

PLANNING AND ECONOMIC DEVELOPMENT COMMITTEE

13-0478R

RESOLUTION AUTHORIZING AN AMENDED AND RESTATED LOAN B AGREEMENT WITH AAR AIRCRAFT SERVICES, INC. IN AN AMOUNT NOT TO EXCEED \$500,000, AND FURTHER AUTHORIZING A FIRST AMENDMENT TO THE MINNESOTA INVESTMENT FUND GRANT AGREEMENT WITH THE MINNESOTA DEPARTMENT OF EMPLOYMENT AND ECONOMIC DEVELOPMENT.

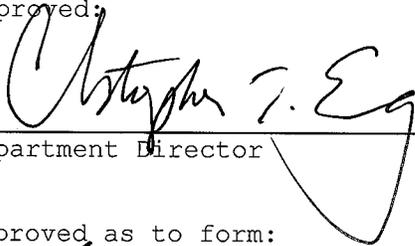
CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into an amended and restated Loan B 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. ("AAR") in an amount not to exceed \$500,000, payable from Fund 255 (economic development), Agency 020 (planning), Object 5434 (grants & awards);

FURTHER RESOLVED, that the proper city officials are hereby authorized to enter into a first amendment to the Minnesota Investment Fund ("MIF") Grant Agreement (#CDAP-12-0010-H-FY12), substantially in the form of that on file in the office of the city clerk as Public Document No. _____, with the Minnesota department of employment and economic development ("DEED") in an amount not to exceed \$1,000,000 relating to both the Loan A and Loan B Agreements with

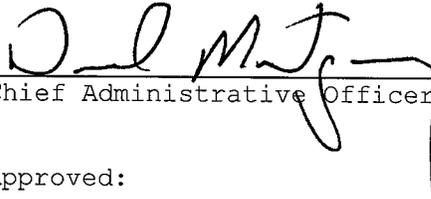
AAR, payable into Fund 255 (economic development), Agency 020 (planning), Object 4220-02(State of Minnesota operating).

Approved:



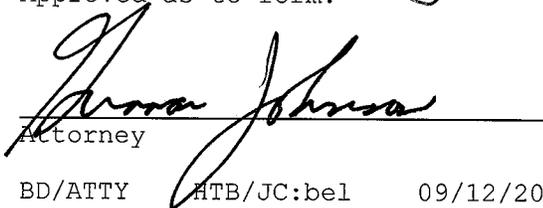
Department Director

Approved for presentation to council:



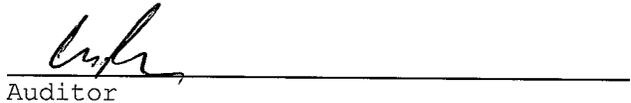
Chief Administrative Officer

Approved as to form:



Attorney

Approved:



Auditor

BD/ATTY HTB/JC:bel 09/12/2013

STATEMENT OF PURPOSE: This resolution authorizes the City to enter into a loan agreement titled "Amended and Restated Loan B Agreement of Minnesota Investment Funds" with AAR in an amount up to \$500,000. The source of funds for this City loan to AAR is a MIF program grant to the city by DEED. AAR is not eligible for Loan B until they meet all conditions of the Loan A Agreement; it should be noted that AAR has already complied with all Loan A conditions.

The amount of Loan B proceeds will be half of AAR's investment in additional new equipment for the Duluth Maintenance, Repair and Overhaul (MRO) facility up to a maximum loan of \$500,000. AAR needs to draw down this money from the City no later than June 29, 2014. Upon disbursement of Loan B, AAR will then have up to two years to create an additional 100 FTE positions at the MRO facility in addition to maintaining the 100 FTE base jobs created under MIF Loan A. If, one year later, AAR has maintained both the Loan A base jobs as well as the additional 100 Loan B jobs, one-fifth of the outstanding principle will be forgiven. If the job count falls below the 200 FTE threshold on the anniversary date, AAR will repay a pro rata portion of the amount to be forgiven that year, plus interest. This process will continue on the second through fifth anniversaries of the Loan B disbursement.

**AMENDED AND RESTATED
LOAN B AGREEMENT OF MINNESOTA INVESTMENT FUNDS**

THIS AMENDED AND RESTATED LOAN B AGREEMENT is deemed to be made and entered into as the 29th 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 (the “Grant Agreement”) between the Minnesota Department of Employment and Economic Development and the City has been executed and requires 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 Amended and Restated Loan B Agreement by reference said Grant Application and Grant Agreement 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:

“Base Jobs” mean the 100 FTE jobs created pursuant to Loan A.

“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.

“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 which is in addition to any equipment purchased pursuant to the Loan A Agreement.

“Facility” means a 189,000 square foot maintenance, repair and overhaul facility being leased to Borrower pursuant to the Lease Agreement (said portion being 152,300 square feet at the time of execution of the Lease Agreement) 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 the number of total hours worked divided by the maximum number of 2080 compensable hours in one year in Duluth, MN.

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

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

“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 later than June 29, 2014.

“Job Achievement Date” means the date by which the 100 FTE jobs required by this Amended and Restated Loan B Agreement are created in addition to the Base Jobs, or two years from the Loan B Benefit Date, whichever is sooner.

“Job Maintenance Period” means a period of five (5) years after the Job Achievement Date.

“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. 21654).

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

“Loan B Benefit Date” means the Disbursement Date of Loan B Proceeds.

“Loan B Leveraged Funds” means the non-public funds described in Section 2.1 of this Amended and Restated Loan B Agreement.

“Loan B Proceeds” means the funds disbursed to the Borrower pursuant to this Amended and Restated Loan B Agreement which shall be half of the Total Loan B Investment up to the amount of \$500,000.

“Total Loan B Investment” means the total expenditure by Borrower in the Equipment, half of which may be reimbursed to Borrower as Loan B Proceeds in an amount up to \$500,000.

“Amended and Restated Loan B Promissory Note” means the promissory note to be executed by the Borrower in favor of the City prior to the 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.

“Amended and Restated 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. Total Loan B Investment. The Borrower shall commit the Total Loan B Investment 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 Loan/Grant. The MIF Grant will be used by the City to make a loan to the Borrower of Loan B Proceeds for reimbursement of purchase of the Equipment. The City’s

obligations under this Amended and Restated 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. The principal amount of Loan B shall not exceed \$500,000. Loan B shall bear interest at the implicit price deflator as defined in Minnesota Statutes, Section 275.70, Subd. 2 ("Recapture Interest"). Loan B terms may not be modified without prior written approval from the Grantor Agency. Loan B shall be used exclusively for reimbursement of purchase of the Equipment. The term of Loan B is set forth in Section 5.4 of this Amended and Restated 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 completion of the Job Maintenance Period 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 Amended and Restated Loan B Agreement shall automatically terminate without any notice to Borrower: (1) if no Loan B Proceeds have been disbursed to the Borrower on or before June 29, 2014; 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. Amended and Restated Loan B Promissory Note. The Borrower shall deliver the Amended and Restated Loan B Promissory Note to the City prior to the Disbursement Date of Loan B Proceeds.

Section 3.6. Annual Financial Statements. For the term of the loan the Borrower must submit the most recent annual financial statement of AAR CORP (Borrower's parent corporation) 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 Amended and Restated 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 Amended and Restated 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 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 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 Amended and Restated 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 (which consent shall not be unreasonable withheld 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 at 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 Amended and Restated 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, the provisions of said Section 7.1 shall apply.

(b) Nothing in this Section 4.4 shall be construed to limit the Lender's rights or remedies

under any other provision of this Amended and Restated 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 Proceeds shall be a one-time disbursement for reimbursement of purchase of the Equipment. The Loan B Proceeds shall be half of the Total Loan B Investment but 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 and has maintained the Base Jobs; Borrower has made the Total Loan B Investment in the Equipment, including the Loan B Leveraged Funds, in addition to the amount to be reimbursed as Loan B Proceeds; the City has received from the Borrower an invoice or invoices for the Equipment costs; and Borrower has executed the Amended and Restated Loan B Promissory Note and Security Agreement. Upon receipt of materials evidencing the above and such invoice or invoices, the City will disburse the Loan B Proceeds in an amount up to \$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 limited to, the materials described in Article 6 of this Amended and Restated 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 Term. The term of Loan B is set forth in Section 7.2 and in the Amended and Restated Loan B Promissory Note.

Section 5.5. Loan B Repayment Schedule. Loan B payments shall be in such amount and on such dates as set forth in the Amended and Restated Loan B Promissory Note.

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 Agreement. 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 the Total Loan B Investment has 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 Amended and Restated 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:

(a) Create 100 new FTE positions at the Borrower's Facility located on the Development Property in Duluth, Minnesota, in addition to the Base Jobs, within two years of the Loan B Benefit Date, 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) Maintain 100 new FTE positions at the Borrower's Facility located on the Development Property in Duluth, Minnesota, in addition to the Base Jobs, during each year of the Job Maintenance Period.

(2) If the job creation goal set forth in Section 7.1 (1) (a) is not met in its entirety within two years of the Loan B Benefit Date ("Loan B Anniversary Date"), the Borrower shall repay the principal amount of Loan B together with interest at the Recapture Interest rate. Recapture Interest shall begin to accrue on the Disbursement Date of Loan B Proceeds. Loan B repayment shall be made in equal monthly installments over a sixty-month period beginning the first day of the month following the Loan B Anniversary Date. If the job creation and job maintenance goals set forth in

Section 7.1.(1) (a) and (b) are met in their entirety, one fifth of the principal balance of Loan B will be forgiven during the Job Maintenance Period on the first through the fifth anniversary of the Job Achievement Date. If fewer than 100 new FTE positions at the Facility, in addition to the Base Jobs, are maintained in any year during the Job Maintenance Period, the Borrower shall repay a pro-rata share of Loan B that would have been forgiven during that year had the Borrower met its job maintenance goal plus Recapture Interest. Repayment shall be made thirty (30) days after the anniversary date for that year. The amount of repayment shall be the amount of Loan B that would have been forgiven during that year multiplied by a fraction, the numerator being the lack of FTEs maintained in that year and the denominator being 200. Interest on the repayment amount shall be at the Recapture Interest rate and shall begin to accrue on the Disbursement Date of Loan B Proceeds.

Section 7.2. Employment Documentation. The Borrower shall provide to the City employment documentation for B Loan pursuant to the reporting requirements of the Minnesota Department of Employment and Economic Development (“DEED”). The DEED MIF program requires an Annual Progress Report to be submitted by the City to DEED by January 25 of each year that the MIF loan is open. For the MIF Annual Progress Report, the Borrower shall provide employment documentation to the City by January 15 for the previous year ending December 31. State statute also requires the City to submit an annual Minnesota Business Assistance Form (“MBAF”) report to DEED by April 1 for the previous year ending December 31. The annual MBAF report must be submitted for two years after the Benefit Date or until the goals are met, whichever is later. If the goals are not met, the Borrower must continue to provide documentation until the loan is repaid. For the MBAF report, Borrower shall provide employment documentation to the City by March 1. For both reports, the documentation 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.

In addition to the above-described reports required by DEED, Borrower shall provide to the City employment documentation for each twelve-month period during the Job Maintenance Period in order to receive loan forgiveness during the Job Maintenance Period as set forth in Section 7.1(2). Said reports shall be provided within 30 days following the Loan B Anniversary Date for all five years.

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 no less than 7 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 Amended and Restated Loan B Agreement as though wholly set forth herein and the Borrower shall comply with each such provision throughout the term of this Amended and Restated 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 provided, however, this Section 9.2 shall not apply to Borrower's employees or contract laborers not engaged in said erection, construction, remodeling or repair of the Facility.

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 Amended and Restated 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 a Grant Agreement with the Grantor Agency, setting forth the terms, conditions, and requirements of the MIF 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 Agreement.

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

(c) The Borrower acknowledges that nothing contained in the Grant Agreement or this Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Agreement, nor attain any right, privileges, authorities, or interest in or under the Grant Agreement.

(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 Amended and Restated 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 Amended and Restated 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: Sentry Insurance
- (b) Policy Number: 9015547
- (c) Local Agent: 7153466135

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 Amended and Restated 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 Amended and Restated Loan B Agreement and the exhibits attached hereto.

Section 11.6. Effect on Other Agreements. Nothing in this Amended and Restated 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 Amended and Restated 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.
c/o AAR CORP
Attn: General Counsel
1100 N. Wood Dale Rd.
Wood Dale, IL 60191

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 Amended and Restated 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 Amended and Restated Loan B Agreement.

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

Section 11.12. Provisions Not Merged With Deed. None of the provisions of this Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Agreement.

Section 11.13. Titles of Articles and Sections. Any titles of the several parts, Articles, and Sections of this Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Agreement shall be heard in the state or federal courts of Minnesota, and all parties to this Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Agreement.

Section 11.18. Separability. Wherever possible, each provision of this Amended and Restated Loan B Agreement and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Amended and Restated 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 Amended and Restated Loan B Agreement or any other related document.

Section 11.19. Immunity. Nothing in this Amended and Restated 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 Amended and Restated Loan B Agreement to be duly executed in its name and behalf and the Borrower has caused this Amended and Restated Loan B Agreement to be duly executed in its name and behalf as of the date first above written.

CITY OF DULUTH, MINNESOTA

AAR Aircraft Services, Inc.

By: _____
Mayor

By _____

Its: _____

Attest: _____
City Clerk

Countersigned:

City Auditor

Approved as to form:

City Attorney

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
AMENDED AND RESTATED
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) or so much thereof as may be advanced under this Amended and Restated Loan B Promissory Note pursuant to the Amended and Restated Loan B Agreement between the City and Maker deemed to be dated June 29, 2012 (City Contract No. 21655), 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. Unless otherwise defined herein, the definitions in the Amended and Restated Loan B Agreement shall apply to this Amended and Restated Loan B Promissory Note. The principal and interest on this Amended and Restated Loan B Promissory Note are payable as follows:

1. Loan B shall bear interest at the Recapture Interest rate. Recapture Interest shall begin to accrue on the Disbursement Date of Loan B Proceeds.

2. If the job creation goal set forth in Section 7.1 (1) (a) of the Amended and Restated Loan B Agreement is not met in its entirety by the Loan B Anniversary Date, Maker shall pay the principal and accrued interest in equal monthly payments over a period of sixty (60) months beginning the first day of the month following the Loan B Anniversary Date.

3. If the job creation and job maintenance goals set forth in Section 7.1 (1) (a) and (b) are met in their entirety, one fifth of the principal balance of Loan B will be forgiven during each year of the Job Maintenance Period on the first through the fifth anniversary of the Job Achievement Date. If fewer than 100 new FTE positions at the Facility, in addition to the Base Jobs, are maintained in any year during the Job Maintenance Period, the Maker shall repay a pro-rata share of Loan B that would have been forgiven during that year had the Maker met its job maintenance goal plus Recapture Interest. Repayment shall be made thirty (30) days after the anniversary date for that year. The amount of repayment shall be the amount of Loan B that would have been forgiven during that year multiplied by a fraction, the numerator being the lack of FTEs maintained in that year and the denominator being 200. Interest on the repayment amount shall be at the Recapture Interest rate and shall begin to accrue on the Disbursement Date of Loan B Proceeds. 3. The Maker shall have the right to prepay the principal of this Amended and Restated Loan B Promissory Note, in whole or in part, without prepayment penalty.

4. This Amended and Restated Loan B Promissory Note is given pursuant to the Amended and Restated Loan B Agreement) and is secured by a Security Agreement of even date with this Amended and Restated Loan B Promissory Note 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 Amended and Restated Loan B Agreement, or any instrument securing this Amended and Restated Loan B Promissory Note are hereby made a part of this Amended and Restated 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 Amended and Restated Loan B Promissory Note. If a default occurs under the Amended and Restated Loan B Agreement, or any instrument securing this Amended and Restated Loan B Promissory Note, then the Holder of this Amended and Restated Loan B Promissory Note may at its right and option, without notice, declare immediately due and payable the principal balance of this Amended and Restated Loan B Promissory Note, together with any costs of collection including attorney fees incurred by the Holder of this Amended and Restated 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 Amended and Restated Loan B Promissory Note. The Maker agrees that the Holder of this Amended and Restated Loan B Promissory Note may, without notice to the Maker of this Amended and Restated Loan B Promissory Note and without affecting the liability of the Maker of this Amended and Restated Loan B Promissory Note, accept additional or substitute security for this Amended and Restated Loan B Promissory Note, or release any security or any party liable for this Amended and Restated Loan B Promissory Note or extend or renew this Amended and Restated Loan B Promissory Note.

5. The remedies of the Holder of this Amended and Restated Loan B Promissory Note as provided herein, and in the Amended and Restated Loan B Agreement, or any other instrument securing this Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Promissory Note shall be heard in the state or federal courts of Minnesota, and all parties to this Amended and Restated Loan B Promissory Note waive any objection to the jurisdiction of these courts, whether based on convenience or otherwise.

7. This Amended and Restated Loan B Promissory Note, with the other Amended and Restated Loan B Documents, constitutes the entire Amended and Restated 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 Amended and Restated Loan B Promissory Note.

8. Wherever possible, each provision of this Amended and Restated Loan B Promissory Note and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Promissory Note to be duly executed as of the ____ day of _____, 20 ____.

AAR AIRCRAFT SERVICES, INC.

By _____

Its _____

By _____

Its _____

EXHIBIT C

AMENDED AND RESTATED SECURITY AGREEMENT

This amended and restated security agreement (the "Amended and Restated 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 Amended and Restated Loan B Agreement, deemed to be dated June 29, 2012 (City Contract No. 21655) (the "Amended and Restated 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 Amended and Restated Security Agreement attached hereto, such Equipment to be located at the property described on the Exhibit A to Amended and Restated Security Agreement attached hereto (the "Property"). The definitions contained in the Amended and Restated Loan B Agreement are hereby made a part of this Amended and Restated Security Agreement as if fully set forth herein. Borrower's payment obligations under the Amended and Restated Loan B Agreement will be evidenced by a promissory note (the "Amended and Restated 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 Amended and Restated Security Agreement granting a security interest to Lender in the Equipment.

C. The Amended and Restated Loan B Promissory Note, this Amended and Restated Security Agreement, and any other instruments or documents given as security for Loan B are herein referred to as the "Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Promissory Note or this Amended and Restated Security Agreement or any other document or instrument evidencing or securing the Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Loan B Agreement, Lender may exercise any remedy available to it under the terms of the Amended and Restated 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 Amended and Restated Security Agreement attached hereto. Borrower agrees that: (i) Lender is authorized, at its option, to file a carbon, photographic, or other reproduction of this Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated 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.

10. Books and Records. Borrower will permit Lender and its representatives to examine Borrower's books and records (including data processing records and systems) with respect to the Collateral and make copies thereof at any time and from time to time, and Borrower will furnish such information reports to Lender and its representatives regarding the Collateral as Lender and its representatives may from time to time request. Lender shall have the authority, at any time, to require Borrower to place upon Borrower's books and records relating to the Collateral and other rights to payment covered by the security interest created in this Amended and Restated Security Agreement a notation stating that any such Collateral and other rights of payment are subject to a security interest in favor of Lender.

11. Effect on Other Agreements. Nothing in this Amended and Restated Security Agreement shall be construed to modify any term of any other agreement to which Lender and Borrower are parties.

12. Release and Indemnification Covenants. Except for any breach of the representations and warranties of Lender or the negligence or other wrongful act or omission of the following named parties, Borrower agrees to protect and defend Lender 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.

13. Modifications. This Amended and Restated Security Agreement may be modified solely through written amendments hereto executed by Lender and Borrower and approved by the Minnesota Department of Economic and Economic Development.

14. Notices and Demands. Any notice, demand, or other communication under this Amended and Restated Security 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 Developer: AAR Aircraft Services, Inc.
c/o AAR CORP
Attn: General Counsel
1100 N. Wood Dale Rd.
Wood Dale, IL 60191

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 14.

15. Conflict of Interests; Representatives Not Individually Liable. No officer or employee of Lender may acquire any financial interest, direct or indirect, in this Amended and Restated 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 Amended and Restated Security Agreement.

16. Binding Effect. The covenants and agreements in this Amended and Restated Security Agreement shall bind and benefit the heirs, executors, administrators, successors, and assigns of the parties to this Amended and Restated Security Agreement.

17. Merger. None of the provisions of this Amended and Restated 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 Amended and Restated Security Agreement.

18. Titles of Articles and Sections. Any titles of the several parts, Articles, and Sections of this Amended and Restated Security Agreement are inserted for convenience of reference only and shall be disregarded in construing or interpreting any of its provisions.

19. Counterparts. This Amended and Restated 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 Amended and Restated 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 Amended and Restated Security Agreement shall be heard in the state or federal courts of Minnesota, and all parties to this Amended and Restated 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 Amended and Restated Security Agreement, with the other Amended and Restated 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 Amended and Restated Security Agreement.

23. Separability. Wherever possible, each provision of this Amended and Restated Security Agreement and each related document shall be interpreted so that it is valid under applicable law. If any provision of this Amended and Restated 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 Amended and Restated 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 Amended and Restated 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 Amended and Restated Security Agreement by Lender.

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

CITY OF DULUTH, MINNESOTA

AAR Aircraft Services, Inc.

By: _____
Mayor

By _____

Its: _____

Attest: _____
City Clerk

Countersigned:

City Auditor

Approved as to form:

City Attorney

EXHIBIT A TO AMENDED AND RESTATED 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 AMENDED AND RESTATED SECURITY AGREEMENT

DESCRIPTION OF EQUIPMENT

EQUIPMENT

EXHIBIT C TO AMENDED AND RESTATED 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 Amended and Restated Security Agreement dated as of _____, 20____ (the "Amended and Restated 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

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

Amendment # 1 for Grant Agreement CDAP-12-0010-H-FY12

Contract Start Date:	<u>6/12/12</u>	Total Contract Amount:	<u>\$1,000,000</u>
Original Contract Expiration Date:	<u>6/30/16</u>	Original Contract:	<u>\$750,000</u>
Current Contract Expiration Date:	<u>N/A</u>	Previous Amendment(s) Total:	<u>\$N/A</u>
Requested Contract Expiration Date:	<u>N/A</u>	This Amendment:	<u>\$250,000</u>

This amendment is by and between the State of Minnesota, through its Commissioner of the Department of Employment and Economic Development (“State”) and the City of Duluth, 411 West 1st Street, Duluth, MN 55802 (“Grantee”).

Recitals

1. The State has a grant contract with the Grantee identified as CDAP-12-0010-H-FY12 (“Original Grant Contract”) to provide assistance with the expansion project entitled AAR Aircraft Services, Inc.
2. The State and the Grantee are willing to amend the Original Grant Contract as stated below.

Contract Amendment

In this Amendment deleted contract terms will be **struck out** and the added or revised contract terms will be underlined

REVISION 1. Recitals, Paragraph Five:

1. ~~The Grantor shall grant to the Grantee the total sum of SEVEN HUNDRED FIFTY THOUSAND DOLLARS (\$750,000)~~ ONE MILLION DOLLARS (\$1,000,000), which shall be state funds appropriated under the Minnesota Investment Fund program by the State Legislature. The Grantee shall perform the activities that are proposed in the Application and are further specified under Special Conditions during the period from June 12, 2012 through June 30, 2016 in accordance with all other applicable State and Federal laws. The proposed project must be initiated by June 30, 2013.

REVISION 2. Special Conditions, Paragraph One:

1. The Grantee shall enter into two separate Loan Agreements, hereinafter referred to Loan A and Loan B, with the Borrower for a total of ONE MILLION DOLLARS (\$1,000,000), ~~with \$750,000 from the Minnesota Fund and \$250,000 from the Rural Rehabilitation Account~~ to be used for the purposes, conditions and terms as stated in the approved Application and, and may not be modified without prior written approval from the Grantor.

REVISION 3. Loan B Special Conditions 1, 2, 3, 4, 5, 6, 7:

1. ~~The Grantee will provide a \$500,000 loan to the Borrower of which \$250,000 is from the Minnesota Investment Fund and \$250,000 is from the Rural Rehabilitation Account. Loan B payments will be deferred for a period of 36 months from the date of the Initial Disbursement of Loan A (Deferred Period). Loan B principal of \$500,000 at 0 (zero) percent interest shall be paid in equal monthly payments beginning the first month after the conclusion of the Deferred Period and will mature at the end of the 108th month following the Initial Loan Disbursement of Loan A (Loan Payment Term). Collateral will be in the form of a security interest in Equipment. For the purposes of Loan B, the following definitions apply:~~

- a) Base Jobs: the 100 FTE jobs created pursuant to Loan A.
- b) Loan B Benefit Date: the date that Loan B funds are disbursed
- c) Job Achievement Date: the earlier of the day the 100 FTE jobs that are required in Loan B are created in addition to the Base Jobs or two years from the Loan B Benefit Date.
- d) Job Maintenance Period: a period of five (5) years after the Job Achievement Date.

2. ~~Grantee is eligible for the up to \$500,000 to be provided as a forgivable Loan B to Borrower only until expiration of the Deferred Period, until June 29, 2014. Collateral will be in the form of security interest in Equipment.~~
3. ~~Funds will not be released until on a reimbursement basis until after the Borrower has met the conditions of Loan A, has maintained the Base Jobs, and has provided to the Grantee documentation of expenditures totaling up to an additional \$1,000,000 of which half, up to \$500,000, is privately funded. If the Borrower draws less than \$500,000 on or by June 29, 2014, then the loan will be forgiven on a pro-rata basis on the total amount disbursed. Disbursement of funds must be requested in one payment request only.~~
4. ~~The Borrower must create 92 100 new Full Time Equivalent (FTE) jobs, in addition to the 100 jobs 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. If the Borrower creates fewer than the 100 new FTE jobs in addition to the Base Jobs, the loan will not be forgiven and will revert to a five year loan with an interest rate set at the implicit price deflator and with terms as set forth in the Loan Agreement between the City and Borrower.~~
5. ~~In addition to the Base Jobs, 100 new FTE jobs required of Loan B shall be maintained at the Duluth AAR facility during the Job Maintenance Period. \$100,000 shall be forgiven per year during the Job Maintenance Period on the first through fifth anniversary of the Job Achievement Date. If fewer than the Base Jobs and 100 new FTE jobs are maintained in any year during the Job Maintenance Period, funds plus interest at the implicit price deflator accruing from the Loan B Benefit Date shall be repaid on a pro-rata basis on the amount that would have been forgiven for that year had the job maintenance goal been achieved. The amount of repayment is the amount of Loan B that would have been forgiven during that year multiplied by a fraction, the numerator being the lack of FTEs maintained in that year and the denominator being 200.~~
5. ~~Principal payments from the loan to the Grantee must be used to establish and maintain a revolving loan fund. The revolving loan fund policies and procedures must be consistent with the Minnesota Investment Fund Program requirements (Minnesota Statutes 116J.8731). The Grantee must retain financial control and decision-making authority regarding the use of the repayments from the loan. However, the Grantee may loan or grant money from its revolving loan fund to a regional development commission, other regional entity, or statewide community capital fund to capitalize or to provide the local match required for capitalization of a regional or statewide revolving fund. The Grantor must provide written approval prior to the release of funds to an organization.~~
6. ~~The Grantee may retain repayment of 20% of the \$250,000 principal. A pro-rata share of 80% of each repayment will be returned to the Grantor until the loan is paid in full. The status of payments shall be reported on the progress reports. In the event the loan is not paid in full, principal the Grantee retains will be reduced proportionally.~~
7. ~~Grantee's Revolving Loan Fund (RFL) policies and procedures must be submitted prior to the release of funds.~~

Except as amended herein, the terms and conditions of the Original Contract and all previous amendments remain in full force and effect.

1. STATE ENCUMBRANCE VERIFICATION

Individual certifies that funds have been encumbered as required by Minn. Stat. §§16A.15 and 16C.05.

Signed: _____

Date: 02/25/2013

Grant Contract No. PO#3-53944

3. STATE AGENCY

Individual certifies the applicable provisions of Minn. Stat. §16C.08, subdivisions 2 and 3 are reaffirmed.

By: _____

(with delegated authority)

Title: _____

Date: _____

2. GRANTEE

The Grantee certifies that the appropriate person(s) have executed the grant contract on behalf of the Grantee as required by applicable articles, bylaws, resolutions, or ordinances.

By: _____

Title: Mayor

Date: _____

By: _____

Title: City Clerk

Date: _____

By: _____

Title: City Auditor

Date: _____

By: _____

Title: City Attorney

Date: _____

Distribution:
Agency
Contractor
State's Authorized Representative - Photo Copy