Taglich Brothers, Inc.
The Standard of Excellence in the Microcap Market

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Research Report Update

AeroCentury Corp.

Rating: Buy

Howard Halpern

May 3, 2002

ACY - $5.08- (AMEX)

	FYE 12/00*	FYE 12/01	**FYE 12/02 E**	**FYE 12/03 E**
Revenues (millions)***	$12.1	$10.9**	**$9.3**	**$10.7**
Earnings per share (diluted)	$1.08	$0.95**	**$0.85**	**$1.10**

52week range	$6.55 – $3.80	Fiscal year ends:	December
Shares outstanding	1.54 million	Revenue/shares (TTM)	$6.86
Trading float	1 million	Price/Sales (TTM)	0.74X
Insiders and Institutional ownership	0.54 million	Price/Sales (2003)	0.73X
Est. Book value/share a/o 03/31/02	$11.92	Price/Earnings (TTM) **	5.98X
Price/Book	0.43X	Price/Earnings (2003)	4.62X

* Includes write-down of two aircrafts to market value ** Excludes a $0.35 million pre-tax or $0.15 per share post-tax insurance settlement gain

*** See page 8 for details of gains from disposal of assets

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

Key investment considerations:

- ***We are maintaining our Buy rating on AeroCentury (ACY) and have a twenty-one month price target of $10.69 per share based on our 2003 earnings forecast. Our previous target was $9.06 per share over a twenty-four month period.***

- ***We believe that ACY is undervalued while trading at a 5.98X TTM P/E multiple and 4.62X our earnings per share estimate for 2003. The Company's peers have a TTM price to earnings multiple of 13.1X, while the Rental and Leasing Industry has a TTM multiple of 28.9X.***

- ***First quarter revenues were $2.23 million versus $2.87 million in last year's first quarter. Net income was $0.299 million or $0.19 per diluted share versus $0.509 million or $0.33 per diluted share.***

- ***During the quarter, the Company remarketed one of its Shorts aircraft to a regional carrier located in the U.K.***

- ***On March 12, 2002, AeroCentury announced an amendment to its revolving credit facility, which should allow for increased financial flexibility in providing customers with aircraft lease that meet their individual time horizons.***

- ***We believe that 2002 revenues will approximate $9.3 million and net income will be $1.3 million or $0.85 per share. Our 2003 estimate is for revenue of $10.7 million and net income of $1.7 million or $1.10 per share.***

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

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Recent Financials

AeroCentury reported 2002 first quarter revenues of $2.23 million, compared to $2.87 million in the first quarter of 2001. Net income was $0.299 million or $0.19 per diluted share, versus $0.509 million or $0.33 per diluted share in the prior year. The reduced revenues and earnings for the quarter versus last year were primarily the result of the slow economic environment that impacted the aviation and travel industries.

Taglich Brothers' had estimated revenues of $2.21 million and net income of $0.288 million or $0.15 per diluted share. We believe that the primary reason why net income and earnings per share exceeded our expectations was the Company's ability to achieve operating margins of 19.8% versus our estimate of 15.6%.

Balance Sheet as of March 31, 2002

We estimate that cash and cash equivalents were approximately $1.5 million versus $2.68 million at December 31, 2001. The Company and its lenders have agreed to amend the Company's revolving $50 million line of credit. An important change is the ability to lease aircraft for shorter lease terms. 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 will be due six months after the aircraft are returned. It is expected that the aircrafts will be returned early in the second quarter of 2002, which would make the loan payment due in September/October 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.

Competitive Environment

The Company's customer base is primarily from regional commercial aircraft operators that are seeking to lease aircraft under an operating lease. The competition in this market comes from companies that offer financing, including leasing companies, banks and other financial institutions, and aircraft leasing partnerships. Management believes that competition may increase if competitors who have traditionally neglected the regional air carrier market begin to focus on that market. Competition is largely based on price and lease terms. New competitors, especially those with greater access to capital markets, could lead to fewer acquisition opportunities for the Company and potentially less favorable lease terms to potential customers.

The Company believes that it has a competitive advantage due to managements experience and ability to generate operational efficiency in financing the transaction sizes that are most desired by the regional air carrier market, especially the overseas market.

Some of the large participants in the aircraft leasing industry include International Lease Finance Corp., a subsidiary of American International Group, GE Capital Aviation Services a subsidiary of GE Capital, and the CIT Group, a subsidiary of Tyco Inc.

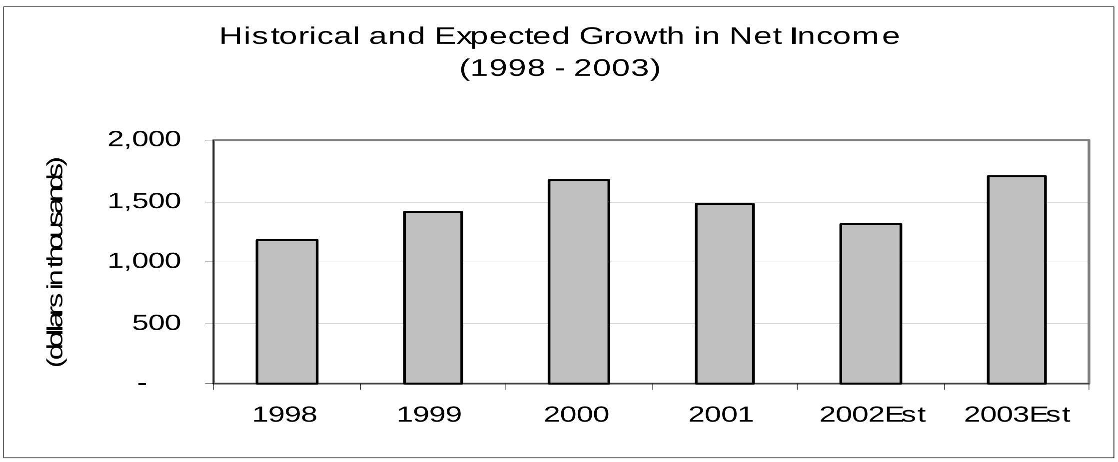
Outlook and Projections

We believe that revenues for 2002 will be approximately $9.32 million and net income should be $1.32 million or $0.85 per diluted share. Our revenue estimate for 2002 is based on a slow recovery from the prolonged economic downturn in the U.S. and abroad, which has created a tough operating environment for companies involved in the aviation and travel industries.

Three aircraft are currently available for re-lease and until these aircraft are either sold or leased, the Company is precluded from fully utilizing the $23 million of unused credit in its existing facility. In order to obtain re-lease agreements, management continues to focus its efforts on marketing. Therefore, we believe it is prudent to maintain our forecasted level of SG&A expenses. We anticipate that based on the Company's prior track record and intense marketing efforts, management should be successful in either releasing or selling idle aircraft. This would solve the credit line limitations and allow for the purchase of additional assets in 2003. Also, the Company has the ability to make shorter lease agreements (less than 3 to 5 years) with potential customers by virtue of its amended loan agreement mentioned earlier.

We believe that two aircraft that the Company acquired during November 1999 will be returned during the second quarter of 2002. In the Company's annual 10K filing, it stated that discussions are under way for the sale or re-lease of both aircraft with several potential customers. The sales price under considerations is in excess of net book value. The Company believes that the sales price would generate enough funds to pay the balloon payment due on the financing of those two aircraft. We believe such a sale would generate a one-time gain on the sale of assets on the income statement. Alternatively, if the Company re-leases the two aircraft, the bank has indicated that it would be willing to extend the term of the financing through such a release term. The re-lease of the aircrafts would generate additional rental income in future periods.

We estimate that the Company should have cash earnings of approximately $2.58 per share in 2002 (net income plus depreciation, divided by average number of shares) versus estimated cash earnings of $2.91 in 2001.



Source: Company financials; Taglich Brothers estimates, 2001 excludes the insurance settlement gain recorded in Q3 2001

Our 2003 forecast remains unchanged from our prior report since the timing of any re-lease or sale of aircraft remains uncertain. We believe that for 2003, the potential exists that revenues could reach $10.7 million with net income of $1.6 million or $1.10 per diluted share. Our 2003 expectations are based on the economy beginning to recover during the second half of 2002 and strengthening throughout 2003.

Risks

The Company's business is, to a large extent, dependent on the strength of the travel and transportation industry and on the general level of economic activity in the United States and internationally. As a result of the weak economic environment throughout 2001, there has been a reduction in the number of aircraft being used by the major air carriers, particularly those serving the United States market. AeroCentury's current lessees and potential lessees, are for the most part, outside of the U.S. and therefore the impact should be somewhat lessened.

The Company has a balloon payment due towards the end of 2002 because of the financing of two aircraft purchased in 1999. The Company needs to sell these aircraft in order to generate enough funds to payoff the loan or re-lease the aircraft and have the payment period extended through the next re-marketing period. If management is unable to generate enough funds to make the balloon payment, the Company will need to raise additional capital either through a debt or stock offering.

Financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competitive, operating, financial market, and event risks. These risks may cause actual results to differ from expected results. One such risk would be if interest rates were to rise sharply, which would negatively impact current and future operations due to the borrowing required to finance the purchase of assets (i.e. aircraft, engines, etc.).

An equity specific concern relates to liquidity. Based on our calculations, average daily-volume for the first four months of 2002 was approximately 2,700 an increase from 2,475 shares traded a day in 2001. On a relative basis, volume for this equity is very small. Investors need to be aware that by nature, an equity that lacks liquidity can have significant price volatility.

Valuation and Conclusion

We are maintaining our Buy rating on AeroCentury and have set a 21-month price target of $10.69 per share. Our previous price target was $9.06 per share over a twenty-four month time period. At current price levels, we still believe that AeroCentury is undervalued, especially in comparison to it peers that lease aircraft and to the Rental and Leasing Industry. The Company's two peers trade at a trailing twelve month price to earnings ratio of 13.1X as well as the Rental and Leasing Industry which trades at a trailing twelve-month P/E ratio of 28.9X. ACY is trading at 6X multiple based on its trailing twelve month earning per share.

Peer Chart Comparison

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	5.00	4.62	23.10	20.8	4.3	8.42	0.59
Willis Lease Finance Corp.	*WLFC	4.55	8.83	40.18	5.3	0.6	11.51	0.40
Peer Group Average					13.1	2.5		0.49
AreoCentury Inc.	ACY	5.08	1.54	7.8	6.0	0.74	11.92	0.43

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

Our price target is based on the average of the following valuation models:

- An earnings per share multiple of 9.8X (is a discount to its peers multiple of 13.1X), applied to our 2003 earnings estimate of $1.10 per share;
- A tangible book value multiple of 0.89X (is a discount to the Rental and Leasing Industry multiple of 1.77X), applied to the Company's current book value of $11.92.

We believe that it is prudent to discount the Rental and Leasing Industry's tangible book value multiple by 50%, since AeroCentury's market capitalization is less than $10 million.

In our opinion, at current price levels, there is limited downside risk for investors, due to the intrinsic value of the Company's assets.

Public Companies mentioned in this report:

Airlease Ltd.	(NYSE: FLY)
Willis Lease Finance Corp.	(NasdaqNM: WLFC)

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is not a market maker and does not sell to or buy from customers on a principal basis. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc., does not currently have an Investment Banking relationship with the company and was not a manager or co-manager of any offering for the company within the last three years. Since February 2000, the company pays a monthly monetary fee of $1,250 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

AeroCentury Inc.
Consolidated Balance Sheets *
(in thousands)

	Dec. '99 Full Year	Dec. '00 Full Year	Dec. '01 Full Year	March '02 1st Qtr
ASSETS				
Current assets:				
Cash & Equivalents	$ 1,252	$ 3,184	$ 2,680	$ 2,600
Deposits	5,419	6,864	6,987	6,975
Accounts Receivable	308	571	596	575
Note receivable	-	118	69	65
Prepaid Expense & Other	359	617	651	641
Total current assets	**7,338**	**11,353**	**10,983**	**10,856**
Deferred Tax Asset	-	-	-	-
Aircraft & engines, net of depreciation	55,854	60,111	56,527	55,000
Total assets	**$ 63,192**	**$ 71,465**	**$ 67,510**	**$ 65,856**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts Payable and accrued expenses	$ 907	$ 1,885	$ 1,642	$ 1,500
Notes Payable and accrued interest	37,095	41,221	36,510	35,000
Maintenance deposits and accrued costs	4,390	6,310	5,209	5,300
Security deposits	1,785	1,814	1,718	1,695
Prepaid rent	296	355	213	200
Income Taxes Payable	-	-	-	-
Total current liabilities	**44,473**	**51,585**	**45,292**	**43,695**
Long-Term debt-net of current	-	-	-	-
Deferred Income Taxes	3,228	2,716	3,356	3,000
Total Liabilities	**47,700**	**54,301**	**48,648**	**46,695**
Stockholders' equity:				
Common stock, par value $0.01; authorized 10,000,000 shares;	2	2	2	2
Paid-in capital	13,821	13,821	13,821	13,821
Retained earnings	2,173	3,844	5,543	5,842
Accumulated deficit	-	-	-	-
Treasury Stock, at cost	(504)	(504)	(504)	(504)
Total stockholders' equity	**15,491**	**17,163**	**18,862**	**19,161**
Total liabilities and stockholders' equity	**$ 63,192**	**$ 71,464**	**$ 67,510**	**$ 65,856**
SHARES OUT	1,607	1,607	1,607	1,607

* First Quarter ended March 31, 2002 numbers are Taglich Brothers estimates, except for Total Assets, Total Liabilities and Shareholders' equity, which were reported by AeroCentury Corp.

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

	FY1999	FY2000*	FY2001*	**FY2002E**	**FY2003E**
Revenues:					
Rent Income	$ 7,129	$ 10,880	$ 10,238	**$ 9,075**	**$ 10,625**
Gain(loss) on disposal of assets	98	747	327	**-**	**-**
Other Income	153	481	667	**240**	**100**
Total Revenues	7,380	12,108	11,232	**9,315**	**10,725**
Expenses:					
Management Fees	1,149	1,725	1,750	**1,670**	**1,885**
Depreciation	1,700	2,674	2,776	**2,669**	**2,700**
Interest	1,534	3,471	2,866	**2,445**	**2,875**
SG&A	582	494	434	**585**	**690**
Maintenance	374	763	859	**-**	**-**
Provision for impairment in value of aircraft	-	463	-	**-**	**-**
Total Expenses	5,339	9,590	8,684	**7,369**	**8,150**
Operating Income	2,041	2,517	2,548	**1,946**	**2,575**
Operating Margin	27.66%	20.79%	22.68%	20.89%	24.01%
Taxes(Benefit)	636	846	849	**629**	**872**
Tax Rate	*31.14%*	*33.61%*	33.32%	*32.32%*	*33.86%*
Net Income	$ 1,405	$ 1,671	$ 1,699	**$ 1,317**	**$ 1,703**
EPS-fully diluted includes insurance settlement	$ 0.90	$ 1.08	$ 1.10	**$ 0.85**	**$ 1.10**
Avg Shares Out-fully diluted	1,564	1,543	1,543	**1,543**	**1,543**
Margin Analysis					
Gross Profit	6,231	10,383	9,482	**7,645**	**8,840**
GPM	84.4%	85.8%	84.4%	**82.1%**	**82.4%**
NI/Rev	19.0%	13.8%	15.1%	**14.1%**	**15.9%**
NI/Rent Income	19.7%	15.4%	16.6%	**14.5%**	**16.0%**
Total Exp/Rev	72.3%	79.2%	77.3%	**79.1%**	**76.0%**
As Per Cent of Rent Income					
Expenses:					
Management Fees	16.12%	15.86%	17.09%	**18.40%**	**17.74%**
Depreciation	23.85%	24.58%	27.12%	**29.41%**	**25.41%**
Interest	21.52%	31.91%	27.99%	**26.94%**	**27.06%**
SG&A	8.16%	4.54%	4.24%	**6.45%**	**6.49%**
Total Expenses	74.90%	88.15%	84.83%	**81.20%**	**76.71%**
Percent Change Year/Year					
Rent Income	104.01%	52.62%	-5.91%	***-10.60%***	**9.48%**
Operating Income	-0.17%	23.34%	1.21%	***-22.92%***	**9.30%**
Net Income	18.09%	18.92%	1.64%	***-22.48%***	**10.87%**

* Iincluded in other income is an insurance settlement gain of $0.35 million or $0.15 per share. Excluding the gain full year 2001 earnings per share was 0.95.
** Includes a write-down of two aircraft to market value

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

	(3/01) Q1A	(6/01) Q2A	(9/01) Q3A	(12/01) Q4A	**FY2001 A**
Revenues:					
Rent Income	$ 2,759	$ 2,632	$ 2,456	$ 2,304	**$ 10,151**
Gain(loss) on disposal of assets	-	-	-	327	**327**
Other Income **	111	74	423	147	**754**
Total Revenues	2,870	2,706	2,879	2,777	**11,232**
Expenses:					
Management Fees	448	440	439	428	**1,758**
Depreciation	698	710	706	689	**2,790**
Interest	844	724	663	570	**2,800**
SG&A	107	112	114	164	**498**
Maintenance	-	(14)	155	720	**862**
Provision for impairment in value of aircraft	-	-	-	-	**-**
Total Expenses	2,097	1,963	2,077	2,571	**8,707**
Operating Income	773	743	802	206	**2,525**
Operating Margin	26.93%	27.47%	27.86%	7.43%	22.48%
Taxes(Benefit)	264	239	272	52	**826**
Tax Rate	*34.10%*	*32.09%*	*33.89%*	*25.09%*	*32.71%*
Net Income	$ 509	$ 505	$ 530	$ 224	**$ 1,699**
EPS-fully diluted -- Includes insurance settlement	$ 0.33	$ 0.33	$ 0.34	$ 0.14	**$ 1.10**
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	**1,543**
Margin Analysis					
Gross Profit	2,422	2,263	2,440	2,349	**9,474**
GPM	84.4%	83.6%	84.8%	84.6%	**84.3%**
NI/Rev	17.7%	18.7%	18.4%	8.0%	**15.1%**
NI/Rent Income	18.5%	19.2%	21.6%	9.7%	**16.7%**
Total Exp/Rev	73.1%	72.5%	72.1%	92.6%	**77.5%**
As Per Cent of Rent Income					
Expenses:					
Management Fees	16.24%	16.82%	17.87%	18.59%	**17.32%**
Depreciation	25.29%	26.51%	28.73%	29.89%	**27.48%**
Interest	30.59%	27.50%	27.00%	24.73%	**27.59%**
SG&A	3.89%	4.27%	4.63%	7.12%	**4.90%**
Total Expenses	76.00%	74.55%	84.57%	111.60%	**85.78%**
Percent Change Year/Year					
Rent Income	5.95%	-5.27%	-11.20%	-18.14%	**-6.70%**
Operating Income	7.06%	-41.98%	-24.28%	-30.67%	**0.29%**
Net Income	11.25%	-44.08%	-25.26%	0.00%	**1.65%**

* Total revenues, net income & EPS are reported numbers from AeroCentury. All other numbers are Taglich Brothers estimates

** Included in third quarter results is an insurance settlement gain of $0.35 million pre-tax or $0.15 per share post tax. Excluding the gain full year earnings per share were $0.95.

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2002
(in thousands)

	(3/02) Q1E*	(6/02) Q2E	(9/02) Q3E	(12/02) Q4E	**FY2002 E**
Revenues:					
Rent Income	$ 2,165	$ 2,160	$ 2,275	$ 2,475	**$ 9,075**
Gain(loss) on disposal of assets	-	-		-	-
Other Income	60	60	60	60	**240**
Total Revenues	2,225	2,220	2,335	2,535	**9,315**
Expenses:					
Management Fees	405	415	420	430	**1,670**
Depreciation	669	670	665	665	**2,669**
Interest	575	615	620	635	**2,445**
SG&A	135	145	150	155	**585**
Total Expenses	1,784	1,845	1,855	1,885	**7,369**
Operating Income	441	375	480	650	**1,946**
Operating Margin	19.82%	16.89%	20.56%	25.64%	20.89%
Taxes(Benefit)	142	122	155	210	**629**
Tax Rate	*32.20%*	*32.53%*	*32.29%*	*32.31%*	*32.32%*
Net Income	$ 299	$ 253	$ 325	$ 440	**$ 1,317**
EPS-fully diluted	$ 0.19	$ 0.16	$ 0.21	$ 0.29	**$ 0.85**
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	**1,543**
Margin Analysis					
Gross Profit	1,820	1,805	1,915	2,105	**7,645**
GPM	81.8%	81.3%	82.0%	83.0%	**82.1%**
NI/Rev	13.4%	11.4%	13.9%	17.4%	**14.1%**
NI/Rent Income	13.8%	11.7%	14.3%	17.8%	**14.5%**
Total Exp/Rev	80.2%	83.1%	79.4%	74.4%	**79.1%**
As Per Cent of Rent Income					
Expenses:					
Management Fees	18.71%	19.21%	18.46%	17.37%	**18.40%**
Depreciation	30.90%	31.02%	29.23%	26.87%	**29.41%**
Interest	26.56%	28.47%	27.25%	25.66%	**26.94%**
SG&A	6.24%	6.71%	6.59%	6.26%	**6.45%**
Total Expenses	82.40%	85.42%	81.54%	76.16%	**81.20%**
Percent Change Year/Year					
Rent Income	-21.53%	-17.94%	-7.36%	7.43%	**-10.60%**
Operating Income	-42.95%	-49.55%	-40.16%	215.12%	**-22.92%**

* Total revenues, net income and EPS are reported numbers from AeroCentury. All other numbers are Taglich Brothers estimates.

AeroCentury Inc.
Quarterly Income Statement
For the Year Ended December 31, 2003
(in thousands)

	(3/03) Q1E	(6/03) Q2E	(9/03) Q3E	(12/03) Q4E	**FY2003 E**
Revenues:					
Rent Income	$ 2,500	$ 2,650	$ 2,700	$ 2,775	**$ 10,625**
Gain(loss) on disposal of assets	-	-		-	**-**
Other Income	25	25	25	25	**100**
Total Revenues	2,525	2,675	2,725	2,800	**10,725**
Expenses:					
Management Fees	460	470	475	480	**1,885**
Depreciation	675	675	675	675	**2,700**
Interest	685	715	725	750	**2,875**
SG&A	165	170	175	180	**690**
Total Expenses	1,985	2,030	2,050	2,085	**8,150**
Operating Income	540	645	675	715	**2,575**
Operating Margin	21.39%	24.11%	24.77%	25.54%	24.01%
Taxes(Benefit)	180	218	228	247	**872**
Tax Rate	*33.33%*	*33.72%*	*33.70%*	*34.55%*	*33.86%*
Net Income	$ 360	$ 428	$ 448	$ 468	**$ 1,703**
EPS-fully diluted	$ 0.23	$ 0.28	$ 0.29	$ 0.30	**$ 1.10**
Avg Shares Out-fully diluted	1,543	1,543	1,543	1,543	**1,543**
Margin Analysis					
Gross Profit	2,065	2,205	2,250	2,320	**8,840**
GPM	81.8%	82.4%	82.6%	82.9%	**82.4%**
NI/Rev	14.3%	16.0%	16.4%	16.7%	**15.9%**
NI/Rent Income	14.4%	16.1%	16.6%	16.9%	**16.0%**
Total Exp/Rev	78.6%	75.9%	75.2%	74.5%	**76.0%**
As Per Cent of Rent Income					
Expenses:					
Management Fees	18.40%	17.74%	17.59%	17.30%	**17.74%**
Depreciation	27.00%	25.47%	25.00%	24.32%	**25.41%**
Interest	27.40%	26.98%	26.85%	27.03%	**27.06%**
SG&A	6.60%	6.42%	6.48%	6.49%	**6.49%**
Total Expenses	79.40%	76.60%	75.93%	75.14%	**76.71%**
~~Percent Change Year/Year~~					
Rent Income	15.47%	14.47%	8.00%	1.83%	**9.48%**
Operating Income	22.45%	34.38%	8.87%	-12.27%	**9.30%**
Net Income	20.40%	36.15%	13.87%	-11.70%	**10.87%**