

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

12-0311R

RESOLUTION AUTHORIZING AN AGREEMENT FOR LOAN B WITH AAR AIRCRAFT SERVICES, INC. IN AN AMOUNT NOT TO EXCEED \$500,000, CONTINGENT UPON RECEIPT OF MINNESOTA INVESTMENT FUND AND RURAL REHABILITATION GRANTS FROM THE MINNESOTA DEPARTMENT OF EMPLOYMENT AND ECONOMIC DEVELOPMENT.

CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into an agreement, substantially in the form of that on file in the office of the city clerk as Public Document No. _____, with AAR Aircraft Services, Inc. in an amount not to exceed \$500,000, payable from Duluth Recovery Loan Fund 235-1330, contingent upon receipt by the city of a Minnesota investment fund grant and a rural rehabilitation grant from the Minnesota department of employment and economic development (DEED) pursuant to Grant #CDAP-12-0010-H-FY12 (the "MIF grant") and Grant #RUDB-12-0001-N-FY-12 (the "RR grant").

Approved:



Department Director

Approved for presentation to council:



Chief Administrative Officer

Approved as to form:



Attorney

Approved:



Auditor

BD/ATTY JMC/HTB:tmn 06/21/2012

STATEMENT OF PURPOSE: This resolution authorizes the City to enter into a loan agreement titled "Loan B Agreement of Minnesota Investment Funds and Rural Rehabilitation Account Funds" with AAR in the amount of \$500,000. The source of funds for this City loan to AAR are two DEED grants from its Minnesota Investment Fund program and its Rural Rehabilitation account. The loan proceeds will be provided to AAR upon its documentation of purchase of no less than one million dollars (\$1,000,000) of equipment for use at the Duluth Maintenance, Repair and

Overhaul (MRO) facility. AAR will not be eligible for Loan B until they meet all conditions of the Loan A Agreement. Loan B will be fully repaid by AAR, with payments to commence three years after the first disbursement of Loan A and final payment due in full nine years after the first disbursement of Loan A with interest at zero (0) percent. Loan B is a business subsidy with three stated goals: the retention of the 100 FTE jobs created in AAR's first year; the creation of an additional 92 FTE jobs by the end of AAR's third year; and the investment of no less than \$1,000,000 in equipment during their second and/or third years at the MRO facility, at least half of which are non-public funds. This loan agreement requires continuous operation by AAR at the Duluth MRO facility through the repayment term; if AAR prepays Loan B, continuous operation is required for no less than five years after the initial disbursement of Loan B as is required under the business subsidy statute.

As part of the financing necessary to the project, AAR will be receiving support in the form of JOBZ benefits and, at the end of the JOBZ program, tax abatement. Therefore, the tax impact to the City of this project will be de minimus for the immediate future.

**LOAN B AGREEMENT OF MINNESOTA INVESTMENT FUNDS
AND RURAL REHABILITATION ACCOUNT FUNDS**

THIS LOAN B AGREEMENT is made and entered into as the ____ day of June, 2012, by and between the City of Duluth (the “City”) and AAR Aircraft Services, Inc., an Illinois corporation (the “Borrower”);

WITNESSETH:

WHEREAS, the City has applied to the Minnesota Department of Employment and Economic Development for financial assistance pursuant to a grant application for state funding (the “Grant Application”) and received approval for said grant; and

WHEREAS, Grant Agreement Number CDAP-12-0010-H-FY12 and RUDB-12-0001-N-FY12 (the “Grant Agreements”) between the Minnesota Department of Employment and Economic Development and the City have been executed and require that the Borrower provide sufficient funds to complete financing and agree to loan terms with the City regarding the financial assistance; and

WHEREAS, the parties hereto agree to incorporate into this Loan B Agreement by reference said Grant Application and Grant Agreements as well as the Loan A Agreement defined below as if fully set forth herein word for word;

NOW THEREFORE, it is agreed by and between the parties hereto as follows:

ARTICLE 1
Definitions

Section 1.1. Definitions. In this Agreement, unless a different meaning clearly appears from the context:

“**Benefits**” mean health, life, dental and disability insurance, retirement compensation and profit sharing paid by the Borrower as part of employee’s compensation.

“**Borrower**” means AAR Aircraft Services, Inc., an Illinois corporation.

“**City**” means City of Duluth.

“DEDA” means the Duluth Economic Development Authority.

“Deferred Period” means 36 months from the Initial Disbursement Date of Loan A Proceeds during which time payments under the Loan B Promissory Note are deferred.

“Development Property” means the real property described at **Exhibit A** hereto.

“Equipment” means the machinery and equipment to be purchased by the Borrower for use at the Facility as defined in Article 2.

“Facility” means a 152,300 square foot maintenance, repair and overhaul facility located on the Development Property to be operated by Borrower to provide products and services to the commercial aviation industry.

“Full-time Equivalent or FTE” means permanent employment positions within the State providing 2,080 hours of employment per year unless, prior to job creation, Borrower provides documentation showing industry standards vary from 2,080 hours per year.

“Grant Agreements” means Minnesota Department of Employment and Economic Development Grant Agreements.

“Grantor” or “Grantor Agency” means the Minnesota Department of Employment and Economic Development.

“Initial Disbursement Date of Loan A Proceeds” means the date of the disbursement of Loan A Proceeds by the City to the Borrower.

“Initial Disbursement Date of Loan B Proceeds” means the date of the disbursement of Loan B Proceeds by the City to the Borrower which shall be no sooner than twelve (12) months after the Initial Disbursement Date of Loan A Proceeds.

“Lease Agreement” means that agreement between DEDA and Borrower of even date herewith pursuant to which Borrower is leasing the Development Property.

“Loan A” means the funds loaned by the City to Borrower pursuant to the Loan A Agreement.

“Loan A Agreement” means that Loan of Minnesota Investment Funds between the City and Borrower in the amount of \$500,000 of even date herewith (City Contract No. _____).

“Loan A Leveraged Funds” means the non-public funds described in the Loan A Agreement in an amount of at least \$500,000.

“Loan A Proceeds” means the funds disbursed to the Borrower pursuant to the Loan A Agreement and any proceeds thereof.

“**Loan B**” means the funds loaned by the City to the Borrower pursuant to this Loan B Agreement.

“**Loan B Benefit Date**” means the date that the Borrower receives the Business Subsidy under this Loan B Agreement. The benefit date begins when the recipient puts the Equipment into service which shall be no sooner than twelve (12) months after the Initial Disbursement Date of Loan A Proceeds.

“**Loan B Leveraged Funds**” means the non-public funds described in Section 2.1 of this Loan B Agreement in the amount of at least \$500,000.

“**Loan B Proceeds**” means the funds disbursed to the Borrower pursuant to this Loan B Agreement and any proceeds thereof.

“**Loan B Promissory Note**” means the promissory note to be executed by the Borrower in favor of the City prior to the Initial Disbursement Date of Loan B Proceeds evidencing Borrower’s obligation to repay Loan B in the form of **Exhibit B** hereto.

“**MIF**” means the Minnesota Investment Fund.

“**MIF Grant**” means the grant of funds by the Grantor Agency to the City pursuant to the MIF Grant Agreement.

“**Progress Report**” means the City’s annual progress report to the Grantor.

“**Project**” means the Borrower’s operation of the Facility on the Development Property in Duluth, Minnesota.

“**RUDB**” means the Rural Rehabilitation Account.

“**RUDB Grant**” means the grant of funds by the Grantor Agency to the City pursuant to the RUDB Grant.

“**Security Agreement**” means the Security Agreement to be executed by the Borrower in favor of the City granting to the City a security interest in the Equipment in the form of **Exhibit C** hereto.

“**State**” means the state of Minnesota.

“**Termination Date**” means the Date the Borrower has repaid Loan B in full.

ARTICLE 2
Financing for Project

Section 2.1. Loan B Leveraged Funds. The Borrower shall commit the Loan B Leveraged Funds and other sources of funding to the purchase of the Equipment in the amounts, for substantially the same purposes and under the same terms, rates, and conditions described in the Grant Application unless prior written consent is received from the Grantor Agency (which consent shall not be unreasonably withheld, conditioned or delayed).

Section 2.2. MIF and RUDB Loan/Grant. The MIF and RUDB Grants will be used by the City to make a loan to the Borrower of not more than \$500,000 for the purchase of Equipment. The City's obligations under this Loan B Agreement are expressly contingent on the City's receipt of funds from the Grantor Agency in an amount adequate to make Loan B.

ARTICLE 3
MIF Loan Terms and Conditions

Section 3.1. Basic Loan B Terms. Except as provided in Section 7.1, the principal amount of Loan B shall not exceed \$500,000. Loan B shall bear interest of zero percent (0%). Loan B terms may not be modified without prior written approval from the Grantor Agency. Loan B shall be used exclusively for the purchase of Equipment. The term of Loan B is set forth in Section 5.4 of this Loan B Agreement.

Section 3.2. Prepayment. Prepayment of Loan B may occur at any time during Loan B without penalty.

Section 3.3. Assignment. If, prior to the Termination Date and without the consent of the City and the Grantor Agency (which consent shall be at the discretion of the Grantor Agency and the City), the Borrower terminates the Lease Agreement or abandons, sells, conveys, transfers, or disposes of the Development Property, or any part thereof or interest therein, the Borrower shall immediately repay all amounts then outstanding on Loan B. This shall be in addition to any other remedies at law or equity available to the City.

Section 3.4. Termination. This Loan B Agreement shall automatically terminate without any notice to Borrower: (1) if no Loan B Proceeds have been disbursed to the Borrower prior to the end of the Deferred Period; or (2) if: (a) the Borrower has not received any disbursement of Loan B Proceeds from the City; and (b) the Borrower fails to pay its debts as they become due, makes an assignment for the benefit of its creditors, admits in writing its inability to pay its debts as they become due, files a petition under any chapter of the Federal Bankruptcy Code or any similar law, state or federal, now or hereafter existing, becomes "insolvent" as that term is generally defined under the Federal Bankruptcy Code, files an answer admitting insolvency or inability to pay its debts as they become due in any involuntary bankruptcy case commenced against it, or fails to obtain a dismissal of such case within sixty (60) days after its commencement or convert the case from one chapter of the Federal Bankruptcy Code to another chapter, or is the subject of an order for relief in such bankruptcy case, or is adjudged a bankrupt or insolvent, or has a custodian, trustee, or receiver appointed for it, or has any court take jurisdiction of its property, or

any part thereof, in any proceeding for the purpose of reorganization, arrangement, dissolution, or liquidation, and such custodian, trustee, or receiver is not discharged, or such jurisdiction is not relinquished, vacated, or stayed within sixty (60) days of the appointment.

Section 3.5. Loan B Promissory Note. The Borrower shall deliver the Loan B Promissory Note to the City prior to the Initial Disbursement Date of Loan B Proceeds.

Section 3.6. Non-Minnesota Construction Contracts. If Loan B Proceeds are used for construction or rehabilitation through a contract with any non-Minnesota construction contractors and the contract for such work exceeds \$50,000, the Borrower must comply with Minnesota Statute, 1989, 290.9705, by either:

- (a) depositing with the State, 8% of every payment made to non-Minnesota construction contractors where the contract exceeds \$50,000; or
- (b) receiving an exemption from this requirement from the Minnesota Department of Revenue.

Section 3.7. Annual Financial Statements. For the term of the loan the Borrower must submit the most recent annual financial statement prepared in accordance with generally accepted accounting principles. The annual financial statements shall include a profit and loss statement, balance sheet, statement of cash flow, notes and an opinion from the accountants of such statements acceptable to the City. This information must be submitted within 120 days after the end of the Borrower's fiscal year.

ARTICLE 4 **Default and Collateral**

Section 4.1. Default. It shall be an "Event of Default" under this Loan B Agreement upon the happening of any one or more of the following events:

- (a) the Borrower fails to pay when due any amount payable on Loan B and such nonpayment is not remedied within ten (10) business days after written notice thereof to the Borrower by the City;
- (b) the Borrower is in breach in any material respect of any obligation or agreement under this Loan B Agreement (other than nonpayment of any amount payable on Loan B) and remains in breach in any material respect for thirty (30) business days after written notice thereof to the Borrower by the City; provided, however, that if such breach shall reasonably be incapable of being cured within such thirty (30) business days after notice, and if the Borrower commences and diligently prosecutes the appropriate steps to cure such breach, no default shall exist so long as the Borrower is proceeding to cure such breach;
- (c) if any material covenant, warranty, or representation of the Borrower shall prove to be untrue in any material respect, provided such covenant, warranty or representation of the Borrower remains untrue in any material respect for thirty (30) business days after written notice

thereof to the Borrower by the City; provided, however, that if such untruth shall reasonably be incapable of being corrected within such thirty (30) business days after notice, and if the Borrower commences and diligently prosecutes the appropriate steps to correct such untruth, no default shall exist so long as the Borrower is so proceeding to correct such untruth;

(d) the Borrower, on or after the Initial Disbursement Date of Loan B Proceeds, fails to pay its debts as they become due, makes an assignment for the benefit of its creditors, admits in writing its inability to pay its debts as they become due, files a petition under any chapter of the Federal Bankruptcy Code or any similar law, state or federal, now or hereafter existing, becomes “insolvent” as that term is generally defined under the Federal Bankruptcy Code, files an answer admitting insolvency or inability to pay its debts as they become due in any involuntary bankruptcy case commenced against it, or fails to obtain a dismissal of such case within sixty (60) days after its commencement or convert the case from one chapter of the Federal Bankruptcy Code to another chapter, or be the subject of an order for relief in such bankruptcy case, or be adjudged a bankrupt or insolvent, or has a custodian, trustee, or receiver appointed for it, or has any court take jurisdiction of its property, or any part thereof, in any proceeding for the purpose of reorganization, arrangement, dissolution, or liquidation, and such custodian, trustee, or receiver is not discharged, or such jurisdiction is not relinquished, vacated, or stayed within sixty (60) days of the appointment;

(e) a final judgment is entered against the Borrower that the City reasonably deems will have a material, adverse impact on the Borrower’s ability to comply with the Borrower’s obligations under this Loan B Agreement;

(f) the Borrower sells, conveys, transfers, encumbers, or otherwise disposes of all or any part of the Equipment without the prior written approval of the City, conditioned or delayed), unless such Equipment is replaced with unencumbered collateral of reasonably equivalent value as of the date of such transfer and the Borrower has taken such actions as are necessary to perfect the City’s security interest in such collateral, with such replacement collateral to be subject to the terms hereof and be considered Collateral under the Security Agreement;

(g) the Borrower merges or consolidates with any other entity without the prior written approval of the City, which shall not be unreasonably withheld, conditioned or delayed;
or

(h) there is a loss, theft, substantial damage, or destruction of all or any part of the Equipment that is not remedied to the City’s reasonable satisfaction within sixty (60) business days after written notice thereof by the City to the Borrower.

Section 4.2. Remedies Upon Default.

(a) Upon the occurrence of an Event of Default, the City shall have the right as its option and without demand or notice, to declare all or any part of Loan B immediately due and payable, and in addition to the rights and remedies granted hereby, the City shall have all of the rights and remedies available under the Uniform Commercial Code and any other applicable law.

(b) The Borrower agrees in an Event of Default to make the Equipment available to the City. The Borrower agrees to pay the costs and expenses incurred by the City in enforcing its rights under this Loan B Agreement, including but not limited to the City's attorneys' fees. If any notice of sale, disposition or other intended action by the City is required by law to be given to the Borrower, such notice shall be deemed reasonably and properly given if mailed to the Borrower at the Development Property or at such other address of the Borrower as may be shown herein, at least fifteen (15) days before such sale, disposition or other intended action.

Section 4.3. Collateral. The Borrower shall grant to the City a security interest in the Equipment pursuant to the Security Agreement.

Section 4.4. Default on Business Subsidy Act Requirements.

(a) In the event of an Event of Default arising from a breach by the Borrower of any provision of Section 7.1 of this Agreement, if the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysis of the United States Department of Commerce for the 12-month period ending March 31st of the previous year, exceeds zero percent (0)% on the date of the earliest such Event of Default, the Borrower shall, in addition to any other payment required hereunder, pay to the Lender the difference between the present value of the interest actually paid and accrued on Loan B as of the date of the payment required by this Section 4.4, and the amount of interest that would have been paid and accrued on Loan B if the interest rate of Loan B at all times had been equal to the implicit price deflator on the date of the earliest Event of Default.

(b) Nothing in this Section 4.4 shall be construed to limit the Lender's rights or remedies under any other provision of this Loan B Agreement, and the provisions of Section 4.4(a) are in addition to any other such right or remedy the Lender may have available.

ARTICLE 5

Loan Disbursement Provisions

Section 5.1. Payment Requisition Documentation and Format. The Loan B disbursement shall be for purchase of Equipment and shall not exceed \$500,000. Loan B shall be disbursed to the Borrower only after Borrower has met all conditions of the Loan A Agreement; Borrower has made an investment in the amount of \$1,000,000 in the Equipment, including the Loan B Leveraged Funds, in addition to the \$1,000,000 investment, including the Loan A Leveraged Funds, required pursuant to the Loan A Agreement; the City has received from the Borrower an invoice or invoices for the Equipment costs; and Borrower has executed the Loan B Promissory Note and Security Agreement. Upon receipt of materials evidencing the above and such invoice or invoices, the City will disburse the amount of \$500,000.

Section 5.2. Provision for Evidentiary Materials. No disbursements of Loan B funds shall be made until all evidentiary materials required by the Grantor Agency have been submitted and approved by the Grantor Agency. These evidentiary materials shall include, but are not necessarily be limited to, the materials described in Article 6 of this Loan B Agreement and the invoices described in Section 5.1; upon submission of the proper evidentiary materials, the

Grantor Agency shall have thirty (30) days to approve or indicate why such submissions are insufficient to allow for disbursement of funds, if no such indication is provided within thirty (30) days, the submitted invoices shall be deemed approved.

Section 5.3. Project Time Frame. The time frame outlined in the Grant Application pertaining to the Project shall be met by the Borrower.

Section 5.4. Loan Terms. The term of Loan B shall commence upon the Initial Disbursement Date of Loan B Proceeds and shall continue for a period of one hundred eight (108) months from the Initial Disbursement Date of Loan A Proceeds with interest at the rate of at zero percent (0%).

Section 5.5. Loan Repayments Schedule. Pursuant to the Loan B Promissory Note, Loan B payments shall be deferred for the Deferred Period. Loan B principal plus interest at the rate of zero percent (0%) shall be paid in equal monthly payments beginning the first month after the end of the Deferred Period; provided, however, the entire remaining balance of principal and interest shall be due and payable in full at the end of the 108th month following the Initial Disbursement Date of Loan A Proceeds.

ARTICLE 6

Provision of Evidentiary Material Requirement

Section 6.1. Provision of Evidentiary Materials. In addition to those materials described in Section 5.2 of this Agreement, the Borrower shall provide the City with all evidentiary materials according to the format and timetable cited in the Grant Agreements. The City will forward these materials to the Grantor Agency and assist in expediting reviews leading to a release of Loan B; upon submission of the proper evidentiary materials, the Grantor Agency shall have 30 days to approve or indicate why such submissions are insufficient to allow for disbursement of funds, if no such indication is provided within 30 days, the submitted evidentiary materials shall be deemed approved.

Section 6.2. Documentation of Use of Funds. The Borrower must provide the City with necessary documentation that Loan B and the Loan B Leveraged Funds have been used for the items and purposes stated in the Grant Application prior to submitting the draw request and requesting grant closeout from the Grantor Agency.

ARTICLE 7

Provision of Goals

Section 7.1. Goals. The City finds that the public purpose of assistance to be provided pursuant to this Loan B Agreement is the purchase of the Equipment and the operation of the Project which will 1) increase the number and diversity of jobs that offer stable employment and high quality wages and benefits, 2) contribute to the economic diversity of the City by growing the City's current aviation industry, 3) enhance and diversify the City of Duluth's tax base, 4) stimulate the redevelopment of underutilized facilities, and 5) achieve development on sites which would not be developed without business subsidies assistance.

(1) The Borrower agrees that it intends to meet the following goals (the “Goals”):

(a) Create 92 new FTE positions at the Borrower’s Facility located on the Development Property in Duluth, Minnesota, in addition to the 100 FTE positions required under the Loan A Agreement, within two years of the Loan B Benefit Date but no later than the end of the Deferred Period, all paying a cash wage of at least \$10.25 per hour (exclusive of Benefits) plus a Benefit package sufficient for these new jobs to receive total compensation of at least \$12.19 per hour.

(b) Demonstrate a minimum investment of \$1,000,000 of which at least \$500,000 must be the Loan B Leveraged Funds which are in addition to the \$1,000,000 investment, including the Loan A Leveraged Funds, required pursuant to the Loan A Agreement.

(2) If the Goals are not met by the end of the Deferred Period it shall constitute an Event of Default pursuant to Section 4.1.

Section 7.2. Employment Documentation. The Borrower shall annually complete and provide to the City notification of employment of hiring each new permanent employee for inclusion in the City’s annual Progress Report to the Grantor. The City shall have the right to inspect the Borrower’s books and records to verify compliance with the requirements of Section 7.1. This notification requirement must be provided to the City no later than October 15 of each year and on the date 15 days after the first anniversary of the Initial Disbursement Date of Loan B Proceeds. This information must include:

- a. Permanent jobs created.
- b. Job title per job.
- c. Date employee(s) hired.
- d. Hourly wage.
- e. Hourly value of benefits paid.
- f. Description of benefits provided.

Section 7.3 Other Financial Assistance. A list of all financial assistance by all grantors for the Project is set forth in **Exhibit D**.

Section 7.4. First Source Employment Referral Agreement. The Borrower shall list any vacant or new positions with the jobs services of the Commissioner of Job Services or a local service unit operated by a city or counties operating under a joint powers agreement, one or more cities of the first class operating under a joint powers agreement, or a city of the first class.

Section 7.5 Continued Operations Commitment. Borrower commits to continue operations in the City for 108 months following the Initial Disbursement Date of Loan A Proceeds or until Loan B is paid in full, but in no event sooner than 5 years after the Loan B Benefit Date.

ARTICLE 8
Provision of Monitoring Information Related To Project Progress

Section 8.1. Provision of Progress Information. The Borrower shall provide to the Lender information for incorporation into progress reports, as required by the Grantor Agency and as needed by the Lender, to monitor project implementation for compliance with Grantor and local guidelines. This information must be provided no later than January 10 of each year until the Grantor administratively closes the grant file.

ARTICLE 9
Compliance with Laws

Section 9.1. Nondiscrimination. The provisions of Minnesota Statutes, Section 181.59, which relate to civil rights and discrimination, shall be considered a part of this Loan B Agreement as though wholly set forth herein and the Borrower shall comply with each such provision throughout the term of this Loan B Agreement.

Section 9.2 Prevailing Wage. Pursuant to Minnesota Statutes 177.41 to 177.44 and corresponding Minnesota Rules 5200.1000 to 5200.1120, this contract is subject to the prevailing wages as established by the Minnesota Department of Labor and Industry if loan funds are used for the erection, construction, remodeling, or repair of a project financed in whole or part by state funds. Specifically, all Borrower's contractors and subcontractors must pay all laborers and mechanics the established prevailing wages for work performed under the contract. Failure to comply with the aforementioned may result in civil or criminal penalties.

Section 9.3 Living Wage Covenant. Borrower agrees to pay both current and new employees compensation, including benefits not mandated by law, that on an annualized basis is, at minimum, equal to at least 110 percent of the federal poverty level for a family of four or the living wage as set forth in Section 2-137 of the Duluth City Code, 1959, as amended.

Section 9.4 Little Davis-Bacon. Borrower agrees to cause the laborers, mechanics or apprentice-trainees employed directly upon the work site to be paid the wage rates as set forth in Section 2-25 of the Duluth City Code, 1959, as amended.

Section 9.5 Generally. Borrower agrees to observe and comply with all laws, ordinances, rules and regulations of the United States of America, the State of Minnesota and the City and their respective agencies which are applicable to its activities under this Loan B Agreement.

ARTICLE 10
Borrower's Acknowledgments Representation, and Warrants

Section 10.1. Acknowledgments. (a) The Borrower acknowledges that the City, in order to obtain funds for part of the City's activities in connection with the Project, has applied for financial assistance to the Grantor Agency, Business and Community Development Division, and that the City has entered into Grant Agreements with the Grantor Agency, setting forth the terms, conditions, and requirements of the MIF and RUDB Grants. The Borrower further acknowledges that it has made certain representations and statements in the Grant Application concerning its activities relating to the Project, and that the Borrower is designated and identified under the Grant Agreements.

(b) A copy of the Grant Agreements shall be on file in the offices of the City. In the event any provision of this Loan B Agreement relating to the Borrower's obligations hereunder is inconsistent with the provisions of the Grant Agreements relating to the Borrower's activities there under, the provisions of the Grant Agreements shall prevail.

(c) The Borrower acknowledges that nothing contained in the Grant Agreements or this Loan B Agreement, nor any act of the Grantor Agency or the City, shall be deemed or construed to create between the Grantor Agency and the Borrower (or, except as borrower and lender between the City and the Borrower) any relationship, including but not limited to that of third-party beneficiary, principal and agent, limited or general partnership, or joint venture.

Section 10.2. Representations and Warranties. The Borrower warrants and represents, in connection with the MIF and RUDB Grants and for the benefit of the Grantor Agency and the City, that:

(a) Representations, statements, and other matters provided by the Borrower relating to those activities of the Project to be completed by the Borrower, which were contained in the Grant Application, were true and complete in all material respects as of the date of submission to the City and that such representations, statements, and other matters are true as of the date of this Loan B Agreement and that there are no adverse material changes in the financial condition of the Borrower's business.

(b) To the best of the Borrower's knowledge, no member, officer, or employee of the City, or its officers, employees, designees, or agents, no consultant, member of the governing body of the City, and no other public official of the City, who exercises or has exercised any functions or responsibilities with respect to the Project during his or her tenure shall have any interest, direct or indirect, in any contract or subcontract, or the proceeds thereof, for work to be performed in connection with the Project or in any activity, or benefit there from, which is part of the Project.

(c) The Borrower acknowledges that the Grantor Agency, in selecting the City as recipient of the Grant, relied in material part upon the assured completion of the Project to be carried out by the Borrower, and the Borrower warrants that said Project will be carried out by the Borrower.

(d) The Borrower warrants that to the best of its knowledge, it has obtained all federal, state, and local governmental approvals, reviews, and permits required by law to be obtained in

connection with the Project and has undertaken and completed all actions necessary for it to lawfully execute this Loan B Agreement as binding upon it.

(e) The Borrower warrants that it shall keep and maintain books, records, and other documents relating directly to the Loan B Leveraged Funds, and that any duly authorized representative of the Grantor Agency shall, at all reasonable times, have access to and the right to inspect, copy, audit, and examine all such books, records, and other documents of the Borrower until such time that the City and the Grantor Agency have both determined that all issues, requirements, and close-out procedures relating to or arising out of the MIF and RUDB Grants have been settled and completed.

(f) The Borrower warrants that no transfer of any or all of the Loan B Proceeds by the City to the Borrower shall be or be deemed an assignment of Loan B Proceeds, and the Borrower shall neither succeed to any rights, benefits, or advantages of the City under the Grant Agreements, nor attain any right, privileges, authorities, or interest in or under the Grant Agreements.

(g) The Borrower warrants that it has fully complied with all applicable local, state, and federal laws pertaining to its business and will continue such compliance throughout the terms of this Loan B Agreement. If at any time notice of noncompliance is received by the Borrower, the Borrower agrees to take any necessary action to comply with the local, state, or federal law in question.

ARTICLE 11

Other Special Conditions

Section 11.1. Antitrust. The Borrower hereby assigns to the State of Minnesota any and all claims for overcharges as to goods and services provided in connection with this Loan B Agreement resulting from antitrust violations that arise under the antitrust laws of the United States or the antitrust laws of the State.

Section 11.2. Workers Compensation Insurance. The Borrower has obtained workers compensation insurance as required by Minnesota Statutes, Section 176.181, subd. 2. The Borrower's workers compensation insurance information is as follows:

- (a) Company Name: _____
- (b) Policy Number: _____
- (c) Local Agent: _____

Section 11.3. Business with the State of Minnesota/State Tax Laws. The Borrower is required by Minnesota Law to provide its Minnesota tax identification number if it does business with the State of Minnesota. This information may be used in the enforcement of Federal and State tax laws. Supplying these numbers could result in an action to require the Borrower to file State tax returns and pay delinquent State tax liabilities. This Loan B Agreement will not be approved unless these numbers are provided. These numbers will be available to Federal and State tax authorities and State personnel involved in the payment of State obligations.

Minnesota Tax ID: 463477000030

Federal Employer ID: 90-168563

Section 11.4. Grant Closeout. The Borrower shall, prior to grant closeout from the Grantor Agency, provide the City with all documentation necessary to demonstrate that Loan B has been used for the items and purposes set forth in the Grant Application.

Section 11.5. Review of Documents. The Borrower shall not be entitled to any disbursement of Loan B Proceeds until the City's legal counsel and the Grantor Agency have reviewed and approved this Loan B Agreement and the exhibits attached hereto.

Section 11.6. Effect on Other Agreements. Nothing in this Loan B Agreement shall be construed to modify any term of any other agreement to which the City and the Borrower are parties.

Section 11.7. Release and Indemnification Covenants. Except for any breach of the representations and warranties of the City or the negligence or other wrongful act or omission of the following named parties, the Borrower agrees to protect and defend the City and the governing body members, officers, agents, servants, and employees thereof, now and forever, and further agrees to hold the aforesaid harmless from any claim, demand, suit, action, or other proceeding whatsoever by any person or entity whatsoever arising or purportedly arising from the acquisition, construction, installation, ownership, maintenance, and operation of the Equipment and the Borrower's activities on the Development Property.

Section 11.8. Modifications. This Loan B Agreement may be modified solely through written amendments hereto executed by the Borrower and the City and approved by the Grantor Agency.

Section 11.9. Notices and Demands. Any notice, demand, or other communication under this Agreement by either party to the other shall be sufficiently given or delivered only if it is dispatched by registered or certified mail, postage prepaid, return receipt requested, or delivered personally:

(a) as to the City: City of Duluth
Business Development
402 City Hall
411 West First Street
Duluth, MN 55802
ATTN: Manager, Business Resources

(b) as to the Borrower: AAR Aircraft Services, Inc.

or at such other address with respect to any party as that party may, from time to time, designate in writing and forward to the others as provided in this Section 11.9.

Section 11.10. Conflict of Interests; Representatives Not Individually Liable. No officer or employee of the City may acquire any financial interest, direct or indirect, in this Loan B Agreement, the Equipment or in any contract related to the Equipment. No officer, agent, or employee of the City shall be personally liable to the Borrower or any successor in interest in the event of any default or breach by the City or for any amount that may become due to the Borrower or on any obligation or term of this Loan B Agreement.

Section 11.11. Binding Effect. The covenants and agreements in this Loan B Agreement shall bind and benefit the heirs, executors, administrators, successors, and assigns of the parties to this Loan B Agreement.

Section 11.12. Provisions Not Merged With Deed. None of the provisions of this Loan B Agreement are intended to or shall be merged by reason of any deed transferring any interest in the Development Property and any such deed shall not be deemed to affect or impair the provisions and covenants of this Loan B Agreement. The City and the Borrower acknowledge that the Development Property is not being conveyed in connection with the transactions contemplated by this Loan B Agreement.

Section 11.13. Titles of Articles and Sections. Any titles of the several parts, Articles, and Sections of this Loan B Agreement are inserted only for convenience of reference and shall be disregarded in construing or interpreting any of its provisions.

Section 11.14. Counterparts. This Loan B Agreement may be executed in any number of counterparts, each of which shall constitute one and the same instrument.

Section 11.15. Choice of Law and Venue. This Loan B Agreement shall be governed by and construed in accordance with the laws of the state of Minnesota without regard to its conflict of laws provisions. Any disputes, controversies, or claims arising out of this Loan B Agreement shall be heard in the state or federal courts of Minnesota, and all parties to this Loan B Agreement waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.

Section 11.16. Waiver. The failure or delay of any party to take any action or assert any right or remedy, or the partial exercise by any party of any right or remedy shall not be deemed to be a waiver of such action, right, or remedy if the circumstances creating such action, right, or remedy continue or repeat.

Section 11.17. Entire Agreement. This Loan B Agreement, with the exhibits hereto, constitutes the entire agreement between the parties pertaining to its subject matter and it supercedes all prior contemporaneous agreements, representations, and understandings of the parties pertaining to the subject matter of this Loan B Agreement.

Section 11.18. Separability. Wherever possible, each provision of this Loan B Agreement and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Loan B Agreement or any related document is to any extent found invalid by a court or other governmental entity of competent jurisdiction, that provision shall be ineffective only to the extent of such invalidity, without invalidating the remainder of such provision or the remaining provisions of

this Loan B Agreement or any other related document.

Section 11.19. Immunity. Nothing in this Loan B Agreement shall be construed as a waiver by the City of any immunity, defenses, or other limitations on liability to which the City is entitled by law, including but not limited to the maximum monetary limits on liability established by Minnesota Statutes, Chapter 466.

IN WITNESS WHEREOF, the City has caused this Loan B Agreement to be duly executed in its name and behalf and the Borrower has caused this Loan B Agreement to be duly executed in its name and behalf as of the date first above written.

CITY OF DULUTH, MINNESOTA

By _____

Its: _____

By _____

Its: _____

By _____

Its: _____

By _____

Its: _____

AAR Aircraft Services, Inc.

By _____

Its: _____

EXHIBIT A

LEGAL DESCRIPTION

Leased Property Legal Description

The Leased Property is all within Section 1, Township 50 North, Range 14 West and is generally described as follows:

Commencing at the point of intersection of the north line of Section 1, Township 50 North, Range 15 West with the north-south centerline of said Section 1; then south along said north-south centerline on a bearing of South 0 degrees 15 minutes 25 seconds East a distance of 699.87 feet to the point of beginning of the parcel to be described; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 316.22 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 600.00 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 675.23 feet to a point; thence turning to the left and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 361.60 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 673.67 feet to a point; thence turning to the right and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 1140.47 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 100.56 feet to a point; thence turning to the left and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 12.00 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 573.11 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 190.88 feet to a point; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 359.01 feet to the point of beginning and there terminating.

EXHIBIT B

LOAN B PROMISSORY NOTE

\$500,000.00 _____, 20__

AAR Aircraft Services, Inc., a Illinois corporation (the "Maker"), for value received, hereby promises to pay to the City of Duluth (the "City") or its assigns (the City and any assigns are hereinafter referred to as the "Holder"), at its designated principal office or such other place as the Holder may designate in writing, the principal sum of Five Hundred Thousand and No/100 Dollars (\$500,000.00), with interest as hereinafter provided, in any coin or currency which at the time or times of payment is legal tender for the payment of private debts in the United States of America. The principal of this Loan B Promissory Note is payable in installments due as follows:

1. Loan B shall bear interest at a rate of zero percent (0%).

2. Loan B payments shall be deferred for a period of 36 months from the Initial Disbursement Date of Loan A Proceeds (the "Deferred Period"). Loan B principal plus interest at the rate of zero percent (0%) shall be paid in equal monthly payments beginning the first month after the end of the Deferred Period; provided, however, the entire remaining balance of principal and interest shall be due and payable in full at the end of the 108th month following the Initial Disbursement Date of Loan A Proceeds.

3. The Maker shall have the right to prepay the principal of this Loan B Promissory Note, in whole or in part, without prepayment penalty.

4. This Loan B Promissory Note is given pursuant to the Loan B Agreement between the City and Borrower dated June _____, 2012, (City Contract No. _____) and is secured by a Security Agreement of even date herewith and a UCC-1 Financing Statement No. _____ filed on _____, 20____, covering certain Equipment located at the Facility located on the Development Property in St. Louis County, Minnesota. In the event any such security is found to be invalid for whatever reason, such invalidity shall constitute an event of default hereunder.

All of the agreements, conditions, covenants, provisions, stipulations and definitions contained in the Loan B Agreement, or any instrument securing this Loan B Promissory Note are hereby made a part of this Loan B Promissory Note to the same extent and with the same force and effect as if they were fully set forth herein. It is agreed that time is of the essence of this Loan B Promissory Note. If a default occurs under the Loan B Agreement, or any instrument securing this Loan B Promissory Note, then the Holder of this Loan B Promissory Note may at its right and option, without notice, declare immediately due and payable the principal balance of this Loan B Promissory Note, together with any costs of collection including attorney fees incurred by the Holder of this Loan B Promissory Note in collecting or enforcing payment hereof, whether suit be brought or not, and all other sums due hereunder, or under any instrument

securing this Loan B Promissory Note. The Maker agrees that the Holder of this Loan B Promissory Note may, without notice to the Maker of this Loan B Promissory Note and without affecting the liability of the Maker of this Loan B Promissory Note, accept additional or substitute security for this Loan B Promissory Note, or release any security or any party liable for this Loan B Promissory Note or extend or renew this Loan B Promissory Note.

5. The remedies of the Holder of this Loan B Promissory Note as provided herein, and in the Loan B Agreement, or any other instrument securing this Loan B Promissory Note, shall be cumulative and concurrent and may be pursued singly, successively, or together, and, at the sole discretion of the Holder of this Loan B Promissory Note, may be exercised as often as occasion therefore shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

The Holder of this Loan B Promissory Note shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder unless such waiver is in writing and signed by the Holder of this Loan B Promissory Note and then only to the extent specifically set forth in the writing. A waiver with reference to one event shall not be construed as continuing or as a bar to or waiver of any right or remedy as to a subsequent event. This Loan B Promissory Note may not be amended, modified, or changed except only by an instrument in writing signed by the party against whom enforcement of any such amendment, modifications, or change is sought.

6. This Loan B Promissory Note shall be governed by and construed in accordance with the laws of the state of Minnesota without regard to its conflict of laws provisions. Any disputes, controversies, or claims arising out of this Loan B Promissory Note shall be heard in the state or federal courts of Minnesota, and all parties to this Loan B Promissory Note waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.

7. This Loan B Promissory Note, with the other Loan B Documents, constitutes the entire Loan B Promissory Note between the parties pertaining to its subject matter and it supercedes all prior contemporaneous notes, representations, and understandings of the parties pertaining to the subject matter of this Loan B Promissory Note.

8. Wherever possible, each provision of this Loan B Promissory Note and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Loan B Promissory Note or any related document is to any extent found invalid by a court or other governmental entity of competent jurisdiction, that provision shall be ineffective only to the extent of such invalidity, without invalidating the remainder of such provision or the remaining provisions of this Loan B Promissory Note or any other related document.

9. IT IS HEREBY CERTIFIED AND RECITED that all conditions, acts, and things required to exist, happen, and be performed precedent to or in the issuance of this Loan B Promissory Note do exist, have happened, and have been performed in regular and due form as required by law.

IN WITNESS WHEREOF, the Maker has caused this Loan B Promissory Note to be duly executed as of the ____ day of _____, 20 ____.

AAR AIRCRAFT SERVICES, INC.

By _____

Its _____

By _____

Its _____

EXHIBIT C

SECURITY AGREEMENT

This security agreement (the "Security Agreement") is made and given as of this ____ day of _____, 20____, by AAR Aircraft Services, Inc., an Illinois corporation with its principal place of business at _____ (the "Borrower") in favor of the City of Duluth, a municipal corporation under the laws of Minnesota, with its offices at 402 City Hall, 411 West First Street, Duluth, Minnesota, 55802, and its endorsees, successors and assigns (the "Lender").

RECITALS

A. Lender and Borrower have entered into a certain Loan B Agreement, dated June _____, 2012 (City Contract No. _____) (the "Loan B Agreement"), pursuant to which Lender will loan to Borrower no more than Five-Hundred Thousand and no/100ths dollars (\$500,000) ("Loan B") to finance the acquisition of the equipment (the "Equipment") described on the Exhibit B to Security Agreement attached hereto, such Equipment to be located at the property described on the Exhibit A to Security Agreement attached hereto (the "Property"). The definitions contained in the Loan B Agreement are hereby made a part of this Security Agreement as if fully set forth herein. Borrower's payment obligations under the Loan B Agreement will be evidenced by a promissory note (the "Loan B Promissory Note") dated as of the date hereof.

B. As security for the repayment of Loan B, Lender has required that Borrower execute and deliver to Lender this Security Agreement granting a security interest to Lender in the Equipment.

C. The Loan B Promissory Note, this Security Agreement, and any other instruments or documents given as security for Loan B are herein referred to as the "Loan B Documents".

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged by Borrower, it is agreed as follows:

1. Grant of Security Interest. As security for the payment and performance of the Loan B Promissory Note and all other liabilities, obligations, and indebtedness of Borrower to Lender due or to become due, direct or indirect, absolute or contingent, joint or several, howsoever created, now or hereafter at any time created, arising, or evidenced under or pursuant to the Loan B Promissory Note or this Security Agreement or any other document or instrument evidencing or securing the Loan B Promissory Note, Borrower does hereby transfer, assign, and grant to Lender a security interest in all of Borrower's right, title, and interest in and to the following (hereinafter collectively referred to as the "Collateral"), whether now owned or hereafter acquired or arising:

(a) the Equipment; and

(b) any and all proceeds of the foregoing.

2. Borrower's Representations, Warranties and Covenants. Borrower represents, warrants, covenants, and agrees:

(a) Organization. Borrower is a corporation, validly existing and in good standing under the laws of the state of Minnesota, and Borrower has full power and authority to execute, deliver, and perform the Loan B Documents, and to own its property and conduct its business as presently conducted and as proposed to be conducted.

(b) Authorization. The execution, delivery, and performance of this Security Agreement have been duly authorized by all necessary action and will not:

(I) require any consent or approval of any entity that has not been obtained; or

(ii) violate any provision of any indenture, contract, agreement, or instrument to which Borrower is a party or by which it is bound.

(c) Performance by Borrower. Unless Borrower obtains Lender's prior written consent, Borrower shall not:

(I) terminate its interest in any of the Collateral; or

(ii) sell, transfer, or assign, or offer to sell, transfer or assign all or any part of the Collateral or permit all or any part of the Collateral to be sold, transferred, or assigned; or

(iii) remove or consent to the removal of any of the Equipment from the Property.

(d) Title to Collateral. Borrower shall keep good marketable title to all of the Collateral, and none of the Collateral is subject to any lien or security interest except for the security interest created by this Security Agreement and other security interests consented to in writing by Lender. Borrower has not granted, and will not grant or permit to exist, any lien or security interests in all or a portion of the Collateral other than the liens in favor of Lender and other liens consented to in writing by Lender. Borrower shall defend the Collateral against all claims and demands of all and any other persons at any time claiming any interest therein adverse to Lender.

(e) Actions and Proceedings. There are no actions at law, suits in equity, or other proceedings pending before or expected to be filed with any governmental agency, commission, bureau, tribunal, or other arbitration proceedings against or affecting Borrower that if adversely determined would adversely affect Borrower's interest in the Collateral or would adversely affect the rights of Borrower to pledge and assign all or a part of the Collateral or the rights and security afforded Lender hereunder.

(f) Insurance. Borrower agrees it will keep the Equipment insured at all times against loss by

fire and other hazards concerning which, in the judgment of Lender, insurance protection is reasonably necessary and in amounts sufficient to protect against loss or damage of the Equipment. Such policy or policies will contain a loss payable clause in favor of Lender or its successors or assigns, in form satisfactory to Lender, provided, however, that Borrower may, at its reasonable discretion, self-insure the Equipment.

(g) No Fixture. If any of the Collateral is or becomes a fixture, Borrower agrees to furnish Lender, at Lender's request, with a statement or statements signed by all persons who have or claim an interest in the real estate concerned, which statements shall provide that the signer consents to the security interest created hereby and disclaims any interest in the Collateral as fixtures.

(h) Understandings Regarding Collateral. Borrower acknowledges that the Collateral is of the design, capacity, and manufacture specified for and by Borrower, and that Borrower is satisfied that the same is suitable for its intended purposes. Borrower further acknowledges and agrees that Lender has not made, and does not make, any representation, warranty, or covenant with respect to merchantability, fitness for any purpose, durability, patent, copyright or Economic mark infringement, suitability, or capability of any item of Collateral in any respect or in connection with any other purpose or use of Borrower, or any other representation, warranty, or covenant of any kind or character expressed or implied with respect thereto. Borrower accordingly agrees not to assert any claim whatsoever against Lender based thereon. Borrower further agrees, regardless of cause, not to assert any claim whatsoever against Lender for loss of anticipatory profits or consequential damages.

(i) Use of Collateral. The Collateral will be used for its intended business purpose and will at all times be located at the Property.

(j) Condition of Collateral. Borrower will keep the Collateral in good condition and repair, reasonable wear and tear excepted, will permit Lender to enter upon the Property at reasonable times for the purpose of examining the Collateral.

(k) Costs of Collection. In the event of any action or proceeding to collect or realize upon the Collateral or to enforce any of Lender's rights hereunder, Borrower shall pay:

(i) all of Lender's attorneys fees and other legal expenses, with interest thereon, incurred by Lender;

(ii) all taxes, levies, insurance expenses, and costs of repairs to, or maintenance of, the Collateral; and

(iii) all costs of Lender incurred in taking possession of, disposing of or preserving the Collateral after any Event of Default (defined below).

3. Event of Default. Upon the event of a default under the Loan B Agreement, Lender may exercise any remedy available to it under the terms of the Loan B Agreement.

4. Further Assurances. Borrower shall execute and deliver to Lender, promptly and at Borrower's expense, Uniform Commercial Code ("Code") financing statements and evidence of tax filings and payments, including without limitation a UCC-1 Financing Statement in substantially the form set forth at Exhibit C to Security Agreement attached hereto. Borrower agrees that: (i) Lender is authorized, at its option, to file a carbon, photographic, or other reproduction of this Security Agreement as a financing statement and that such statement shall be sufficient as a financing statement under the Code; and (ii) Lender is authorized to file financing statements or amendments thereto without the signature of Borrower, provided that if a signature is required by law, then Borrower appoints Lender as Borrower's attorney-in-fact to execute any such financing statements.

5. Cumulative Remedies. All of Lender's rights and remedies herein are cumulative and in addition to any rights or remedies available at law or in equity including the Code, and may be exercised concurrently or separately. Borrower shall pay all costs, expenses, losses, damages and legal costs (including attorneys fees) incurred by Lender as a result of enforcing any terms or conditions of this Security Agreement.

6. No Liability Imposed on Lender. Lender shall not be obligated to perform or discharge, nor does it hereby undertake to perform or discharge any obligation, duty, or liability, nor shall this Security Agreement operate to place responsibility for the control, care, or management of the Equipment upon Lender.

7. Indemnification. Borrower agrees to defend, protect, indemnify and hold Lender harmless of and from any and all liability, loss, and damage that Lender does, may, or might incur under or by reason of this Security Agreement, and of and from any and all claims and demands whatsoever which may be asserted against Lender by reason of any alleged obligations or undertakings to perform or discharge any of the terms, covenants, or agreements contained herein. Should Lender incur any such liability or be required to defend against any such claims or demands, or should a judgment be entered against Lender, the amount thereof, including costs, expenses, and reasonable attorneys fees, shall bear interest thereon at the rate then in effect on the Loan B Promissory Note, shall be secured hereby, shall be added to Loan B, and Borrower shall reimburse Lender for the same immediately upon demand, and upon the failure of Borrower so to do, Lender may declare Loan B immediately due and payable.

8. Expenses of Lender. All expenses in protecting, storing, warehousing, insuring, handling, and shipping of the Collateral, all costs of keeping the Collateral free of liens, encumbrances and security interests (other than the security interest created by this Security Agreement) and the removing of the same and all excise, property, sales, and use taxes imposed by state, federal, or local authority on any of the Collateral or with respect to the sale thereof, shall be borne and paid for by Borrower and if Borrower fails to promptly pay any amounts thereof when due, Lender may, at its option, but shall not be required to, pay the same, and upon such payment the same shall constitute obligations and shall bear interest at the rate specified in the Loan B Promissory Note and shall be secured by the security interests granted hereunder.

9. Continuing Rights. The rights and powers of Lender hereunder shall continue and remain in full force effect until Loan B is paid in full.

15. Conflict of Interests; Representatives Not Individually Liable. No officer or employee of Lender may acquire any financial interest, direct or indirect, in this Security Agreement, the Equipment, or in any contract related to the Equipment. No officer, agent, or employee of Lender shall be personally liable to Borrower, or any successor in interest, in the event of any default or breach by Lender or for any amount which may become due to Borrower or on any obligation or term of this Security Agreement.
16. Binding Effect. The covenants and agreements in this Security Agreement shall bind and benefit the heirs, executors, administrators, successors, and assigns of the parties to this Security Agreement.
17. Merger. None of the provisions of this Security Agreement are intended to or shall be merged by reason of any deed transferring any interest in the Property and any such deed shall not be deemed to affect or impair the provisions and covenants of this Security Agreement.
18. Titles of Articles and Sections. Any titles of the several parts, Articles, and Sections of this Security Agreement are inserted for convenience of reference only and shall be disregarded in construing or interpreting any of its provisions.
19. Counterparts. This Security Agreement may be executed in any number of counterparts, each of whom shall constitute one and the same instrument.
20. Choice of Law and Venue. This Security Agreement shall be governed by and construed in accordance with the laws of the state of Minnesota without regard to its conflict of laws provisions. Any disputes, controversies, or claims arising out of this Security Agreement shall be heard in the state or federal courts of Minnesota, and all parties to this Security Agreement waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.
21. Waiver. The failure of any party to take any action or assert any right or remedy, or the partial exercise by any party of any right or remedy, shall not be deemed to be a waiver of such action, right, or remedy if the circumstances creating such action, right, or remedy continue or repeat.
22. Entire Agreement. This Security Agreement, with the other Loan B Documents constitutes the entire agreement between the parties pertaining to its subject matter and it supercedes all prior contemporaneous agreements, representations, and understandings of the parties pertaining to the subject matter of this Security Agreement.
23. Separability. Wherever possible, each provision of this Security Agreement and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Security Agreement or any related document is to any extent found invalid by a court or other governmental entity of competent jurisdiction, that provision shall be ineffective only to the extent of such invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement or any other related document.

24 Immunity. Nothing in this Security Agreement shall be construed as a waiver by the City of any immunities, defenses, or other limitations on liability to which the City is entitled by law, including but not limited to the maximum monetary limits on liability established by Minnesota Statutes, Chapter 466.

24. Other Matters. All representations and warranties contained in this Security Agreement or in any other agreement between Borrower and Lender shall survive the execution, delivery and performance of this Agreement and the creation and payment of any indebtedness to Lender. Borrower waives notice of the acceptance of this Security Agreement by Lender.

IN WITNESS WHEREOF, Lender has caused this Security Agreement to be duly executed in its name and behalf and Borrower has caused this Security Agreement to be duly executed in its name and behalf as of the date first above written.

CITY OF DULUTH

By _____
Its _____

By _____
Its _____

By _____
Its _____

By _____
Its _____

AAR Aircraft Services, Inc.

By _____
Its _____

EXHIBIT A TO SECURITY AGREEMENT

LEGAL DESCRIPTION

Leased Property Legal Description

The Leased Property is all within Section 1, Township 50 North, Range 14 West and is generally described as follows:

Commencing at the point of intersection of the north line of Section 1, Township 50 North, Range 15 West with the north-south centerline of said Section 1; then south along said north-south centerline on a bearing of South 0 degrees 15 minutes 25 seconds East a distance of 699.87 feet to the point of beginning of the parcel to be described; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 316.22 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 600.00 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 675.23 feet to a point; thence turning to the left and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 361.60 feet to a point; thence turning to the right and continuing on a bearing of South 70 degrees 0 minutes 44 seconds West a distance of 673.67 feet to a point; thence turning to the right and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 1140.47 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 100.56 feet to a point; thence turning to the left and continuing on a bearing of North 19 degrees 59 minutes 16 seconds West a distance of 12.00 feet to a point; thence turning to the right and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 573.11 feet to a point; thence turning to the right and continuing on a bearing of South 19 degrees 59 minutes 16 seconds East a distance of 190.88 feet to a point; thence turning to the left and continuing on a bearing of North 70 degrees 0 minutes 44 seconds East a distance of 359.01 feet to the point of beginning and there terminating.

EXHIBIT B TO SECURITY AGREEMENT

DESCRIPTION OF EQUIPMENT

EQUIPMENT

EXHIBIT C TO SECURITY AGREEMENT

**STATE OF MINNESOTA UCC-1
FINANCING STATEMENT** This statement
is presented for filing pursuant
to Minnesota Statutes 336.9-402

**FOR USE BY FILING OFFICER
ONLY**

DEBTOR

AAR Aircraft Services, Inc.

TIN: _____

SECURED PARTY

City of Duluth
402 City Hall
411 West First Street
Duluth, MN 55802

COLLATERAL

See attached Exhibit A.

RETURN ACKNOWLEDGMENT COPY TO:

AAR Aircraft Services, Inc.

By _____
Its _____

**EXHIBIT A TO STATE OF MINNESOTA UCC-1
FINANCING STATEMENT**

to UCC-1 Financing Statement naming

AAR Aircraft Services, Inc., as Debtor

and

City of Duluth, Minnesota, as Secured Party

Pursuant to the provisions of the Security Agreement dated as of _____, 20____ (the "Security Agreement") between the Debtor and Secured Party, the Debtor does hereby assign to and grant to the Secured Party all of its right, title and interest in and to:

NEED EQUIPMENT DESCRIPTION

(the "Equipment"), contract rights (including contract rights pertaining to performance bonds, fidelity bonds, or insurance contracts) now or hereafter belonging or in any way pertaining to the Equipment, and all proceeds and products of the foregoing

EXHIBIT D

FINANCIAL ASSISTANCE / GRANTORS DESCRIPTION

All of the following forms of assistance have been proposed for this project:

1. Duluth Economic Development Authority (DEDA) Lease Subsidy, maximum - \$443,700
2. DEDA Conditional Grant for Substantial Rehabilitation of the Facility - \$350,000
3. State of Minnesota JOBZ tax abatement benefit, estimated - \$2,167,850
4. City of Duluth Tax Abatement, estimated - \$161,000
5. St. Louis County Tax abatement, estimated - \$320,000
6. State of Minnesota, Minnesota Investment Fund Forgivable Loan - \$500,000
((\$250,000 of the Forgivable Loan will be supported by short-term loan guarantees of \$50,000 each to be provided by DEDA, the Duluth Airport Authority, the Northland Foundation, Minnesota Power, and St. Louis County)
7. State of Minnesota, Minnesota Investment Fund Loan - \$500,000
8. Duluth 1200 Fund Loan - \$500,000
9. Arrowhead Regional Development Commission Loan - \$250,000
10. Northland Foundation Loan - \$450,000
11. Minnesota Community Capital Fund Loan - \$1,500,000
12. State of Minnesota, Minnesota Job Skills Partnership - \$400,000