	1,725
Depreciation	641	641	679	712	2,674
Interest	745	752	892	1,083	3,471
SG&A	154	160	113	67	494
Maintenance	-	-	110	653	763
Provision for impairment in value of aircraft	-	-	-	<u>463</u>	<u>463</u>
Total Expenses	<u>1,956</u>	<u>1,964</u>	<u>2,230</u>	<u>3,440</u>	<u>9,590</u>
Operating Income	<u>722</u>	<u>758</u>	<u>740</u>	<u>298</u>	<u>2,517</u>
<i>Operating Margin</i>	26.96%	27.86%	24.90%	7.96%	20.79%
Taxes(Benefit)	<u>264</u>	<u>258</u>	<u>251</u>	<u>73</u>	<u>846</u>
<i>Tax Rate</i>	36.58%	33.98%	33.97%	24.56%	33.61%
Net Income	<u>\$ 458</u>	<u>\$ 501</u>	<u>\$ 488</u>	<u>\$ 224</u>	<u>\$ 1,671</u>
EPS-fully diluted	<u>\$ 0.30</u>	<u>\$ 0.32</u>	<u>\$ 0.32</u>	<u>\$ 0.14</u>	<u>\$ 1.08</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>
Margin Analysis					
Gross Profit	2,263	2,311	2,534	3,275	10,383
GPM	84.5%	84.9%	85.3%	87.6%	85.8%
NI/Rev	17.1%	18.4%	16.4%	6.0%	13.8%
NI/Rent Income	17.6%	19.2%	17.1%	7.9%	15.4%
Total Exp/Rev	73.0%	72.1%	75.1%	92.0%	79.2%
As Per Cent of Rent Income					
Expenses:					
Management Fees	15.96%	15.73%	15.30%	16.25%	15.86%
Depreciation	24.62%	24.54%	23.85%	24.00%	24.58%
Interest	28.61%	28.77%	31.31%	38.47%	31.91%
SG&A	5.93%	6.12%	3.95%	2.39%	4.54%
Total Expenses	<u>75.12%</u>	<u>75.16%</u>	<u>78.28%</u>	<u>122.24%</u>	<u>88.15%</u>
Percent Change Year/Year					
Rent Income	86.63%	81.44%	51.98%	16.36%	52.62%
Operating Income	32.04%	26.62%	34.02%	-13.39%	23.34%
Net Income	34.54%	26.15%	34.28%	-26.61%	18.92%

* Includes a write-down of two aircraft to market value

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2001
(in thousands)

	<u>(3/01)Q1A</u>	<u>(6/01)Q2A</u>	<u>(9/01)Q3E</u>	<u>(12/01)Q4E</u>	<u>FY2001E</u>
Revenues:					
Rent Income	\$ 2,759	\$ 2,632	\$ 2,530	\$ 2,430	\$ 10,351
Gain(loss) on disposal of assets	-	-	-	-	-
Other Income	<u>111</u>	<u>74</u>	<u>65</u>	<u>60</u>	<u>309</u>
Total Revenues	2,870	2,706	2,595	2,490	10,661
Expenses:					
Management Fees	448	440	445	450	1,786
Depreciation	698	710	700	700	2,795
Interest	844	724	740	740	3,048
SG&A	107	112	150	155	525
Maintenance	-	(14)	-	-	(14)
Provision for impairment in value of aircraft	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenses	2,097	1,963	2,035	2,045	8,140
Operating Income	<u>773</u>	<u>743</u>	<u>560</u>	<u>445</u>	<u>2,521</u>
<i>Operating Margin</i>	26.93%	27.47%	21.58%	17.87%	23.65%
Taxes(Benefit)	<u>264</u>	<u>239</u>	<u>195</u>	<u>155</u>	<u>852</u>
<i>Tax Rate</i>	34.10%	32.09%	34.82%	34.83%	33.80%
Net Income	<u>\$ 509</u>	<u>\$ 505</u>	<u>\$ 365</u>	<u>\$ 290</u>	<u>\$ 1,669</u>
EPS-fully diluted	<u>\$ 0.33</u>	<u>\$ 0.33</u>	<u>\$ 0.24</u>	<u>\$ 0.19</u>	<u>\$ 1.08</u>
Avg Shares Out-fully diluted	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>	<u>1,543</u>
Margin Analysis					
Gross Profit	2,422	2,263	2,150	2,040	8,875
GPM	84.4%	83.6%	82.9%	81.9%	83.2%
NI/Rev	17.7%	18.7%	14.1%	11.6%	15.7%
NI/Rent Income	18.5%	19.2%	14.4%	11.9%	16.1%
Total Exp/Rev	73.1%	72.5%	78.4%	82.1%	76.4%
As Per Cent of Rent Income					
Expenses:					
Management Fees	16.24%	16.82%	17.59%	18.52%	17.25%
Depreciation	25.29%	26.51%	27.67%	28.81%	27.00%
Interest	30.59%	27.50%	29.25%	30.45%	29.44%
SG&A	3.89%	4.27%	5.93%	6.38%	5.07%
Total Expenses	76.00%	74.55%	80.43%	84.16%	78.63%
Percent Change Year/Year					
Rent Income	5.95%	-5.27%	-11.20%	-13.66%	-4.86%
Operating Income	7.06%	-41.98%	-24.28%	49.56%	0.15%
Net Income	11.25%	-44.08%	-25.26%	29.75%	-0.13%