

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form 10-Q

AERO SYSTEMS ENGINEERING INC  
Form 10-Q  
May 05, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2003

( ) 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 0-7390

Aero Systems Engineering, Inc.  
-----

(Exact name of registrant as specified in its charter)

Minnesota 41-0913117  
-----  
(State or other jurisdiction of (I.R.S Employer  
incorporation or organization) Identification No.)

358 East Fillmore Avenue, St. Paul, Minnesota 55107  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code 651-227-7515  
-----

Securities registered pursuant to Section 12(g) of the Act. Common Stock, Par value, \$.20 per share.

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 [X] No [ ]

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 126-2 of the Act).

Yes [ ] No [X]

As of March 31, 2003, 4,401,625 shares of common stock, par value \$.20 per share, were outstanding.

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AERO SYSTEMS ENGINEERING, INC.

Form 10-Q

Quarter Ended March 31, 2003  
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AERO SYSTEMS ENGINEERING, INC.  
CONDENSED BALANCE SHEETS

| ASSETS<br>-----   | March 31,<br>2003<br>-----<br>(Unaudited) | December 31,<br>2002<br>-----<br>(Note) |
|---|---|---|
| (000's omitted, except share data)  |   |   |
| CURRENT ASSETS  |   |   |
| Cash and cash equivalents   | \$ 3,361                                  | \$ 3,234                                |
| Accounts Receivable, net  | 5,884                                     | 6,672                                   |
| Costs and Estimated Earnings in<br>Excess of Billings on Uncompleted<br>Contracts | 6,829                                     | 6,361                                   |
| Inventories:  |   |   |

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|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Materials and Supplies              | 711       | 843       |
| Projects in Process                 | 771       | 360       |
| Prepaid Expenses                    | 325       | 342       |
| Deferred Income Taxes               | 998       | 998       |
|                                     | -----     | -----     |
| Total Current Assets                | 18,879    | 18,810    |
| PROPERTY, PLANT AND EQUIPMENT       |           |           |
| Land                                | 486       | 486       |
| Buildings                           | 3,025     | 3,025     |
| Furniture, Fixtures, & Equipment    | 9,134     | 9,038     |
| Wind Tunnels & Instrumentation      | 3,261     | 3,227     |
| Building Improvements               | 1,570     | 1,570     |
|                                     | -----     | -----     |
|                                     | 17,476    | 17,346    |
| Less Accumulated Depreciation       | 13,531    | 13,225    |
|                                     | -----     | -----     |
| Property, Plant, and Equipment, net | 3,945     | 4,121     |
|                                     | -----     | -----     |
| Total Assets                        | \$ 22,824 | \$ 22,931 |
|                                     | =====     | =====     |

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AERO SYSTEMS ENGINEERING, INC.  
CONDENSED BALANCE SHEETS  
(continued)

| LIABILITIES                               | March 31,<br>2003                  | December 31,<br>2002 |
|---|------------------------------------|----------------------|
| -----                                     | -----                              | -----                |
|   | (Unaudited)                        | (Note)               |
|   | (000's omitted, except share data) |                      |
| CURRENT LIABILITIES                       |                                    |                      |
| Current Maturities of                     |                                    |                      |
| Capital Lease Obligations                 | \$ 122                             | \$ 122               |
| Notes Payable                             | 0                                  | 0                    |
| Notes Payable with related parties        | 500                                | 500                  |
| Accounts Payable:                         |                                    |                      |
| Trade                                     | 2,900                              | 2,162                |
| Related parties                           | 42                                 | 30                   |
| Billings in Excess of Costs and Estimated |                                    |                      |
| Earnings on Uncompleted Contracts         | 4,438                              | 3,431                |
| Accrued Warranty and Losses               | 493                                | 493                  |
| Accrued Salaries and Wages                | 1,168                              | 1,135                |
| Income Tax Payable                        | 182                                | 358                  |
| Other Accrued Liabilities                 | 3,971                              | 5,509                |
|   | -----                              | -----                |
| Total Current Liabilities                 | 13,816                             | 13,740               |

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OTHER LIABILITIES

|                                     |       |       |
|-------------------------------------|-------|-------|
| Long-term debt with related parties | 1,000 | 1,500 |
| Capital Lease Obligations,          |       |       |
| Less Current Maturities             | 76    | 82    |
| Deferred Income Taxes               | 378   | 378   |

STOCKHOLDERS' EQUITY

|  |           |           |
|--|-----------|-----------|
| Common Stock, \$.20 par value              |           |           |
| Authorized shares - 10,000,000             |           |           |
| Issued and outstanding shares - 4,401,625  | 880       | 880       |
| Additional Paid-in Capital                 | 900       | 900       |
| Retained Earnings                          | 5,774     | 5,451     |
|  | -----     | -----     |
| Total Stockholders' Equity                 | 7,554     | 7,231     |
|  | -----     | -----     |
| Total Liabilities and Stockholders' Equity | \$ 22,824 | \$ 22,931 |
|  | =====     | =====     |

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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AERO SYSTEMS ENGINEERING, INC.  
CONDENSED STATEMENTS OF EARNINGS

|                        | Three Months Ended<br>March 31,    |          |
|------------------------|------------------------------------|----------|
|                        | 2003                               | 2002     |
|                        | (Unaudited)                        | (Note)   |
|                        | (000's omitted, except share data) |          |
| Earned Revenue         | \$ 9,427                           | \$ 8,927 |
| Cost of Earned Revenue | 7,264                              | 7,116    |
|                        | -----                              | -----    |
| Gross Profit           | 2,163                              | 1,811    |
| Operating Expenses     | 1,602                              | 1,424    |
|                        | -----                              | -----    |
| Operating Profit       | 561                                | 387      |
| Other Income (Expense) |                                    |          |
| Interest Expense       | (66)                               | (91)     |

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|                            |         |         |
|----------------------------|---------|---------|
| Other                      | 23      | (3)     |
|                            | -----   | -----   |
|                            | (43)    | (94)    |
|                            | -----   | -----   |
| Income Before Income Taxes | 518     | 293     |
| Income Tax Expense         | 195     | 100     |
|                            | -----   | -----   |
| Net Income                 | \$ 323  | \$ 193  |
|                            | =====   | =====   |
| NET INCOME PER SHARE       | \$ 0.07 | \$ 0.04 |
|                            | =====   | =====   |
| Dividends per Share        | None    | None    |

See accompanying notes.

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AERO SYSTEMS ENGINEERING, INC.  
STATEMENTS OF CASH FLOWS

|   | Three Months Ended<br>March 31, |         |
|---|---------------------------------|---------|
|   | 2003                            | 2002    |
|   | -----                           | -----   |
|   | (Unaudited)                     | (Note)  |
|   | (000's omitted)                 |         |
| OPERATING ACTIVITIES  |                                 |         |
| Net Income  | \$ 323                          | \$ 193  |
| Adjustment to reconcile net income to net cash<br>provided by (used in) operating activities: |                                 |         |
| Depreciation and amortization   | 306                             | 339     |
| Changes in operating assets and liabilities:  |                                 |         |
| Accounts receivable   | 788                             | (3,895) |
| Costs and estimated earnings in excess of<br>billings on uncompleted contracts                | (468)                           | (67)    |
| Inventories   | (279)                           | (240)   |
| Prepaid expenses and other, net   | 17                              | 82      |
| Accounts payable and accrued expenses   | (755)                           | 1,968   |
| Income tax payable  | (176)                           | 69      |
| Billings in excess of costs and estimated<br>earnings on uncompleted contracts                | 1,007                           | 1,394   |
|   | -----                           | -----   |
| Net Cash Provided by (Used in) operating activities   | 763                             | (157)   |
| INVESTING ACTIVITIES  |                                 |         |
| Capital expenditures  | (130)                           | (43)    |
|   | -----                           | -----   |
| Net cash used in investing activities   | (130)                           | (43)    |

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### FINANCING ACTIVITIES

|   |          |       |
|---|----------|-------|
| Net (repayments) borrowings under line of credit agreements | 0        | 175   |
| Principal payments on borrowings from related parties       | (500)    | --    |
| Principal payments under capital lease obligations          | (6)      | (17)  |
|   | -----    | ----- |
| Net cash provided by (used in) financing activities         | (506)    | 158   |
|   | -----    | ----- |
| Net increase (decrease) in cash and cash equivalents        | 127      | (42)  |
| Cash and cash equivalents at beginning of year              | 3,234    | 97    |
|   | -----    | ----- |
| Cash and cash equivalents at end of quarter                 | \$ 3,361 | \$ 55 |
|   | =====    | ===== |

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

|                                   |        |        |
|-----------------------------------|--------|--------|
| Cash paid during the quarter for: |        |        |
| Interest                          | 14,978 | 22,795 |
| Income Taxes                      | 371    | --     |

See accompanying notes.

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AERO SYSTEMS ENGINEERING , INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
March 31, 2003

#### NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with 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 the accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ending March 31, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

#### NOTE B - INCOME TAXES

Income taxes are provided on an interim basis based upon management's estimate of the annual effective tax rate.

#### NOTE C - CONTRACTS IN PROCESS

Information with respect to contracts in process follows:

March 31,      March 31,

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|   | 2003            | 2002      |
|---|-----------------|-----------|
|   | -----           | -----     |
|   | (000's omitted) |           |
| Costs Incurred on Uncompleted Contracts       | \$ 49,501       | \$ 41,594 |
| Estimated Earnings Thereon                    | 10,927          | 14,535    |
|   | -----           | -----     |
| Total Earned Revenue on Uncompleted Contracts | 60,428          | 56,129    |
| Less Billings Applicable thereto              | 58,037          | 54,270    |
|   | -----           | -----     |
|   | \$ 2,391        | \$ 1,859  |
|   | =====           | =====     |
| Included in Accompanying Balance Sheet        |                 |           |
| Under Following Captions:                     |                 |           |
| Costs and Estimated Earnings in Excess of     |                 |           |
| Billings on Uncompleted Contracts             | \$ 6,829        | \$ 4,944  |
| Billings in Excess of Costs and Estimated     |                 |           |
| Earnings on Uncompleted Contracts             | 4,438           | 3,085     |
|   | -----           | -----     |
|   | \$ 2,391        | \$ 1,859  |
|   | =====           | =====     |

NOTE C - CONTINGENCIES AND COMMITMENTS

Guarantees of approximately \$3,732,150 were outstanding on March 31, 2003 to various customers as bid bonds or in exchange for down payments or warranty performance bonds.

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AERO SYSTEMS ENGINEERING, INC.

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

In addition to historical information, this Quarterly Report contains forward-looking statements. The forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Factors that might cause a difference include, but are not limited to, general economic conditions, the condition of the aerospace industry, signing of future contracts, competitive factors and other risks detailed from time to time in the Company's reports to the SEC, including the report on Form 10-K for the year end December 31, 2002. Actual results may vary materially from those anticipated.

Results of Operations

First quarter 2003 (All dollar amounts are in thousands.)

Worldwide revenue for first quarter 2003 totaled \$9,427, which was a 6% increase from \$8,927 in first quarter of last year. Net income for first quarter of 2003

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was \$323 as compared to the first quarter net income of \$193 last year.

Backlog of orders as of March 31, 2003 was \$26,495 as compared with \$21,308 and \$30,826 as of December 31, 2002 and March 31, 2002, respectively. The change from December 31, 2002 represents a 24% increase. The total orders received during the first quarter were \$14,600.

The revenue increase was mostly attributable to the increase in the orders in process. The improvement in net income in the first quarter 2003 as compared to the prior year was due to the increased level of orders during the last six months and due to lower interest expense resulting from lower debt levels.

Gross profit for first quarter of 2003 was \$2,163 or 23% of revenue as compared to \$1,811 or 20% of revenue during the same period of last year. This represents a 15% improvement on a percentage of revenue basis and is mostly the result of work shifting to slightly higher margin projects in the test cell portion of the business during the first quarter 2003.

The Company recognizes revenue and profit as work on long-term contracts progresses using the percentage-of-completion method of accounting, which relies on estimates of total expected contract revenues and costs. The Company follows this method since reasonably dependable estimates of the revenue and costs applicable to various stages of a contract can be made. Because the financial reporting of these contracts depends on estimates, which are assessed continually during the term of the contract, recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are reflected in the period in which the facts that give rise to the revision become known. Accordingly, favorable changes in estimates result in additional profit recognition, and unfavorable changes in estimates result in the reversal of previously recognized revenue and profits. When estimates indicate a loss under a contract, cost of revenue is charged with a provision for such loss. As work progresses under a loss contract, revenue continues to be recognized, and a portion of the contract costs incurred in each period is charged to the contract loss reserve.

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### AERO SYSTEMS ENGINEERING, INC.

Selling, general and administrative expenses of \$1,521 were 16% of revenues during first quarter 2003 as compared to \$1,346 and 15% during the same period of last year. This increase of \$175 is mostly related to increased direct selling activities.

Research and development expenses were \$81 during first quarter of 2003 as compared to \$78 in the same period in 2002. This is an increase of \$3 or 4%. During 2003, additional R & D will be incurred for continued enhancements to the ASE2000, aero-acoustic analysis and new product initiatives.

Interest expense of \$66 was incurred during the first quarter 2003 as compared to \$91 from the same period in the prior year. The average amount of borrowings outstanding has decreased in the first quarter 2003 as compared to the first quarter of last year mostly due to the timing of milestone invoice payments on existing contracts.

Income tax expense was \$195 for the first quarter 2003 as compared to \$100 for the first quarter of 2002. Income taxes are provided on an interim basis based upon management's estimate of the annual effective tax rate.



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### Financial Condition

Accounts receivable at the end of first quarter 2003 was \$5,884 as compared with the year end balance of \$6,672. This decrease of \$788 was due mainly to the timing of billing milestones on several large contracts.

Costs and estimated earnings in excess of billings on uncompleted contracts at the end of first quarter 2003 was \$6,829, which is an increase of \$468 or 7% as compared with the year-end 2002 balance. The Company recognizes profit on long-term projects on the percentage of completion basis, which permits earned revenue to be recognized prior to the time that progress payments are billed. When this occurs, amounts are added to this asset account for the recognition of earned revenue prior to the billing of progress payments. The increase since year-end is due to the timing of billing milestones related to the contracts. Billings are a function of contract terms and do not necessarily relate to the percentage of completion of a project.

Current notes payable balances totaled \$500 as compared to the year-end 2002 balance of \$500. For the first three months of 2003, positive cash flows from operations were \$763, which enabled the Company to maintain no borrowings under its line of credit and to slightly improve its cash position to \$3,361 as of March 31, 2003.

Accounts payable and accrued expenses at the end of first quarter 2002 decreased \$931 or 10% as compared to the year-end 2002 balance. This was primarily due to a decrease in accrued job costs relating to ongoing projects.

Billings in excess of costs and estimated earnings on uncompleted contracts at the end of first quarter 2003 increased \$1,007 to \$4,438 compared to the year-end 2002 balance of \$3,431. The increase since year-end is due to the timing of billing milestones related to contracts. Billings are a function of contract terms and do not necessarily relate to the percentage of completion of a project.

### Liquidity and Capital Resources

The Company has consistently relied upon bank credit lines during recent years as a source of its working capital resources and liquidity. During the third quarter 2001, Celsius Inc. sold 51% of the total outstanding shares of common stock of ASE to Minnesota ASE, LLC. Related to this transaction, the

Company has secured new bank financing agreements for operating funds and future letter of credit needs. These new agreements are asset based collateral agreements, with the funds available under these agreements determined by the available securable assets at any point in time, up to a maximum of \$6,000 of operating funds, and \$4,000 of letter of credit funds with the combined maximum of the two lines not exceeding \$9,000. Also related to the transaction, Celsius Inc. agreed to continue to hold certain existing bank guarantees until maturity that were previously provided to a few of the Company's customers, and Celsius Inc. provided a three year \$1,500 loan to the Company at 8% per year, which is subordinated debt under the new bank agreement. The Company provided an indemnification agreement to Celsius Inc. to secure Celsius Inc.'s interest in the above items. In March of 2003, in connection with Saab AB providing an extension to a down payment letter of credit to one of the Company's customers, the Company repaid to Celsius Inc., \$500,000 of the \$1,500,000 three-year note.

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The average amounts outstanding and funds available on the operating line and letter of credit during the first quarter 2003 were \$0 outstanding on \$2,876 available and \$2,108 outstanding on \$4,000 available, respectively.

At the end of the first quarter 2003, the Company had notes payable balances of \$500 current and \$1,000 long term. The current notes payable balance of \$500 consisted of interim loans provided by Minnesota ASE, LLC. The \$500 note to Minnesota ASE, LLC is at 8% per year and does not have a stated maturity date. The Company believes that bank lines of credit, along with cash flows from continuing operations, are adequate to support the Company's cash needs for the immediate future.

Capital expenditures during the first quarter 2003 were \$130 as compared to \$43 for the same period of last year. This increase of \$87 is the result of the timing of the major capital acquisitions during 2003. Additional capital expenditures will be used to acquire additional equipment for research and development projects, facility improvements and desktop upgrades. We expect the total capital expenditures for the year ending December 31, 2003 to approximate the year ended December 31, 2002.

### Market Risk

The Company operates on a global basis and, during an average year, generates approximately 50% of its revenues from international customers. This trend has continued for the last five years as foreign airlines and government agencies purchase products that ASE designs and produces. Most of the Company's contracts are denominated in U.S. dollars. However, a few of them are denominated in the customer's local currency. Therefore, the Company has entered into foreign exchange forward contracts having maturities within the next eighteen months. The face amounts represent U.S. dollar equivalents of a non-U.S. dollar denominated forward contract. The amounts at risk are not material, and the Company has the financial ability to generate cash flows to offset the expected gains or losses when the contracts mature.

### Forward-Looking Information

Highly competitive market conditions have necessitated the Company to initiate productivity improvements and cost reduction programs to increase margins.

Looking ahead throughout the remainder of 2003, the amount of business in backlog and the number of proposals outstanding should provide a solid base for the remainder of the year.

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AERO SYSTEMS ENGINEERING, INC.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company's long-term contracts are substantially all denominated in U.S. dollars. In certain circumstances, the Company has hedged its exposure to foreign currency fluctuations. A 10% adverse change in foreign currency rates would not have a material effect on the Company's results of operations or financial position.

The Company is also subject to interest rate risk. The Company has not hedged its exposure to interest rate fluctuations; however, a 10% increase or decrease in interest rates would not have a material effect on the Company's results of operations, fair values, or cash flows.

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### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

The term "disclosure controls and procedures" is defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934 (Exchange Act). These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Our Chief Executive Officer and our Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days before filing this quarterly report (the Evaluation Date), and they have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our reports filed under the Exchange Act.

#### Changes in Internal Controls

We maintain a system of internal accounting controls that are designed to provide reasonable assurances that our books and records accurately reflect our transactions and that our established policies and procedures are followed. For the quarter ended March 31, 2003, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls subsequent to the date of evaluation referenced in the paragraph above.

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AERO SYSTEMS ENGINEERING, INC.

### PART II - OTHER INFORMATION

#### Item 6: Exhibits and Reports on Form 8-K

- (a) Exhibits 99.1 (Certification of Chief Financial Officer) and 99.2 (Certification of Chief Executive Officer).
- (b) On February 4, 2003, the registrant filed a Form 8-K report to release announcing the year end 2002 financial results. On March 6, 2003, the registrant filed a Form 8-K report announcing two major contract awards.

#### 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 thereto duly authorized.

Date: April 29, 2003

/s/ Charles H. Loux

-----  
Charles H. Loux, President and CEO

/s/ Steven R. Hedberg

-----  
Steven R. Hedberg, Chief Financial Officer

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CERTIFICATIONS

I, Charles H. Loux, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aero Systems Engineering, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal

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controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 29, 2003

Aero Systems Engineering, Inc.

By: /s/ Charles H. Loux  
-----  
Charles H. Loux, President and CEO

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CERTIFICATIONS

I, Steven R. Hedberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aero Systems Engineering, Inc;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record,

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process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 29, 2003

Aero Systems Engineering, Inc.

By: /s/ Steven R. Hedberg  
-----  
Steven R. Hedberg, CFO, Secretary and Treasurer