

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

Research Report-Update

Rating (BUY)

AeroCentury Corp.
ACY - \$6.625 - (AMEX)

Michael C. Roesler
August 28, 2000

	FYE 12/97	FYE 12/98	FYE 12/99	FYE 12/00*	FYE 12/01*
Revenues	\$3,311,860	\$3,777,580	\$7,380,160	\$11,368,399	\$14,955,954
Earnings per share (diluted)	NA	\$0.74	\$0.90	\$1.24	\$1.47

52week range	8 - 5 ¼	Fiscal year ends:	December
Shares outstanding	1.61mm	Revenue/shares (TTM)	\$6.10
Trading float	1.20mm	Price/Sales (TTM)	1.1x
Institutional ownership	12%	Price/Sales (F'00)*	0.94x
Book value/share	\$10.24	Price/Earnings (TTM)	6.3x
Price/Book	0.65x	Price/Earnings (F'00)*	5.3x

* Taglich Brothers Estimates,

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.

Key Investment Considerations:

- We are maintaining our price target of \$9.00 based upon an ACY's peer group average of 23x trailing 12-month earnings adjusted for the group's price/book ratio;*
- We are maintaining our 2000 revenue estimate of \$11.4mm while increasing our EPS estimate from \$1.11 to \$1.24;*
- The increased use of regional jets should not greatly impact the turboprop market as most regional jets are being used to introduce new service or to complement turboprop service, not to replace turboprop service;*
- The Regional Aircraft Market is expected to increase globally through the year 2007, with the Turboprop aircraft that AeroCentury leases representing nearly 50% of the total.*

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Recent Financials

On July 24, 2000, AeroCentury Corp. (AMEX: ACY, \$6.50) announced the results for its second quarter ended June 30, 2000. The Company reported revenues of \$2.7mm, an increase of 74% over year ago results. The Company reported net income of \$500,680, an increase of 26% over second quarter 1999. On a per share basis, the Company reported EPS of \$0.32 versus \$0.25 for the same period last year.

In relation to Taglich Brother's estimates, total revenue was in-line with our \$2.7mm estimate, while net income and earnings per share were higher than our \$417,673 and \$0.27 estimates due to lower than expected expenses. The increase in revenues and income are the result of an increase in the company's aircraft asset base as compared to the same period in the previous year.

Recent Events

Aircraft Leases

As noted in our previous update, (dated May 25, 2000, available on our website, www.taglichbrothers.com) one of the Company's deHavilland DHC-7 (Dash-7) aircraft is currently off-lease. The Company believed that it had found a lessee for the Dash-7 aircraft, but that deal did not come to fruition. At this time the Company has identified potential clients interested in leasing the aircraft.

The other three Dash-7 aircraft that are leased by the U.S. Army are due to come off lease this year but the company believes that the Army is likely to renew the lease for an additional two years. There is also a Fairchild Metro III aircraft that is due to come off lease in August of this year but this lease does not materially contribute to company revenues so there will be negligible impact on earnings when the lease expires. Additionally, in February, one of the Company's lessees filed for reorganization. Though that client continues to pay the monthly rent due, the possibility exists in the future the lessee may not be able to meet their payment.

As detailed in our first quarter update, AeroCentury has secured a three-year, \$50mm revolving line of credit commitment from National City Bank. The credit line replaces the facility with First Union National Bank that expired on June 30. The company has already put this increased line into action by acquiring two deHavilland DHC-8-100 (Dash-8) aircraft that are currently on lease to Air Jamaica Express, Ltd., a Jamaica based regional airline.

The acquisition of the Dash-8 increases the range of aircraft types that the Company can offer potential customers. The Dash-8 is the most advanced turboprop on offer from deHavilland and we believe that this acquisition fills a hole in the Company's inventory. It should also be noted that this acquisition again demonstrates the Company's patience and expertise in selecting high value aircraft that are already on-lease, providing an immediate boost to revenue.

Projections

Impact of Regional Jets

The increased popularity and industry attention on regional jets has provoked some concern as to what impact these smaller (generally 50 to 100 seats) jets will have on the turboprop market. While there have been increased orders for regional jets, particularly within the United States, these purchases have generally been to complement turboprop service, not to replace it. The table below depicts how the deployment of regional jets by the major U.S. carriers has impacted the use of turboprops. Of total regional jet deployment, only 6% have been to replace turboprop service, whereas 30% have been to introduce completely new service and 23% have gone to supplement large jet service.

Effect on Turboprops from Regional Jet Deployment by Major U.S. Carriers

Carrier	Replace Turboprop Service	Supplement Turboprop Service	Supplement Turboprop and Jet Service
American	14%	45%	0%
America West	-	15%	0%
Continental	-	15%	4%
Delta			
ASA	4%	57%	7%
Comair	12%	21%	7%
Skywest	4%	8%	12%
Northwest	0%	2%	42%
United			
Atlantic Coast	13%	25%	8%
Trans States	0%	14%	14%
US Airways	0%	39%	0%
Total	6%	21%	10%

Source: PlaneBusiness; Proposition RJ Coalition; GKMG Consulting

Another mitigating factor in the replacement of turboprops by regional jets is air traffic congestion. According to consultants Robert W. Mann and Company, Inc., small jets operate most efficiently and economically at altitudes currently occupied by larger commercial airliners. Turboprops generally operate below 24,000 feet, airspace that is significantly less congested than that which is desirable for regional jets. Given the increasing attention that is being placed on delays and cancellations which are due in large part to an already overburdened, and under-technologied air traffic control system, the ability for airlines to replace turboprops with regional jets will be constrained.

Revised Estimates

The results from AeroCentury's second quarter continues a pattern of exceeding our forecasts. Though we have previously factored additional aircraft acquisitions into our projections, we believe that further revisions are necessary to better reflect our expectations for the Company's performance.

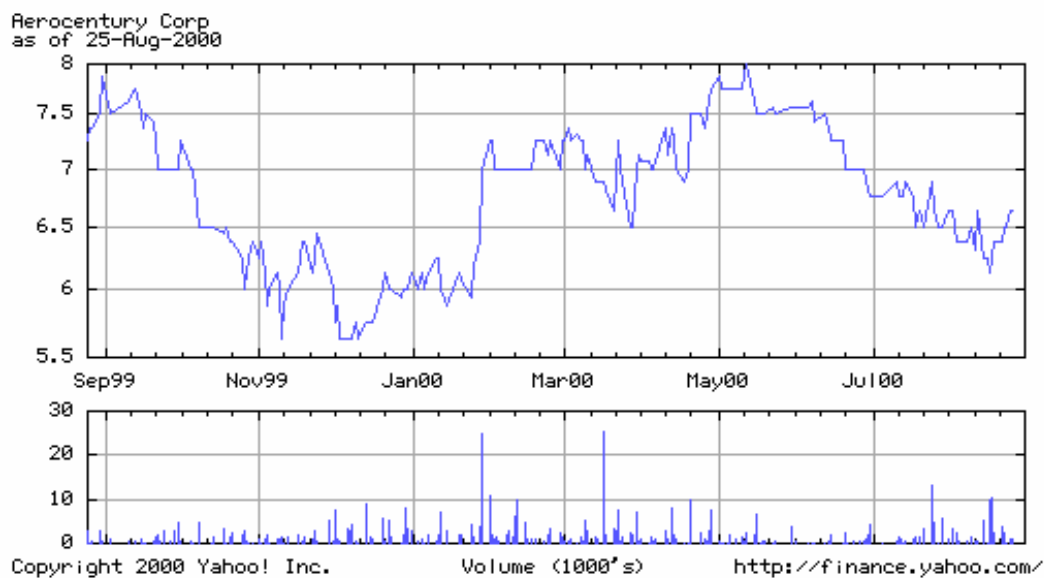
We are maintaining our 2000 revenue forecast of \$11.4mm, but increasing our EPS estimate from \$1.11 to \$1.24. The Company's small operating structure (even with the redundancy of paying management fees to JetFleet Management) efficiently translates top-line growth into bottom line performance. The current interest environment indicates that the Company will not need to implement a more aggressive risk management strategy in the near future resulting in interest expense remaining consistent with previous quarters as a percentage of sales.

Conclusions

We are maintaining our price target of \$9.00 based upon an ACY's peer group average of 23x trailing 12-month earnings adjusted for the group's price/book ratio. In determining a valuation for ACY we have selected a small peer group of comparable firms that are engaged primarily in aircraft leasing, and whose asset base is similar to ACY's. On a Price to Earnings basis ACY, trading at 6x earnings is well below the peer group average of 23x. Even excluding the outlier P/E of WLFC of 46x, results in an average P/E of 11x. While the group generally trades below book value, we believe that at a Price/Book ratio of 0.65, ACY remains undervalued.

Comparative Valuation Summary

Company Name	Ticker	Business	Current Price	Current P/E (trailing 12m)	Price/Sales (trailing 12m)	Book Value/Share	Price/Book
Airlease Ltd.	FLY	Aircraft Leasing	\$12.25	12.7x	7.9x	\$11.53	1.1x
Continental Information Systems	CISC	Aircraft & Equipment Leasing	\$0.75	NMF	0.4x	\$2.90	0.3x
International Aircraft Investors	IAIS	Aircraft Leasing	\$5.63	9.3x	0.6x	\$9.36	0.60x
Willis Lease Finance Corp.	WLFC	Aircraft Leasing	\$7.50	45.7	0.6x	\$9.62	0.78x
Peer Group Average(Ex ACY)				22.6x	2.4x		0.70x
AeroCentury Inc.	ACY	Aircraft Leasing	\$6.63	6.3x	1.1x	\$10.24	0.65x



AeroCentury Inc.
Consolidated Balance Sheets for the Quarters Ended
December 31, 1998, December 31, 1999 and June 30, 2000

	<u>(12/98)Q4A</u>	<u>(12/99)Q4A</u>	<u>(6/00)Q2A</u>
Assets			
Current Assets			
Cash & Equivalents	\$ 1,852,010	\$ 1,251,730	\$ 2,290,930
Deposits	1,584,260	5,419,160	6,312,890
Accounts Receivable	165,550	307,760	432,850
Prepaid Expense & Other	<u>147,470</u>	<u>359,130</u>	<u>539,140</u>
Total Current Assets	3,749,290	7,337,780	9,575,810
Deferred Tax Asset			
Aircraft & engines, net of depreciation	22,812,600	55,853,940	54,622,320
Total Assets	<u>\$ 26,561,890</u>	<u>\$ 63,191,720</u>	<u>\$ 64,198,130</u>
Liabilities & Shareholders' Equity			
Current Liabilities			
Accounts Payable and accrued expenses	\$ 249,400	\$ 906,970	\$ 505,250
Notes Payable and accrued interest	6,439,780	37,094,920	36,244,550
Maintenance deposits and accrued costs	1,661,330	4,389,700	5,156,860
Security deposits	479,100	1,785,140	1,785,140
Prepaid rent	<u>60,450</u>	<u>295,780</u>	<u>303,340</u>
Total Current Liabilities	8,890,060	44,472,510	43,995,140
Deferred Income Taxes	<u>3,160,030</u>	<u>3,227,870</u>	<u>3,753,130</u>
Total Liabilities	<u>12,050,090</u>	<u>47,700,380</u>	<u>47,748,270</u>
Total Shareholders' Equity	<u>14,511,800</u>	<u>15,491,340</u>	<u>16,449,860</u>
Total Liabilities & Equity	<u>\$ 26,561,890</u>	<u>\$ 63,191,720</u>	<u>\$ 64,198,130</u>
SHARES OUT	1,606,505	1,563,591	1,606,557

AeroCentury Inc.
Annual Income Statement for the Years Ended December 31, 1997-2001

	<u>FY1997*</u>	<u>FY1998</u>	<u>FY1999</u>	<u>FY2000E</u>	<u>FY2001E</u>
Revenues:					
Rent Income	\$3,198,200	\$ 3,494,330	\$ 7,128,690	\$ 10,962,785	\$ 14,501,211
Gain(loss) on disposal of assets	-	228,230	98,400	-	-
Other Income	<u>113,660</u>	<u>55,020</u>	<u>153,050</u>	<u>405,614</u>	<u>454,743</u>
Total Revenues	3,311,860	3,777,580	7,380,140	11,368,399	14,955,954
Expenses:					
Management Fees	96,520	596,450	1,148,800	1,800,172	2,399,477
Depreciation	626,000	713,930	1,700,000	2,693,418	3,625,303
Interest	-	83,690	1,534,310	3,150,623	4,183,074
SG&A	443,540	347,440	581,690	693,913	1,071,505
Maintenance	<u>742,280</u>	-	<u>374,240</u>	-	-
Total Expenses	1,908,340	1,741,510	5,339,040	8,338,125	11,279,359
Operating Income	<u>1,403,520</u>	<u>2,036,070</u>	<u>2,041,100</u>	<u>3,030,274</u>	<u>3,676,595</u>
<i>Operating Margin</i>	42.38%	53.90%	27.66%	26.66%	24.58%
Taxes(Benefit)	<u>(86,890)</u>	<u>854,420</u>	<u>635,680</u>	<u>1,110,791</u>	<u>1,416,360</u>
<i>Tax Rate</i>	-6.19%	41.96%	31.14%	36.66%	38.52%
Net Income	<u>\$ 1,490,410</u>	<u>\$ 1,181,650</u>	<u>\$ 1,405,420</u>	<u>\$ 1,919,483</u>	<u>\$ 2,260,234</u>
EPS-fully diluted	<u>\$ -</u>	<u>\$ 0.74</u>	<u>\$ 0.90</u>	<u>\$ 1.24</u>	<u>\$ 1.47</u>
Avg Shares Out-fully diluted	<u>-</u>	<u>1,606,505</u>	<u>1,563,591</u>	<u>1,542,678</u>	<u>1,542,678</u>
As Per Cent of Rent Income					
Expenses:					
Management Fees	3.02%	17.07%	16.12%	16.42%	16.55%
Depreciation	19.57%	20.43%	23.85%	24.57%	25.00%
Interest	0.00%	2.40%	21.52%	28.74%	28.85%
SG&A	13.87%	9.94%	8.16%	6.33%	7.39%
Total Expenses	59.67%	49.84%	74.90%	76.06%	77.78%
Percent Change Year/Year					
Rent Income		9.26%	104.01%	53.78%	32.28%
Operating Income		45.07%	0.25%	48.46%	21.33%
Net Income		-20.72%	18.94%	36.58%	17.75%

*Reflects results of partnership prior to incorporation of ACY.

AeroCentury Inc.
Quarterly Income Statement for the Year Ended December 31, 1999

	<u>(3/99)Q1A</u>	<u>(6/99)Q2A</u>	<u>(9/99)Q3A</u>	<u>(12/99)Q4A</u>	<u>FY1999A</u>
Revenues:					
Rent Income	\$ 1,395,330	\$ 1,439,940	\$ 1,874,600	\$ 2,418,820	\$ 7,128,690
Gain(loss) on disposal of assets	-	98,400	-	-	98,400
Other Income	<u>25,190</u>	<u>24,710</u>	<u>46,490</u>	<u>56,660</u>	<u>153,050</u>
Total Revenues	<u>1,420,520</u>	<u>1,563,050</u>	<u>1,921,090</u>	<u>2,475,480</u>	<u>7,380,140</u>
Expenses:					
Management Fees	241,290	238,400	322,120	346,990	1,148,800
Depreciation	306,970	341,250	465,550	586,230	1,700,000
Interest	209,430	247,630	436,840	640,410	1,534,310
SG&A	116,040	136,820	144,750	184,080	581,690
Maintenance	-	-	-	<u>374,240</u>	<u>374,240</u>
Total Expenses	<u>873,730</u>	<u>964,100</u>	<u>1,369,260</u>	<u>2,131,950</u>	<u>5,339,040</u>
Operating Income	<u>546,790</u>	<u>598,950</u>	<u>551,830</u>	<u>343,530</u>	<u>2,041,100</u>
<i>Operating Margin</i>	38.49%	38.32%	28.72%	13.88%	27.66%
Taxes(Benefit)	<u>206,470</u>	<u>202,050</u>	<u>188,150</u>	<u>39,010</u>	<u>635,680</u>
<i>Tax Rate</i>	37.76%	33.73%	34.10%	11.36%	31.14%
Net Income	<u>\$ 340,320</u>	<u>\$ 396,900</u>	<u>\$ 363,680</u>	<u>\$ 304,520</u>	<u>\$ 1,405,420</u>
EPS-fully diluted	<u>\$ 0.21</u>	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.20</u>	<u>\$ 0.90</u>
Avg Shares Out-fully diluted	<u>1,592,811</u>	<u>1,569,232</u>	<u>1,549,761</u>	<u>1,543,257</u>	<u>1,563,591</u>
<u>As Per Cent of Rent Income</u>					
Management Fees	17.29%	16.56%	17.18%	14.35%	16.12%
Depreciation	22.00%	23.70%	24.83%	24.24%	23.85%
Interest	15.01%	17.20%	23.30%	7.61%	21.52%
SG&A	8.32%	9.50%	7.72%	15.47%	8.16%
Maintenance	0.00%	0.00%	0.00%	88.14%	5.25%
Total Expenses	62.62%	66.95%	73.04%	0.00%	<u>74.90%</u>
<u>Percent Change Year/Year</u>					
Rent Income	72.28%	66.47%	116.72%	153.43%	104.01%
Operating Income	26.72%	32.20%	-14.23%	-33.50%	0.25%
Net Income	30.37%	44.64%	-4.40%	11.04%	18.94%

AeroCentury Inc.
Quarterly Income Statement for the Year Ended December 31, 2000

	<u>(3/00)Q1A</u>	<u>(6/00)Q2A</u>	<u>(9/00)Q3E</u>	<u>(12/00)Q4E</u>	<u>FY2000E</u>
Revenues:					
Rent Income	\$ 2,604,050	\$ 2,612,560	\$ 2,710,482	\$ 3,035,693	\$ 10,962,785
Other Income	<u>74,160</u>	<u>109,460</u>	<u>110,555</u>	<u>111,439</u>	405,614
Total Revenues	2,678,210	2,722,020	2,821,037	3,147,132	11,368,399
Expenses:					
Management Fees	415,700	411,020	482,260	491,191	1,800,172
Depreciation	641,060	641,060	668,649	742,649	2,693,418
Interest	745,080	751,620	788,750	865,172	3,150,623
SG&A	<u>154,400</u>	<u>159,940</u>	<u>176,181</u>	<u>203,391</u>	693,913
Total Expenses	1,956,240	1,963,640	2,115,841	2,302,404	8,338,125
Operating Income	721,970	758,380	705,196	844,728	3,030,274
<i>Operating Margin</i>	26.96%	27.86%	25.00%	26.84%	26.66%
Taxes(Benefit)	<u>264,120</u>	<u>257,700</u>	<u>267,974</u>	<u>320,997</u>	1,110,791
<i>Tax Rate</i>	36.58%	33.98%	38.00%	38.00%	36.66%
Net Income	<u>\$ 457,850</u>	<u>\$ 500,680</u>	<u>\$ 437,221</u>	<u>\$ 523,731</u>	<u>\$ 1,919,483</u>
EPS-fully diluted	<u>\$ 0.30</u>	<u>\$ 0.32</u>	<u>\$ 0.28</u>	<u>\$ 0.34</u>	<u>\$ 1.24</u>
Avg Shares Out-fully diluted	<u>1,543,257</u>	<u>1,543,257</u>	<u>1,542,485</u>	<u>1,541,714</u>	<u>1,542,678</u>
As Per Cent of Rent Income					
Expenses:					
Management Fees	15.96%	15.73%	17.79%	16.18%	16.42%
Depreciation	24.62%	24.54%	24.67%	24.46%	24.57%
Interest	28.61%	28.77%	29.10%	28.50%	28.74%
SG&A	5.93%	6.12%	6.50%	6.70%	6.33%
Total Expenses	75.12%	75.16%	78.06%	75.84%	76.06%
Percent Change Year/Year					
Rent Income	86.63%	81.44%	44.59%	25.50%	53.78%
Operating Income	32.04%	26.62%	27.79%	145.90%	48.46%
Net Income	34.54%	26.15%	20.22%	71.99%	36.58%

AeroCentury Inc.
Quarterly Income Statement for the Year Ended December 31, 2001

	<u>(3/01)Q1E</u>	<u>(6/01)Q2E</u>	<u>(9/01)Q3E</u>	<u>(12/01)Q4E</u>	<u>FY2001E</u>
Revenues:					
Rent Income	\$ 3,176,697	\$ 3,466,491	\$ 3,769,993	\$ 4,088,030	\$ 14,501,211
Other Income	112,331	113,229	114,135	115,048	454,743
Total Revenues	3,289,028	3,579,720	3,884,128	4,203,078	14,955,954
Expenses:					
Management Fees	524,690	571,913	623,385	679,489	2,399,477
Depreciation	794,174	866,623	942,498	1,022,007	3,625,303
Interest	911,712	998,349	1,089,528	1,183,485	4,183,074
SG&A	214,427	235,721	257,114	364,243	1,071,505
Total Expenses	2,445,004	2,672,606	2,912,525	3,249,225	11,279,359
Operating Income	844,024	907,114	971,604	953,853	3,676,595
<i>Operating Margin</i>	25.66%	25.34%	25.01%	22.69%	24.58%
Taxes(Benefit)	320,729	344,703	378,925	372,003	1,416,360
<i>Tax Rate</i>	38.00%	38.00%	39.00%	39.00%	38.52%
Net Income	\$ 523,295	\$ 562,411	\$ 592,678	\$ 581,850	\$ 2,260,234
EPS-fully diluted	\$ 0.34	\$ 0.36	\$ 0.38	\$ 0.38	\$ 1.47
Avg Shares Out-fully diluted	1,543,257	1,543,257	1,542,485	1,541,714	1,542,678
As Per Cent of Rent Income					
Expenses:					
Management Fees	16.52%	16.50%	16.54%	16.62%	16.55%
Depreciation	25.00%	26.00%	25.00%	25.00%	25.00%
Interest	28.70%	28.80%	28.90%	28.95%	28.85%
SG&A	6.75%	6.80%	6.82%	8.91%	7.39%
Total Expenses	76.97%	77.10%	77.26%	79.48%	77.78%
Percent Change Year/Year					
Rent Income	21.99%	32.69%	39.09%	34.67%	32.28%
Operating Income	16.91%	19.61%	37.78%	12.92%	21.33%
Net Income	14.29%	12.33%	35.56%	11.10%	17.75%