

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

AERO SYSTEMS ENGINEERING INC  
Form DEF 14A  
July 05, 2001

1

SCHEDULE 14A  
(RULE 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (AMENDMENT NO. )

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

- Preliminary proxy statement
- Definitive proxy statement
- Definitive additional materials
- Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e) (2))

AERO SYSTEMS ENGINEERING, INC.

-----  
(Name of Registrant as Specified in Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- \$125 per Exchange Act Rules 0-11(c) (1) (ii), 14a-6(i) (1), or 14a-6(i) (2) or Items 22 (a) (2) of Schedule A.
- \$500 per each party to the controversy pursuant to Exchange Act Rule 14a-6(i) (3).
- Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transactions applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (Set forth the amount on which the filing fee is calculated and state how it was determined.)
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a) (2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount previously paid:
- (2) Form, Schedule or Registration Statement No.:

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

(3) Filing party:

(4) Date filed:

2

AERO SYSTEMS ENGINEERING, INC.  
A MINNESOTA CORPORATION  
358 EAST FILLMORE AVENUE  
ST. PAUL, MINNESOTA 55107

-----  
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
AUGUST 8, 2001, AT 2:00 P.M.  
-----

TO AERO SYSTEMS ENGINEERING, INC. SHAREHOLDERS:

The annual meeting of the shareholders of Aero Systems Engineering, Inc. (the "Company") will be held on August 8, 2001 at 2:00 p.m., C.D.T., at the Company's headquarters at 358 East Fillmore Avenue, St. Paul, Minnesota 55107, for the following purposes:

1. To consider and act upon the Board of Directors' recommendation to fix the number of directors of the Company at five.
2. To elect a Board of Directors.
3. To transact such other business as may properly come before the meeting or any adjournments thereof.

The stock transfer books of the Company will not be closed. In lieu thereof, and in accordance with the Bylaws, the Board of Directors has set the close of business on July 5, 2001 as the record date for the determination of the shareholders entitled to notice of and to vote at the meeting or any adjournments thereof.

Your attention is respectfully directed to the attached Proxy Statement and the Proxy. IF YOU DO NOT EXPECT TO BE PRESENT AT THE MEETING, PLEASE FILL IN THE ATTACHED PROXY AND DATE, SIGN AND MAIL IT AS PROMPTLY AS POSSIBLE IN ORDER TO SAVE THE COMPANY FURTHER SOLICITATION EXPENSE.

By order of the Board of Directors

/s/ Steven R. Hedberg

-----  
Steven R. Hedberg  
Secretary

3

AERO SYSTEMS ENGINEERING, INC.  
A MINNESOTA CORPORATION  
358 EAST FILLMORE AVENUE  
ST. PAUL, MINNESOTA 55107  
651-227-7515

-----  
PROXY STATEMENT  
ANNUAL MEETING OF SHAREHOLDERS  
AUGUST 8, 2001  
-----

GENERAL

This Proxy Statement is submitted in support of the solicitation of the attached proxy by the Board of Directors of Aero Systems Engineering, Inc., a Minnesota corporation ("Company"), for the Annual Meeting of the shareholders of the Company to be held on August 8, 2001 at 2:00 o'clock p.m. at the Company's headquarters, 358 East Fillmore Avenue, St. Paul, Minnesota 55107, and at any adjournments thereof (the "Annual Meeting"). The cost of solicitation will be borne by the Company. This Proxy Statement and the accompanying Proxy and Notice of Annual Meeting of Shareholders is intended by the Company to be mailed to its shareholders on or about July 11, 2001. The Company may reimburse brokerage firms, banks, and other custodians, nominees, and fiduciaries for expenses reasonably incurred in forwarding solicitation materials to beneficial owners of shares.

The Annual Meeting is being held for the purposes of fixing the number of and electing the Company's Board of Directors and to transact such other business as may properly come before the Annual Meeting.

The annual report of the Company for the year ended December 31, 2000, including financial statements, is being mailed to shareholders simultaneously herewith, but the annual report is not to be considered part of the proxy soliciting materials.

Only holders of shares of the Company's Common Stock recorded at the close of business on July 5, 2001, the record date for the Annual Meeting, will be entitled to notice of and to vote at the Annual Meeting. The securities of the Company outstanding as of July 5, 2001, and which are entitled to vote at the Annual Meeting, consist of 4,401,625 shares of Common Stock, each share being entitled to one vote. Shareholders do not have the right to cumulate votes for the election of directors.

The enclosed Board of Directors' proxy, when properly signed and returned to the Company, will be voted at the Annual Meeting as directed therein. Proxies in which no direction is given with respect to the various matters of business to be transacted at the Annual Meeting will be voted to set the number of the Board of Directors at five, in favor of the nominees for directors proposed by the Board of Directors, and, as to any other matters that may properly come before the Annual Meeting, in the best judgment of the proxy holders named in the enclosed proxy.

The enclosed proxy may be revoked at any time prior to its exercise before or at the Annual Meeting by the execution and exercise of a proxy bearing a later date and notification in writing given to the

Secretary of the Company prior to the Annual Meeting. The authority of the proxy holders named in the enclosed proxy will be suspended if the shareholder executing the proxy is present at the meeting and elects to vote in person.

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

The Company may have one or more of its officers or employees communicate by telephone, telegraph, facsimile, or mail with some of the shareholders who may have omitted to return proxies.

A quorum, consisting of a majority of the shares of Common Stock entitled to vote at the Annual Meeting, must be present in person or by proxy before action may be taken at the Annual Meeting. In general, the shareholders of the Company may take action by the affirmative vote of the holders of the greater of (i) a majority of the voting power of the shares present and entitled to vote on a particular item of business or (ii) a majority of the voting power of the minimum number of shares entitled to vote that would constitute a quorum. If an executed proxy is returned and the shareholder has abstained from voting on any matter, the shares represented by such proxy will be considered present at the Annual Meeting for purposes of determining a quorum and for purposes of calculating the vote, but they will not be considered to have been voted in favor of such matter. If an executed proxy is returned by a broker or other entity holding shares in "street name" which indicates that the broker does not have discretionary authority as to certain shares to vote on one or more matters, such shares will be considered present at the Annual Meeting for purposes of determining a quorum, but they will not be considered to be represented at the Annual Meeting for purposes of calculating the vote with respect to such matter.

### PRINCIPAL SHAREHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of the Common Stock of the Company as of March 1, 2001 by each shareholder who is known by the Company to own beneficially more than 5% of the outstanding Common Stock, by each director and by each nominee director, by each executive officer named in the Summary Compensation Table, and by all executive officers and directors as a group. If the name of a director or nominee director is not shown, he beneficially owns no Common Stock. Except as may be disclosed in the footnotes to the following table, none of the shareholders listed below beneficially owns common stock of the Company's parent(s) or subsidiaries other than through their ownership of the Company's Common Stock.

2

5

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Celsius Inc. 1800 Diagonal Road Suite 230 Alexandria, VA 22314	3,522,073	80.0%
A. L. Maxson 5848 Long Brake Trail Edina, MN 55438	106,950	2.4%
Dr. Leon E. Ring 2202 Crystal Spring Lane	2,300	*

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

Hermitage, TN 37076

All executive officers  
and directors  
as a group (9 persons)

129,742

2.9%

-----  
\* Less than 1%.

- (1) Each person or group has sole voting and investment power with respect to, and directly owns, all outstanding shares.
- (2) The percentage calculation is based on 4,401,625 shares outstanding at March 1, 2001.

PROPOSAL TO FIX NUMBER OF DIRECTORS  
(Item 1)

The Bylaws of the Company provide that the number of Directors may be set by the shareholders (subject to the right of the Board of Directors to increase or decrease the number of Directors as otherwise permitted by law). At the most recent annual meeting of the Company's shareholders held on May 31, 2000, the shareholders fixed the number of the Company's Board of Directors at five and elected five directors.

IT IS THE RECOMMENDATION OF THE COMPANY'S BOARD OF DIRECTORS THAT THE NUMBER OF DIRECTORS BE SET AT FIVE.

Unless otherwise directed, the proxies solicited by the Board of Directors will be voted in favor of setting the number of the Board of Directors at five.

The affirmative vote of a majority of the shares of Common Stock of the Company represented at the Annual Meeting at which a quorum is present either in person or by proxy is required to fix the number of the Board of Directors at five. A quorum consists of a majority of the shares of Common Stock entitled to vote at the Annual Meeting.

3

6

ELECTION OF DIRECTORS  
(Item 2)

The Board of Directors manages the business of the Company. The Bylaws of the Company provide that the shareholders shall elect the Board of Directors. At the most recent annual meeting of the Company's shareholders held on May 31, 2000, the shareholders elected the following five directors: Christer Persson, Charles H. Loux, Dr. Leon E. Ring, Richard A. Hoel, and A. L. Maxson.

IT IS THE RECOMMENDATION OF THE COMPANY'S BOARD OF DIRECTORS THAT THE FIVE NOMINEES NAMED BELOW BE ELECTED AS DIRECTORS, TO SERVE AS DIRECTORS UNTIL THE NEXT ANNUAL MEETING OF THE SHAREHOLDERS AND UNTIL THEIR SUCCESSORS SHALL BE DULY ELECTED AND QUALIFIED AS DIRECTORS.

Unless otherwise directed, the proxies solicited by the Board of Directors will be voted in favor of electing the five nominees named below to the Board of Directors. However, in the event of the inability or unwillingness of one or

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

more of these nominees to serve as a director at the time of the Annual Meeting on August 8, 2001, or any adjournments thereof, the shares represented by the proxies will be voted in favor of the remainder of such nominees and may also (at the discretion of the holders of said proxies) be voted for other nominees not named herein, in lieu of those unable or unwilling to serve. As of the date hereof, the Board of Directors knows of no nominee who is unwilling or unable to serve.

The affirmative vote of a majority of the shares of Common Stock of the Company represented at the Annual Meeting at which a quorum is present either in person or by proxy is required to elect each director. A quorum consists of a majority of the shares of Common Stock entitled to vote at the Annual Meeting.

### INFORMATION ABOUT NOMINEES FOR ELECTION AS DIRECTORS

All of the nominees of the Board of Directors are presently serving as directors of the Company. The names and ages of all five nominees are as follows:

Names of Nominees -----	Ages ----	Director Since -----
Christer Persson	51	September 1993
Charles H. Loux	53	October 1999
Richard A. Hoel	53	February 1998
A. L. Maxson	65	May 1986
Dr. Leon E. Ring	68	November 1996

Christer Persson, since August 1993, has been the President and Chief Executive Officer of Celsius Inc., a wholly-owned subsidiary of Celsius AB, a Swedish holding company owned by Saab AB. From January 1991 until July 1993, he was the President and owner of CHP Management and Business Consult AB, a management consultant company specializing in strategic development and corporate restructuring.

Charles H. Loux has been the President and Chief Executive Officer of the Company since October 1, 1999. He was appointed to the Company's Board of Directors effective October 1, 1999. Prior to joining the Company, Mr. Loux was employed for 15 years at GE Aircraft Engines where his most

recent position was Manager of Customer Facility Support. He has over 30 years of experience in the industry and is highly regarded in the engine overhaul and test facilities field.

Richard A. Hoel was appointed as a Director of the Company on February 18, 1998. He was a founder and has been a senior shareholder/partner of Winthrop & Weinstine, P.A., the Company's law firm, since February 1979.

A. L. Maxson has been a financial consultant since August 1997. From January 1, 1994 to July 1997, he was the Executive Vice President - Finance and Chief Financial Officer and Director of Great Lakes Aviation, Ltd. Mr. Maxson was a financial consultant from March 1991 until December 1993. From August 1986 until March 1991, he was Vice President, Financial Planning, for Northwest Airlines, Inc.

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

Dr. Leon E. Ring has been retired since October 1999 and has been a Director of the Company since November 1996. From September 23, 1996 until October 1, 1999, he was President and Chief Executive Officer of the Company. Prior to joining the Company, Dr. Ring was employed under a Boeing contract from April 1995 to September 1996 and served as the Deputy Project Director - Technical with senior technical responsibility for the National Wind Tunnel Complex. From July 1993 to April 1995, Dr. Ring was Senior Vice President for the Fluidyne Facilities Group at the Company. From June 1991 to July 1993, Dr. Ring was the President of Fluidyne Engineering Corporation ("Fluidyne"); effective July 30, 1993, the Company purchased substantially all of the assets of Fluidyne relating to Fluidyne's business of designing, constructing and supplying various types of test facilities, such as wind tunnels.

No nominee for the Board of Directors is a director of another company (that is, other than the Company) with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to Section 15(d) of that Act. None of the director nominees is a director of a company registered as an investment company under the Investment Company Act of 1940.

### INFORMATION REGARDING EXECUTIVE OFFICERS

Donald N. Kamis, who is 58 years old, has been a Vice President of the Company since September 1992. Prior to September 1992, Mr. Kamis was the Vice President of Engineering for Fluidyne and held that position for more than five years.

Grant A. Radinzel, who is 45 years old, has been a Vice President of the Company since June 1995. From 1985 until June 1995, Mr. Radinzel held engineering management and project management positions with the Company.

Richard L. Thomalla, who is 50 years old, has been a Vice President of the Company since March 1998. From September 1996 until March 1998, Mr. Thomalla served the Company as Director of Business Development for Test Cells. Prior to September 1996, Mr. Thomalla served the Company for over 21 years in various positions, including mechanical engineering, engineering management, sales and marketing, and project management.

Steven R. Hedberg, who is 48 years old, has been the Secretary and Treasurer of the Company since March 1998. In addition to these duties, Mr. Hedberg has been the Company's Chief Financial Officer since January 1998. Prior to joining the Company on January 19, 1998, Mr. Hedberg was employed for more than 20 years with Control Data Systems, Inc.

### INFORMATION CONCERNING BOARD OF DIRECTORS

During the fiscal year ended December 31, 2000, the Board of Directors held three formal meetings. All of the nominees who were Directors of the Company attended all of the meetings held in 2000 while they were directors of the Company. Board members also met informally during the year to discuss various aspects of the business affairs of the Company.

The Board appointed an Audit Committee in 1991 consisting of A. L. Maxson and has annually reconfirmed the appointment of Mr. Maxson to this Committee. On

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

February 18, 1998, Richard A. Hoel also was appointed to the Audit Committee. The Board reconfirmed the appointments of Messrs. Maxson and Hoel to the Committee on April 25, 2001. The duties of the Audit Committee are to establish and maintain direct contact with the Company's independent auditors to review the adequacy of the Company's accounting and financial reporting procedures, the adequacy and effectiveness of the Company's system of internal accounting controls, the scope and results of the annual audit, and any other matters relative to the audit of the Company's accounting and financial affairs that the Audit Committee or the independent auditors deem necessary or appropriate.

In December 1999, the Securities and Exchange Commission (SEC) adopted new rules relating to Audit Committees in response to the Blue Ribbon Committee report and recommendations. Included in the new rules is a recommendation that Audit Committees have a minimum of three independent directors. Under exceptional and limited circumstances, however, one member may be non-independent, provided that the Board determines it to be in the best interests of the corporation. To comply with the recommendations of the Blue Ribbon Committee, the Board appointed Dr. Leon E. Ring to the Audit Committee on April 25, 2001 as the third member of the Audit Committee. While Dr. Ring does not yet meet the requirements for independence, the Board believes that the appointment of Dr. Ring satisfactorily meets the intent of the recommendations of the Blue Ribbon Committee and is in the best interests of the Company.

### AUDIT COMMITTEE CHARTER

During March 2000, the Board of Directors of the company adopted a new, written Audit Committee Charter, a copy of which Charter is attached as Appendix A to this Proxy Statement.

### AUDIT COMMITTEE REPORT

In February 2001, the Audit Committee (which then consisted of A.L. Maxson and Richard A. Hoel) has reviewed and discussed with management the audited financial statements for the year ended December 31, 2000; has discussed with the independent auditors the matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU ss. 380), as modified or supplemented; has received the written disclosures and letter from the independent auditors required by Independence Standards Board Standard No. 1, as may be modified or supplemented; and has discussed with the independent auditors the auditors' independence. Based on such review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2000, be included in the Company's Annual Report on Form 10-K for filing with the Securities and Exchange Commission.

By the Audit Committee:  
A.L. Maxson  
Richard A. Hoel.

### AUDIT FEES

The aggregate fees billed the Company by Ernst and Young LLP for professional services rendered for the audit of the Company's annual financial statements for the year ended December 31, 2000, and the reviews of the financial statements

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

included in the Company's Quarterly Reports on Form 10-Q during the year 2000 were \$65,550.

### FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

No fees were billed and no services rendered to the Company by Ernst and Young LLP for financial information systems design and implementation as described in paragraph (c) (4) (ii) of Rule 2-01 of Regulation S-X during the year ended December 31, 2000.

### ALL OTHER FEES

The aggregate fees billed to the Company by Ernst and Young LLP for all services, other than those described under the preceding captions, rendered during the year ended December 31, 2000, were \$37,560. The Audit Committee has considered whether the provision of such services is compatible with maintaining the independence of Ernst and Young LLP.

### COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth information concerning the compensation of the Chief Executive Officer of the Company for services rendered in all capacities during each of the years ended December 31, 2000, 1999 and 1998, and for the only other executive officer of the Company (the "Named Executive Officers") whose total salary and bonus for the fiscal year ended December 31, 2000 exceeded \$100,000 for services in all capacities to the Company. No other executive officer in 2000 earned an annual salary and bonus totaling in excess of \$100,000.

7

10

### SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION -----	ANNUAL COMPENSATION			OTHER ANNUAL COMPENSATION	ALL COMP
	YEAR	SALARY	BONUS		
-----	----	-----	-----	-----	-----
Charles H. Loux	2000	\$150,000	\$37,500 (2)	\$ 0	\$18
Director, President and	1999(1)	\$ 40,385	\$ 0	\$ 0	\$ 8
Chief Executive Officer	1998	\$ 0	\$ 0	\$ 0	\$
Donald N. Kamis	2000	\$107,703	\$ 0	\$ 0	\$ 3
Vice President, Wind Tunnel	1999	\$105,290	\$ 0	\$ 0	\$ 3
Business Development	1998	\$103,541	\$ 9,280	\$ 0	\$ 3
Richard Thomalla	2000	\$104,481	\$ 0	\$ 0	\$ 3
Vice President, Test Cell					
Business Development					

(1) Mr. Loux became President and Chief Executive Officer on October 1, 1999.

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

- (2) Of the \$37,500, \$15,000 was paid in 2000 and \$22,500 was paid in 2001.
- (3) Consists of \$949 and \$236 group life insurance premiums paid by the Company for Mr. Loux in 2000 and 1999, respectively and \$853 additional term insurance in 2000. Also consists of \$16,791 and \$7,839 of relocation expenses paid by the Company for Mr. Loux in 2000 and 1999, respectively. See "Report of Board of Directors on Executive Compensation."
- (4) Consists of \$676, \$655, and \$638 of group life insurance premiums paid by the Company for Mr. Kamis in 2000, 1999, and 1998, respectively, and \$3,231, \$3,162, and \$3,106 of contributions made in 2000, 1999, and 1998, respectively, by the Company on behalf of Mr. Kamis under the Company's 401(k) retirement savings plan.
- (5) Consists of \$651 in group life insurance premiums paid by the Company for Mr. Thomalla in 2000 and \$3,135 of contributions made in 2000 by the Company on behalf of Mr. Thomalla under the Company's 401(k) retirement savings plan.

### SUMMARY OF PLANS

#### Group Life Insurance

The Company provides group life insurance to all of its full-time employees. The amount of group life insurance on each full-time employee is equal to 150% of the employee's base salary, which excludes any bonus paid to an employee pursuant to any bonus plan adopted by the Company. To the extent that such insurance coverage exceeds \$50,000 for any employee, such employee recognizes the cost of such excess insurance as taxable income. The group life insurance premiums paid on behalf of the Named Executive Officers are included therein under the heading "All Other Compensation."

#### 401(k) Profit Sharing Plan

The Company's ASE, Inc Retirement Savings Plan ("Retirement Savings Plan") is a retirement savings plan under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended ("Code"). Eligible employees may choose to reduce their salary or wages from the Company by not less than 1% nor more than 15% (subject to a maximum reduction of \$10,500 per year) and have such amounts contributed to MetLife Defined Contribution Group ("MDCG") under the terms of the Retirement

Savings Plan; these amounts are not taxed to the employee at the time of contribution to the Retirement Savings Plan. In addition, eligible employees may elect to reduce their salary or wages from the Company by not less than 1% nor more than 10% and have such amounts contributed to MDCG under the terms of the Retirement Savings Plan; these amounts are taxed to the employee at the time of contribution to the Retirement Savings Plan. Contributions up to 6% of the employee's compensation are matched at a rate of 50% by the Company ("Matching Contributions"). In addition, the Company may, but is not obligated to, make additional contributions to the Retirement Savings Plan. Both the Matching Contributions and the additional discretionary contributions are limited to the

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

Company's accumulated net profits (prior to any deduction of contributions to the Retirement Savings Plan and any federal, state or local income taxes). The maximum annual allocation to an employee's account (including earnings, losses and forfeitures) is the lesser of (i) 25% of their salary or wages, or (ii) \$30,000. All contributions under the Retirement Savings Plan are invested (pursuant to several investment choices) by the trustee for the Retirement Savings Plan. The Company's trustee for the Retirement Savings Plan is Chase Manhattan Bank Trust. MDCG is agent to Chase Manhattan Bank Trust.

Distributions of the vested portions of an employee's account balance will typically occur on the employee's retirement (age 65), death, or disability or after their tenth anniversary in the Retirement Savings Plan. Distributions can be made in the form of a lump sum, annuity or installment method of payment, at the discretion of the employee. During the years ending December 31, 2000, 1999 and 1998, \$494,229, \$635,575, and \$690,276, respectively, were distributed by the Retirement Savings Plan. In 2000, 1999 and 1998, no distributions were made to any executive officer of the Company, including the Named Executive Officers. Benefit amounts credited during 2000, 1999 and 1998 pursuant to the Retirement Savings Plan for the Named Executive Officers, the distribution or unconditional vesting of which are not subject to future events, are included in the Summary Compensation Table under the heading "All Other Compensation."

### EMPLOYMENT AGREEMENT

The Company entered into an employment agreement with Charles H. Loux dated August 30, 1999, which provides for a term of one year, commencing on September 20, 1999 and ending September 30, 2000. That Agreement was amended and renewed on September 30, 2000 (the Agreement). The Agreement provides for an annual base salary of \$156,000 with a base salary adjustment upon completion of 12 months of employment. The Agreement also provides for an annual incentive bonus based on certain performance criteria set forth in the Agreement; these criteria may be adjusted from time to time by the Board in its sole discretion but upon consultation with Mr. Loux. The maximum incentive bonus that may be paid with respect to any year cannot exceed 50% of the base salary paid during that year. Under the Agreement, Mr. Loux is entitled to participate in any retirement savings plan, life insurance, health insurance, dental insurance, disability insurance or any other fringe benefit which the Company may from time to time make available to its salaried or executive employees; however, the Company agreed under the Agreement to provide Mr. Loux with term life insurance equal to two and one-half (2-1/2) times his annual base salary. Under the Agreement, if Mr. Loux's employment is terminated by the Board of Directors for reasons other than "cause" (as that term is defined in the Agreement), Mr. Loux is to receive a cash severance payment equal to 12 months' base salary in effect at the time of the termination and a pro-rated bonus.

### COMPENSATION OF DIRECTORS

During 2000, Messrs. A. L. Maxson, Richard A. Hoel and Dr. Leon E. Ring received an aggregate of \$8,000, \$8,000 and \$6,000, respectively, (plus reimbursement of out-of-pocket expenses in carrying out their responsibilities as a Director) for serving on the Board of Directors of the Company and for serving on the Board's Audit Committee. In 2000, the other members of the Board of Directors received no compensation for serving as Directors but received reimbursement of

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

out-of-pocket expenses incurred in carrying out their responsibilities as Directors of the Company.

### REPORT OF BOARD OF DIRECTORS ON EXECUTIVE COMPENSATION

During the year ended December 31, 2000, the members of the Board of Directors of the Company, with the exception of Charles H. Loux, were not executive officers or employees of the Company or its subsidiaries. All other members of the Board in 2000, except Messrs. A. L. Maxson, Richard A. Hoel, and Dr. Leon E. Ring also served as directors or executive officers of companies of which the capital stock is owned directly or indirectly (that is, through its subsidiaries) by the Company's ultimate parent, Saab AB. The Company's Board of Directors is responsible for ensuring that compensation for executives is consistent with the Company's compensation philosophy. The Board believes that the Company's executive compensation is reasonable given its financial performance and as compared to other similar companies in the industry.

The Board annually evaluates the performance and compensation of the Company's Chief Executive Officer ("CEO"). The Board's deliberations regarding annual salary and incentive bonus are made without the presence of the CEO. Annual base salary for the CEO is established on the basis of a number of factors, including general performance of the Company and competitive standards. Although the Board takes into account corporate performance generally in determining annual base salary, there is no specific formula relating corporate performance to annual salary.

The Company's policy with respect to the compensation of its executive officers, including its CEO, includes the following beliefs:

1. The Company believes that its compensation system should attract and retain experienced, highly qualified executive officers.
2. The Company believes in pay for performance based on specific written goals and objectives and that executive compensation should have a substantial component of incentive compensation based on performance.
3. The Company believes that its executive compensation level should be measured by comparison to similar companies as well as other factors, such as an individual's contributions and performance.
4. The Company believes that the overall compensation level of the Company's executive officers should take into account the overall performance of the Company as compared to similar companies.

### Determination of Compensation of Chief Executive Officer

The CEO's total annual compensation consist of two elements -- annual base salary and annual incentive bonus. Charles Loux's annual base salary for 2000 was determined in part by comparison to the annual salaries of chief executive officers of other companies of similar size and complexity of the Company. The annual incentive bonus component of Charles Loux's 2000 compensation plan was determined by establishing certain levels of financial performance of the Company as compared to the pre-determined annual budget and certain other

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

factors. The factors and performance thresholds for 2000 were determined in the first quarter of that year by agreement between Charles Loux and Mr. Christer Persson, the Chairman of the Board. For the year ended December 31, 2000, 80% of Charles Loux's total available incentive bonus was based on the Company reaching certain levels of net income in 2000 as compared to the annual budget. The remaining 20% of Charles Loux's 2000 incentive bonus was determined in the Board's discretion after reviewing his overall performance. For 2000, Charles Loux did receive an annual incentive bonus.

The Board believes that its current compensation philosophy and approach has served the Company's shareholders fairly, and it plans to continue the same compensation philosophy and approach for the foreseeable future.

By the Board of Directors:

Christer Persson, Chairman  
Charles H. Loux  
Richard A. Hoel  
A. L. Maxson  
Dr. Leon E. Ring

11

14

### PERFORMANCE GRAPH

The following graph and table show changes during the period since December 31, 1995 through December 31, 2000 in the value of \$100 invested in: (1) the Company's Common Stock; (2) The Nasdaq Stock Market (U.S.); and (3) a group of 27 companies (including the Company) in the engineering services industry. The year-end values of each investment are based on share price appreciation plus any dividends paid in cash, with the dividends reinvested on the date they were paid. The calculations exclude trading commissions and taxes.

#### FIVE YEAR CUMULATIVE TOTAL RETURNS Value of \$100 invested on December 31, 1995

	1995	1996	1997	1998	1999	2000
	----	----	----	----	----	----
Nasdaq (U.S.)	\$100	\$124	\$152	\$214	\$378	\$238
Industry Group	100	118	143	134	148	261
Company	100	82	118	170	188	188

### CERTAIN TRANSACTIONS

Celsius Inc. has guaranteed certain bank lines of credit granted to the Company by Skandinaviska Enskilda Banken ("SEB"). In addition, during 2000, Celsius Inc. provided customer assistance and consulting services to the Company. As consideration for such guarantees, customer assistance and consulting services, the Company incurred and paid interest charges (or fees) to Celsius Inc. (a wholly-owned subsidiary of Celsius AB, a Swedish holding company owned by Saab AB) in the amount of \$200,000 during the year ended December 31, 2000. During

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

2000, the bank lines of credit to the Company from SEB were in the amount of \$6,000,000. Although the line of credit has a \$6,000,000 limit, Celsius Inc has allowed the Company to exceed this limit for short periods of time. The portion over \$6,000,000 is assessed a higher interest rate. To secure the guarantees by Celsius Inc. of such lines of credit and to secure any other present or future obligations of the Company to Celsius Inc., the Company has granted security interests to Celsius Inc. in substantially all of the Company's assets. The existence and continued availability of the bank lines of credit from SEB are dependent upon, among other things, the continued guarantees of Celsius Inc., and there can be no assurance that such guarantees will continue indefinitely.

12

15

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors and persons who own more than ten percent of the Company's Common Stock to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Based upon inquiries made by the Company of its executive officers and directors and of inquiries made of Celsius Inc., which is the only person known to the Company which owns more than ten percent of the Common Stock, the Company believes that during 2000 its officers and directors and Celsius Inc. met all applicable Section 16(a) filing requirements.

### OTHER BUSINESS

All items of business intended by management to be brought before the Annual Meeting are set forth in this Proxy Statement, and management knows of no other business to be presented. If other matters of business not presently known to the Board of Directors shall be properly raised at the Annual Meeting, the person named as the proxies will vote on such matters in accordance with their best judgment.

### FUTURE SHAREHOLDER PROPOSALS

The Company's Annual Meeting of Shareholders held in 2001, previously planned for May 30, 2001, has been postponed to August 8, 2001. Under the Securities Exchange Act of 1934 (the "Exchange Act"), the shareholders of the Company have certain rights to have shareholder proposals included within the Proxy Statement of the Company for the Company's Annual Shareholders Meeting in 2002.

Rule 14a-8 under the Securities Exchange Act of 1934 ("Exchange Act") sets forth the procedure and requirements for requesting that the Company include these proposals in its Proxy Statement. Under that Rule, in the case where an annual meeting has been changed by more than 30 days from the date of the previous year's meeting, as will be the case for the Company's Annual Meeting in 2001, the deadline for submitting proposals under Rule 14a-8 is a reasonable time before the Company begins to print and mail its proxy materials.

Shareholders also may submit proposals to be voted on at an annual meeting without having the proposals included in the Company's proxy statement. These proposals are known as "non-Rule 14a-8 proposals". Rule 14a-4(c)(1) under the Exchange Act explains when the proxies named by a company to vote at an annual meeting may exercise their discretionary voting powers for proposals not included in the company's proxy statement, including non-Rule 14a-8 proposals.

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

Rule 14a-4(c)(1) provides that proxies named by a company to vote at an annual meeting may be given discretionary authority to vote all proxies with respect to any non-Rule 14a-8 proposals that properly come before the annual meeting for a vote of the shareholders if (i) in case of a company such as the Company that has changed the date of its annual meeting by more than 30 days from the date of the previous year's meeting, the company has not received advance notice of the proposal a reasonable time before it mails its proxy materials, and (ii) shareholders have been notified of this advance notice requirement.

You are hereby notified that, for the annual meeting of shareholders to be held later this year, the Company's proxies will be able to exercise their discretionary voting authority with respect to any non-Rule 14a-8 proposal not submitted to the Company a reasonable time before the Company mails its proxy materials.

13

16

Any Rule 14a-8 proposal that a shareholder wishes to have considered for inclusion in the Company's proxy solicitation materials for the annual meeting of shareholders in 2002, and notice of any non-Rule 14a-8 shareholder proposals, should be given in writing to the Secretary of the Company at the Company's executive offices. Due to the technical nature of the rights of shareholders and the Company in this area, a shareholder desiring to make a shareholder proposal should consider consulting his or her personal legal counsel with respect to such rights.

By Order of the Board of Directors

/s/ Steven R. Hedberg

-----  
Steven R. Hedberg  
Secretary

Dated June 28, 2001

14

17

### Appendix A

Adopted by Board of Directors June 8, 1999  
Revised by Board of Directors March 22, 2000

AERO SYSTEMS ENGINEERING, INC.  
BOARD OF DIRECTORS  
AUDIT COMMITTEE CHARTER

ORGANIZATION

## Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

This charter governs the operations of the audit committee. The committee shall review and reassess the charter at least annually and obtain the approval of the board of directors. The committee shall be appointed by the board of directors and shall be comprised of directors who are independent of management and the Company. Members of the Audit Committee shall be considered independent if they have no relationship to the Company that may interfere with the exercise of their independence from management and the Company. All Audit Committee members will be financially literate, [or shall become financially literate within a reasonable period of time after appointment to the committee,] and at least one member will have accounting or related financial management expertise.

### STATEMENT OF POLICY

The Audit Committee shall provide assistance to the board of directors in fulfilling their oversight responsibility to the shareholders, potential shareholders, and investment community, and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements, and the legal compliance and ethics programs as established by management and the board. In so doing, it is the responsibility of the committee to maintain free and open communication between the committee, independent auditors, and management of the Company. In discharging its oversight role, the committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of the Company and the power to retain outside counsel, or other experts for this purpose.

### RESPONSIBILITIES AND PROCESSES

The primary responsibility of the audit committee is to oversee the Company's financial reporting process on behalf of the board and report the results of their activities to the board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements. The committee in carrying out its responsibilities believes its policies and procedures should remain flexible, in order to best react to changing conditions and circumstances. The committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices, and ethical behavior.

18

ASE AUDIT COMMITTEE CHARTER

Page 2 of 2

The following shall be the principal recurring processes of the audit committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the committee may supplement them as appropriate.

- o The committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the board and the audit committee, as representatives of the Company's shareholders. The committee shall have the ultimate authority and responsibility to evaluate and, where appropriate, replace the independent auditors. The committee shall discuss with the auditors their independence from management and the Company and the matters included in the written

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

disclosures required by the Independence Standards Board. Annually, the committee shall review and recommend to the board the selection of the Company's independent auditors, subject to shareholders' approval.

- o The committee shall discuss with the independent auditors and financial management of the Company the overall scope and plans for the proposed audit including the adequacy of staffing and compensation. Also, the committee shall discuss with management and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs. Further, the committee shall meet separately with the independent auditors, with and without management present, to discuss the results of their examinations.
- o The committee shall review the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q. Also, the committee shall discuss the results of the quarterly review and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards. One member of the committee may represent the entire committee for purposes of this review.
- o The committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgements, and the clarity of the disclosures in the financial statements. Also, the committee shall discuss the results of the annual audit and any other matters required to be communicated to the committee by the independent auditors under generally accepted auditing standards.
- o The committee shall review and determine the reasonableness of the annual management fee paid to Celsius Inc., and report to the board whether or not payment of such fee is in the best interests of the Corporation and the shareholders.

19

AERO SYSTEMS ENGINEERING, INC.  
 A MINNESOTA CORPORATION  
 358 EAST FILLMORE AVENUE  
 ST. PAUL, MINNESOTA 55107

PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

A. L. Maxson and Gary Sommerland, and each of them, are hereby appointed Proxies, each with the power to appoint his substitute, to represent and to vote, as designated below, all shares of common stock of Aero Systems Engineering, Inc. held of record by the undersigned on July 5, 2001 at the Annual Meeting of Shareholders to be held August 8, 2001 on or any adjournment thereof.

1. PROPOSAL TO FIX NUMBER OF DIRECTORS AT FIVE:  
 FOR                       AGAINST                       ABSTAIN
2. ELECTION OF DIRECTORS:

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

[ ] FOR all nominees listed below except as marked to the contrary below.

[ ] WITHHOLD AUTHORITY to vote for all nominees listed below.

(INSTRUCTION: To withhold authority to vote for any individual nominee, strike a line through the nominee's name below.)

Christer Persson, Charles H. Loux, Richard A. Hoel, A.L. Maxson, Dr. Leon E. Ring

In the event of the inability or unwillingness of one or more of these nominees to serve as a director at the time of the Annual Meeting on August 8, 2001 or of any adjournments thereof, the shares represented by the proxies will be voted in favor of the remainder of such nominees and may also, at the discretion of the holders of said proxies, be voted for other nominees not named herein, in lieu of those unable or unwilling to serve. As of the date hereof, the Board of Directors knows of no nominee who is unwilling or unable to serve.

(continued, and to be signed and dated, on the reverse side)

1

20

At their discretion, the proxies are authorized to vote upon such other business as may properly come before the Annual Meeting; management is not presently aware of any such matters to be presented for action at the Annual Meeting.

The undersigned hereby ratifies and confirms all that the proxies shall lawfully do or cause to be done by virtue hereof and hereby revokes all proxies previously given to vote such shares.

This Proxy, when properly executed, shall be voted in the manner indicated by the undersigned stockholder, but if no direction is made, this Proxy will be voted in favor of fixing the number of Directors at five and for the directors named in the Proxy Statement.

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, or in some other fiduciary capacity, please give full title as such.

DATED: \_\_\_\_\_, 2001

If a corporation, please sign in full corporate name by president or other authorized officer(s). If a partnership, please sign in partnership name by authorized person(s).

-----  
Signature

-----  
Signature if held jointly

Edgar Filing: AERO SYSTEMS ENGINEERING INC - Form DEF 14A

(PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD  
PROMPTLY USING THE ENCLOSED ENVELOPE.)