

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

AERO SYSTEMS ENGINEERING INC
Form 10-Q
November 01, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended September 30, 2002

() 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 incorporation or organization)	(I.R.S Employer 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

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

As of September 30, 2002, 4,401,625 shares of common stock, par value \$.20 per share, were outstanding.

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

AERO SYSTEMS ENGINEERING, INC.

Form 10-Q

Quarter Ended September 30, 2002

	Page
PART I - FINANCIAL INFORMATION	
Item 1 Financial Statements	3
Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Item 4 Controls and Procedures	11
PART II - OTHER INFORMATION	
Item 6 Exhibits and Reports on Form 8-K	12
Signatures	12
Certifications	13

Page 3

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AERO SYSTEMS ENGINEERING, INC.
CONDENSED BALANCE SHEETS

ASSETS

September 30,
2002

(Unaudited)

(000's omitted, except share

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

CURRENT ASSETS

Cash and Cash Equivalents	\$	1,975	\$
Accounts Receivable, net		4,335	
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts		6,523	
Inventories:			
Materials and Supplies		831	
Projects in Process		425	
Prepaid Expenses		272	

Total Current Assets		14,361	

PROPERTY, PLANT AND EQUIPMENT

Land		486	
Buildings		3,025	
Furniture, Fixtures, & Equipment		8,867	
Wind Tunnels & Instrumentation		3,190	
Building Improvements		1,550	

		17,118	
Less Accumulated Depreciation		13,124	

Property, Plant, and Equipment, net		3,994	

Total Assets	\$	18,355	\$
		=====	=====

Page 4

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

LIABILITIES	September 30,
-----	2002

	(Unaudited)
	(000's omitted, exc

CURRENT LIABILITIES

Current Maturities of Capital Lease Obligations	\$	124
Notes Payable		-
Notes Payable with related parties		500
Accounts Payable:		
Trade		1,996
Related parties		54
Billings in Excess of Costs and Estimated		

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

Earnings on Uncompleted Contracts	1,862
Accrued Warranty and Losses	525
Accrued Salaries and Wages	1,125
Income Tax Payable	100
Other Accrued Liabilities	4,486

Total Current Liabilities	10,772
OTHER LIABILITIES	
Long-term debt with related parties	1,500
Capital Lease Obligations, Less Current Maturities	86
Commitments and Contingencies	
STOCKHOLDERS' EQUITY	
Common Stock - Authorized 10,000,000 Shares of \$.20 Par Value; Issued 4,401,625 on September 30, 2002 and December 31, 2001.	880
Additional Paid-in Capital	900
Retained Earnings	4,217

Total Stockholders' Equity	5,997

Total Liabilities and Stockholders' Equity	\$ 18,355
	=====

Note: The balance sheet at December 31, 2001 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.

Page 5

AERO SYSTEMS ENGINEERING, INC.
CONDENSED STATEMENTS OF EARNINGS
(Unaudited, 000's omitted)

	Three Months Ended September 30,		
	2002	2001	
	-----	-----	-----
Earned Revenue	\$ 9,442	\$ 5,709	\$
Cost of Earned Revenue	7,411	4,025	
	-----	-----	-----
Gross Profit	2,031	1,684	
Operating Expenses	1,383	1,372	

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

Operating Profit	648	312	
Other Income (Expense)			
Interest Expense	(71)	(180)	
Interest Income	21	-	
Other	20	(25)	
	(30)	(205)	
Income (Loss) Before Income Taxes	618	107	
Income Tax Expense	210	100	
Net Income (Loss)	\$ 408	\$ 7	\$
NET INCOME (LOSS) PER SHARE	\$ 0.09	\$ 0.00	\$
Dividends per Share	None	None	

Page 6

AERO SYSTEMS ENGINEERING, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited, 000's omitted)

	Nine M Sep
	2002
CASH FLOW FROM OPERATING ACTIVITIES:	
Net Income (Loss)	\$ 1,126
Adjustment to reconcile net income (loss) to net cash provided (used) by operating activities:	
Depreciation	959
Other Non-Cash Charges	-
(Increase) Decrease in Assets:	
Accounts Receivable	395
Cost and Estimated Earnings in Excess of Billings on Uncompleted Contracts	(1,646)
Inventories	(35)
Prepaid Expenses	46
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	2,748
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts	171
Net Cash Provided by Operating Activities	3,764
CASH FLOW FROM INVESTING ACTIVITIES:	
Capital Expenditures	(340)

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

Net Cash Used in Investing Activities	----- (340)
CASH FLOW FROM FINANCING ACTIVITIES:	
Net Borrowings under Line of Credit Agreement	(1,700)
Principal Payments under Capital Lease Obligations	(46)
Borrowings From Related Parties	200
Net Cash Provided (Used) by Financing Activities	----- (1,546)
NET CHANGE IN CASH	----- 1,878
CASH AT BEGINNING OF YEAR	97
CASH AT END OF QUARTER	----- \$ 1,975 =====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Non-Cash Investing and Financing Activities	
Purchase of Equipment under Capital Leases	-

Page 7

AERO SYSTEMS ENGINEERING, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited, 000's omitted)
September 30, 2001

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 nine-month period ending September 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. 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, 2001.

NOTE B - INCOME TAXES

Income taxes are provided on an interim basis based upon management's estimate of the annual effective tax rate. The income tax rate in 2001 is not comparable to the current year rate due to the termination of the intercompany tax sharing agreement in September 2001 when Minnesota ASE acquired 51% of the Company's outstanding stock from Celsius Inc.

NOTE C - CONTRACTS IN PROCESS

Information with respect to contracts in process follows:

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

		September 30, 2002

Costs Incurred on Uncompleted Contracts	\$	55,862
Estimated Earnings Thereon		19,209

Total Earned Revenue on Uncompleted Contracts		75,071
Less Billings Applicable Thereto		70,410

	\$	4,661
		=====
Included in Accompanying Balance Sheet Under Following Captions:		
Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts	\$	6,523
Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts		1,862

	\$	4,661
		=====

NOTE D - CONTINGENCIES AND COMMITMENT

Guarantees of approximately \$4,793,853 were outstanding on September 30, 2002 to various customers as bid bonds or in exchange for down payments or warranty performance bonds.

Page 8

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, 2001. Actual results may vary materially from those anticipated.

Results of Operations

Third quarter 2002 (All dollar amounts are in thousands.)

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

Worldwide revenue for the third quarter 2002 totaled \$9,442, which was a 65% increase from \$5,709 in revenue for the third quarter of last year. Income before taxes for the third quarter was \$618 as compared to third quarter income before taxes of \$107 last year.

Backlog of orders as of September 30, 2002 was \$27,424 as compared with \$29,483 and \$29,722 as of December 31, 2001 and September 30, 2001, respectively. The change from December 31, 2001 represents a 7% decrease. The year to date orders through September are \$27.3 million.

The strong revenue increase experienced by the Company for the third quarter when compared to the third quarter last year was mostly attributable to the increase in orders in process, resumption of normal activities on the Singapore wind tunnel project since receipt of the export license in early September 2001 and success in new initiatives, such as a new contract in the industrial engine market. The improvement in net income in the third quarter was mostly due to increased revenues. Also, interest expense was reduced as a result of lower interest rates and lower debt levels.

Cost of earned revenue for third quarter of 2002, which includes manufacturing and engineering costs, was 78% as compared to 71% during the same period of last year. This increase is mostly the result of work shifting to slightly lower margin projects in the wind tunnel portion of the business during the third quarter 2002. The total Company gross margin percentage for the third quarter 2002 was similar to what was experienced during the first half of the year.

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.

Page 9

AERO SYSTEMS ENGINEERING, INC.

Selling, general and administrative expenses of \$1,303 were 14% of revenues during the third quarter of 2002 as compared to \$1,302 and 23% during the same period of last year. The reduction in the percentage of revenues is a result of the higher revenue amount in the third quarter of 2002.

Research and development expenses were \$80 during the third quarter of 2002 as compared to \$70 in the same period in 2001. This increase of \$10 or 14% is mostly related to an increased focus on certain on-going R&D projects. During the remainder of 2002, R & D expenditures will be incurred for continued enhancements to the ASE2000, aero-acoustic analysis and new product initiatives.

Interest expense of \$71 was incurred during the third quarter of 2002 as compared to \$180 for the same period in the prior year. The average rate of

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

interest on short-term borrowings was lower partially as a result of the interest rate reductions experienced during the latter portion of 2001 and partially due to the new bank agreements entered into during the third quarter last year. Also, the average amount of borrowings outstanding has decreased in the third quarter 2002 as compared to the third quarter of last year mostly due to the Company's ability to resume normal invoicing activities on the Singapore wind tunnel project after the receipt of the export license.

Income tax expense was \$210 for the third quarter 2002 as compared to \$100 for the third quarter of 2001. Income taxes are provided on an interim basis based upon management's estimate of the annual effective tax rate. The income tax rate in 2001 is not comparable to the current year rate due to the termination of the intercompany tax sharing agreement in September 2001. Through September 25, 2001, Aero Systems was included in the consolidated federal income tax return of Celsius Inc. The Company's income tax provision was calculated and presented on a separate return basis. As a result of the acquisition of 51% of Aero Systems' stock by Minnesota ASE, LLC, Celsius Inc. owns less than 80% of Aero Systems and, accordingly, is no longer able to include Aero Systems in its consolidated federal income tax return.

Financial Condition

Accounts receivable at the end of the third quarter 2002 were \$4,335 as compared with the year-end 2001 balance of \$4,730. This decrease of \$395 was due mainly to invoice timing on several large contracts.

Costs and estimated earnings in excess of billings on uncompleted contracts at the end of third quarter 2002 was \$6,523, which is an increase of \$1,646 or 34% as compared with the year-end 2001 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.

Notes payable balances totaled \$500 as compared to the year-end 2001 balance of \$2,000, which is a decrease of \$1500 or 75%. This decrease is primarily the result of the timing of project expenditures as compared to invoicing milestones. For the nine months of 2002, cash flows from operations were \$3,764 which enabled the Company to repay all borrowings under its line of credit, which was \$1,700 at year-end 2001 and increase its cash position to \$1,975 as of September 30, 2002.

Accounts payable and accrued expenses totaling \$8,286 at the end of third quarter 2002 increased \$2,748 or 50% as compared to the year-end 2001 balance. This was primarily due to an increase in accrued job costs relating to ongoing projects.

Billings in excess of costs and estimated earnings on uncompleted contracts at the end of the third quarter 2002 increased \$171 to \$1,862 compared to the year-end 2001 balance of \$1,691. 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.

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

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 \$3,000 of letter of credit funds. Also related to the transaction, Celsius Inc. has 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. has 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 has provided an indemnification agreement to Celsius Inc. to secure Celsius Inc.'s interest in the above items. The average funds available and amounts outstanding on the operating line and letter of credit during the third quarter 2002 were \$0 outstanding on \$2,240 available and \$2,612 outstanding on \$3,000 available, respectively.

At the end of the third quarter 2002, the Company had notes payable balances of \$500 current and \$1,500 long term. This is an increase of \$200 from the balance at the end of the 2001, which is a result of Minnesota ASE transferring additional funds to the Company during the third quarter 2002. The current notes payable balance of \$500 consisted of \$500 of interim loans provided by Minnesota ASE, LLC. The \$500 note to Minnesota ASE, LLC is at 8% per year and is a demand note. The Company believes that these 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 for year to date third quarter 2002 were \$340 as compared to \$436 for the same period of last year, which included capital leases totaling \$146. 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, 2002 to approximate the year ended December 31, 2001.

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, certain contracts 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. 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.

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

AERO SYSTEMS ENGINEERING, INC.

Forward-Looking Information

Highly competitive market conditions have continued to put pressure on the margins on new contracts. Productivity improvements and cost reduction programs are continually being initiated to increase margins.

Looking ahead throughout the remainder of 2002, the amount of business in backlog and the number of proposals outstanding should continue to provide a solid base for the remainder of the year.

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 September 30, 2002, there were no significant changes to our internal controls or in other factors that could significantly affect our internal controls.

Page 12

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) No Current Reports on Form 8-K were filed during the quarter ended September 30, 2002. On October 17, 2002, the registrant filed a Form 8-K report to announce an agreement with Goldsmith Agio Helms to assist the Company in exploring strategic alternatives.

SIGNATURES

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

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: October 31, 2002

Aero Systems Engineering, Inc.

By: /s/ Charles Loux

Charles Loux, President and CEO

By: /s/ Steven R. Hedberg

Steven R. Hedberg, CFO, Secretary and Treasurer

Page 13

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

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

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 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: October 31, 2002

Aero Systems Engineering, Inc.

By: /s/ Charles Loux

Charles Loux, President and CEO

Page 14

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;

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

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 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: October 31, 2002

Aero Systems Engineering, Inc.

By: /s/ Steven R. Hedberg

Steven R. Hedberg, CFO, Secretary and Treasurer