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SAAB AB
Form SC 13D/A
November 15, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT
TO RULE 13d-1(a) AND AMENDMENTS THERETO FILED PURSUANT TO
RULE 13d-2(a)

(Amendment No. 1)

AERO SYSTEMS ENGINEERING, INC.
(Name of Subject Issuer)

COMMON STOCK, PAR VALUE \$0.20
(Title of Class of Securities)

007692 10 6
(CUSIP Number)

Per Erlandsson
Senior Vice President and General Counsel
SAAB AB
SE-581 88 Linkoping
Sweden
011-46-13-18-0000
(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

SEPTEMBER 25, 2001
(Date of Event which Requires Filing this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box [].

(Continued on following pages)

(Page 1 of 9)

1. NAMES OF REPORTING PERSONS

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IRS IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Saab AB (publ)

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) [X]
(b) []

3. SEC USE ONLY

4. SOURCE OF FUNDS*

WC

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(e) or 2(f) []

6. CITIZENSHIP OR PLACE OF ORGANIZATION

Sweden

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7. SOLE VOTING POWER	0
	8. SHARED VOTING POWER	1,277,073
	9. SOLE DISPOSITIVE POWER	0
	10. SHARED DISPOSITIVE POWER	1,277,073

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,277,073

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* []

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

29.0%

14. TYPE OF REPORTING PERSON*

HC, CO

*SEE INSTRUCTIONS BEFORE FILLING OUT!

1. NAMES OF REPORTING PERSONS
IRS IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

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Celsius AB

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) [X]
(b) []

3. SEC USE ONLY

4. SOURCE OF FUNDS*

AF

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2 (e) or 2 (f) []

6. CITIZENSHIP OR PLACE OF ORGANIZATION

Sweden

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1. NAMES OF REPORTING PERSONS
IRS IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Celsius Inc.

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2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP* (a) [X]
 (b) []

3. SEC USE ONLY

4. SOURCE OF FUNDS*
 AF

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(e) or 2(f) []

6. CITIZENSHIP OR PLACE OF ORGANIZATION
 Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7. SOLE VOTING POWER	0
	8. SHARED VOTING POWER	1,277,073
	9. SOLE DISPOSITIVE POWER	0
	10. SHARED DISPOSITIVE POWER	1,277,073

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON
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12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES* []

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)
 29.0%

14. TYPE OF REPORTING PERSON*
 HC, CO

*SEE INSTRUCTIONS BEFORE FILLING OUT!

This statement is filed pursuant to Rule 13d-2(a) with respect to shares of common stock, \$.20 par value, of Aero Systems Engineering, Inc., a Minnesota corporation (the "Company"), beneficially owned by Saab AB ("Saab"), a Swedish corporation, its subsidiary Celsius AB, a Swedish corporation ("Celsius") and Celsius' wholly-owned subsidiary Celsius Inc., a Delaware corporation ("Celsius US"). This statement amends and supplements the Schedule 13D filed December 5, 2000 (the "Schedule 13D").

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On September 25, 2001, Celsius US sold 2,245,000 shares of the common stock of Aero Systems Engineering, Inc. to Minnesota ASE, LLC, a Minnesota limited liability company ("Minnesota ASE").

ITEM 1. SECURITY AND ISSUER.

The name of the subject company is Aero Systems Engineering, Inc., a Minnesota corporation (the "Company"), which has its principal executive offices at 358 East Fillmore Avenue, St. Paul, MN 55107. This statement relates to the Company's common stock, \$0.20 par value per share (the "Common Stock").

ITEM 2. IDENTITY AND BACKGROUND.

(a)-(d) and (g) This Schedule 13D is being filed by: (i) Saab AB, a Swedish corporation, with its principal business address at SE-581 88 Linkoping, Sweden, (ii) Celsius AB, a Swedish corporation with its principal business address at c/o Saab AB, SE-581 88 Linkoping Sweden, and (iii) Celsius Inc., a Delaware corporation with its principal place of business at 1800 Diagonal Road, Suite 230, Alexandria, VA 22314. Saab AB and its subsidiaries as a group are a leading diversified high-technology company in the defense and commercial markets. The Saab group has businesses focused on areas such as aerospace, dynamics, infomatics, space and technical support services.

The names, business addresses, present principal occupations or employment, material occupations, positions, offices or employments during the last five years and citizenship of the directors and executive officers of Saab AB, Celsius AB and Celsius Inc. are as follows:

Saab AB

Name	Offices and Positions Held
----	-----
ANDERS SCHARP	Chairman
MARCUS WALLENBERG	Deputy Chairman
BENGT HALSE	President, CEO and Director
ERIK BELFRAGE	Director
BJORN SVEDBERG	Director
GEORGE ROSE	Director
ANTHONY RICE	Director
PETER NYGARDS	Director
MICHAEL ROUSE	Director
LARS HOOK	Director (Employee Representative)
RAGNAR LUDVIGSSON	Director (Employee Representative)
CLAES TROLLE	Director (Employee Representative)
GORAN SJOBLM	Executive Vice President and CFO
DAVID HEWITSON	Group Senior Vice President
JAN NYGREN	Group Senior Vice President
INGEMAR ANDERSSON	Group Senior Vice President

ANDERS SCHARP, has been the Chairman of Saab AB since 1990 and is also Chairman of Atlas Copco AB and AB SKF. He is also Chairman of the Swedish Employer Confederation and is a member of the Board of Directors of Investor AB and the Federation of Swedish Industries.

MARCUS WALLENBERG, has been the Deputy Chairman of Saab AB since 1993 and a member of the Board of Directors since 1992. Mr. Wallenberg is also Deputy Chairman of Telefonaktiebolaget L M Ericsson and a member of the Board of Directors of Astra Zeneca, Investor AB, Scania AB, Stora Enso Oyj, SAS

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Representantskap and the Knut and Alice Wallenberg Foundation.

BENGT HALSE, has been the President, Chief Executive Officer and a Director of Saab AB since 1995. He is also a member of the Board of Directors of Chalmers University of Technology.

ERIK BELFRAGE, has been a member of the Board of Directors since 1991. Mr. Belfrage is Chairman of the Institute of Corporate Management (IFL), the Swedish Institute of International Affairs (UI) and the Centre for European Policy Studies (CEPS). He is also a member of the Board of Directors of SAS, SAS Sverige AB and the International Council of Swedish Industry (NIR).

BJORN SVEDBERG, has been a member of the Board of Directors of Saab AB since 1998. He is also Chairman of Nefab AB and a member of the Board of Directors of Gambro and Investor AB.

GEORGE ROSE, has been a member of the Board of Directors of Saab AB since 1998. He is currently the Finance Director of BAE Systems.

ANTHONY RICE, has been a member of the Board of Directors of Saab AB since 1998. He is currently the Director of Supply Chain Management of BAE Systems.

PETER NYGARDS, has been a member of the Board of Directors of Saab AB since 2000. He is currently President of the Swedish Nuclear Fuel and Waste Management Company and a member of the Board of Directors of IVL AB and Unicom Care International AB.

MICHAEL ROUSE, has been a member of the Board of Directors of Saab AB since 2000. He is currently Director of International Partnerships of BAE Systems.

RAGNAR LUDVIGSSON, has been a member of the Board of Directors of Saab AB since 1995. He is also the Chairman of the Engineering Workers Union of Saab AB.

LARS HOOK, has been a member of the Board of Directors of Saab AB since 2001 (deputy member during 2000). He is also a member of the Industrial Salaried Employees Association of Aerotech Telub AB.

CLAES TROLLE, has been a member of the Board of Directors of Saab AB since 2001. He is also Chairman of the Graduate Staff Association of SaabTech Systems AB.

GORAN SJOBLON, is Executive Vice President and Chief Financial Officer of Saab AB.

DAVID HEWITSON, is Group Senior Vice President of Saab AB.

JAN NYGREN, is Group Senior Vice President of Saab AB.

INGEMAR ANDERSSON, is Group Senior Vice President of Saab AB.

All of the listed officers and directors are citizens of Sweden, except for Messrs. Rose, Rice, Rouse and Hewitson, who are citizens of the United Kingdom.

Celsius AB

Name	Offices and Positions Held
----	-----
PER ERLANDSSON	Chairman
PER-OVE MORBERG	President and Director
JOHN ERSHAMMAR	Director
LARS WAHLUND	Director

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PER ERLANDSSON, is Senior Vice President and General Counsel of Saab AB.

JOHN ERSHAMMAR, is Legal Counsel of Saab AB.

PER-OVE MORBERG, is a Group Senior Officer of Saab AB.

LARS WAHLUND, is Senior Vice President and Head of Financial Control of Saab AB.

All of the listed directors are citizens of Sweden.

Celsius Inc.

Name	Offices and Positions Held
PER-OVE MORBERG	Director
CHRISTER PERSSON	President and Chief Executive Officer

PER-OVE MORBERG, is Group Senior Officer of Saab AB.

CHRISTER PERSSON, is President and Chief Executive Officer of Celsius, Inc., an indirect wholly-owned subsidiary of Saab AB.

All of the listed directors and officers are citizens of Sweden.

(e) and (f) Neither Saab, Celsius AB, Celsius Inc., nor, to the best of their knowledge, any of the persons listed above, was a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting activities subject to, Federal or State securities laws or finding any violation of such laws.

ITEM 3. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION.

Not applicable.

ITEM 4. PURPOSE OF TRANSACTION.

The sale of 2,245,000 shares of the Company Common Stock was part of Saab's overall plan to divest the aviation services operations of Celsius.

- (a) The long-term strategy of Saab AB, Celsius AB and Celsius, Inc. is to divest their interest in the Company, but there currently is no definitive plan or timetable for such a divestiture.
- (b) None.
- (c) None.
- (d) Thomas Auth and James Kowalski were appointed members of the Board of Directors of the Company as of September 27, 2001.
- (e) None.
- (f) None.
- (g) None.
- (h) None.
- (i) None.
- (j) None.

ITEM 5. INTEREST IN SECURITIES OF THE ISSUER.

- (a) Saab AB, Celsius AB, and Celsius, Inc. are each the beneficial holders of

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1,277,073 shares of Company Common Stock (the "Shares"), representing 29.0% of the outstanding shares of Company Common Stock. Celsius Inc. is the record holder of the Shares, and Celsius AB, as parent of Celsius, Inc., and Saab AB, as parent of Celsius AB, are deemed to be beneficial holders of such shares pursuant to Section 13(d) of the Securities Exchange Act of 1934, as amended.

- (b) Saab AB, Celsius AB and Celsius, Inc. each are deemed to have shared voting and dispositive power over the Shares.
- (c) Information with respect to transactions in the Common Stock of the Company that were effected during the last sixty (60) days by the reporting person is set forth below:

Name of Person	Date	Shares Acquired (Disposed of)	Price Per Share
-----	----	-----	-----
Celsius, Inc.	9/25/01	(2,245,000)	\$0.85

The foregoing transaction was effected pursuant to the Stock Purchase Agreement dated as of September 25, 2001 between Celsius, Inc. and Minnesota ASE, LLC.

- (d) Not applicable.
- (e) Not applicable.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

In connection with the sale by Celsius US of 2,245,000 shares of the Common Stock of the Company to Minnesota ASE, pursuant to a Promissory Note (the "Note"), Celsius US has loaned \$1,500,000 to the Company. The Company's obligations under the Note are secured by a Security Agreement between the Company and Celsius US, and by a Combination Mortgage, Assignment of Rents, Security Agreement and Fixture Financing Statement between the Company and Celsius US, pursuant to which all of the personal and fixture assets of the Company are pledged as collateral. In addition, Minnesota ASE has pledged 2,245,000 shares of the Common Stock of the Company to Celsius US as further collateral to secure the Company's obligations under the Note. The Company, Minnesota ASE and Celsius US, in connection with the foregoing loan and security arrangements, are party to a Stockholders Agreement (the "Stockholders Agreement"). The Stockholders Agreement provides, among other things, for the voting of shares with respect to the election of Company Directors, a right of first refusal with respect to any sale of its shares by a shareholder to a third party, tag-along rights with respect to sales of stock to third parties, and certain registration rights of shareholders in the event of any public offering of the stock of the Company. Copies of the aforementioned agreements are appended hereto as appendices to Exhibit A.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

Exhibit A - Stock Purchase Agreement dated as of September 25, 2001 between Celsius, Inc. and Minnesota ASE, LLC, together with exhibits thereto.

SIGNATURES

After reasonable inquiry and to the best of each of our knowledge and

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belief, we certify that the information set forth in this statement is true, complete and correct.

Dated: November 1, 2001

SAAB AB (publ)

By: /s/ Per Erlandsson

Name: Per Erlandsson
Title: Senior Vice President and
General Counsel

CELSIUS AB

By: /s/ Per Erlandsson

Name: Per Erlandsson
Title: Chairman

CELSIUS INC.

By: /s/ Christer Persson

Name: Christer Persson
Title: President and Chief Executive Officer

EXHIBIT A

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT, is made as of the ____ day of September 2001, by and between Celsius Inc., a Delaware corporation (the "Seller"), and Minnesota ASE, LLC, a Minnesota limited liability company (the "Buyer").

W I T N E S S E T H:

WHEREAS, Aero Systems Engineering, Inc. ("ASE") is a corporation organized and existing under the laws of the State of Minnesota with authorized capital consisting of 10,000,000 shares of common stock, \$0.20 par value per share, of which there are currently outstanding 4,401,625 shares, 3,522,073 of which shares are owned by the Seller (the "Shares");

WHEREAS, the Seller desires to sell, assign and transfer to the Buyer and the Buyer desires to purchase, accept and receive from the Seller, 2,245,000 shares of the common stock of ASE (the "2,245,000 Shares") on the terms and subject to the conditions hereinafter set forth;

WHEREAS, the Buyer desires to secure new lines of credit for ASE in order to satisfy its obligations under existing Performance Bonds, dated July 24, 2000 for DSO Singapore in the present approximate amount of \$1,163,900 (the "DSO

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Performance Bond") and dated May 4, 2001 for CSIST in the present approximate amount of \$128,500 (the "CSIST Performance Bond") (both of which are guaranteed by the Seller or an affiliate of the Seller) and thus remove the Seller as primary guarantor of the DSO Performance Bond and the CSIST Performance Bond; and

WHEREAS, in order to provide financing to ASE, the Seller is willing to loan ASE \$1,500,000 pursuant to an interest-only three year secured note (the "Note").

NOW, THEREFORE, in consideration of the foregoing premises and further in consideration of the mutual covenants herein contained, the parties hereto hereby agree as follows:

ARTICLE 1.

PURCHASE AND SALE OF STOCK

On the terms and subject to the conditions herein set forth, the Seller hereby agrees to sell, transfer and deliver to the Buyer the 2,245,000 Shares, and the Buyer agrees to purchase the 2,245,000 Shares, as the case may be, from the Seller.

ARTICLE 2.

PURCHASE PRICE AND PAYMENT TERMS

2.1. PURCHASE PRICE. Subject to the terms and conditions set forth in this Agreement, the purchase price to be paid by the Buyer to the Seller for the 2,245,000 Shares shall be equal to a total of \$1,908,250 or \$0.85 per share.

2.2. PAYMENT TERMS. The Purchase Price determined in accordance with Section 2.1 shall be paid by the Buyer to the Seller on the Closing Date in immediately available funds.

ARTICLE 3.

CLOSING

The closing of the transaction contemplated hereunder shall take place at the offices of Winthrop & Weinstine, P.A., 3000 Dain Rauscher Plaza, 60 South Sixth Street, Minneapolis, Minnesota 55402, at 10:00 a.m. on the second business day after ASE receives a complete and validly executed export license for the shipment of a wind tunnel and related materials to DSO Singapore (the "Export License") or such day and at such time and place as may be mutually agreed upon by the Buyer and the Seller (said day of closing hereinbefore and hereinafter called the "Closing Date").

ARTICLE 4.

REPRESENTATIONS AND WARRANTIES OF SELLER

In connection with and as an inducement to the Buyer to enter into this Agreement and for the Buyer to be bound by the terms of this Agreement, the Seller represents and warrants to the Buyer that, as of the date hereof (and as of the Closing Date):

4.1. AUTHORITY. The Seller has the full power and authority to enter into, execute and deliver this Agreement and to consummate the transactions contemplated hereby and any instruments or agreements required herein.

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4.2. TITLE TO ASE STOCK. The Seller hereby represents and warrants to the Buyer that the Seller has good title to, the right to possession of and the right to sell the 2,245,000 Shares and that the 2,245,000 Shares shall be transferred on the Closing Date to the Buyer free and clear of any pledges, liens, charges, encumbrances, proxies, or other restrictions or potentially adverse claims of any kind of nature.

4.3. EXECUTION AND ENFORCEABILITY. This Agreement has been duly executed and delivered by the Seller and constitutes a legal, valid and binding obligation of the Seller enforceable against the Seller in accordance with its terms subject to the enforcement of equitable remedies, bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and the judicial limitations of the performance of the remedy of specific performance.

4.4. CLAIMS AGAINST ASE. The Seller hereby represents and warrants to the Buyer that the Seller has no claims, threatened or pending, against ASE except as set forth on EXHIBIT A.

4.5. FINANCIAL STATEMENTS. To the best knowledge of the Seller, the financial statements of ASE are true and correct in all material respects and fairly represent the financial position of ASE in accordance with generally accepted accounting principles. For purposes hereof, said financial statements are defined to be the balance sheet, income statement and related notes thereto as of December 31, 2000 and March 31, 2001 as filed with the Securities and Exchange Commission.

4.6. MATERIAL LIABILITIES. To the best knowledge of the Seller, there are no material liabilities for which ASE might be liable which are not reflected on the financial statements or in this Agreement.

For the purposes of this Article 4, "To the best knowledge of the Seller" shall mean the actual knowledge of Christer Persson (the Chief Executive Officer of the Seller), with no independent duty to investigate.

ARTICLE 5.

REPRESENTATIONS AND WARRANTIES OF THE BUYER

In connection with and as an inducement to the Seller to enter into and be bound by the terms of this Agreement, the Buyer warrants and represents to the Seller that, as of the date hereof (and as of the Closing Date):

5.1 ORGANIZATION AND CORPORATE POWER. The Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Minnesota. Subject to receiving the necessary regulatory approvals, the Buyer has all requisite power, authority, charters, licenses and franchises necessary or required by law to purchase the 2,245,000 Shares from the Seller.

5.2 AUTHORITY RELATIVE TO THIS AGREEMENT. The execution and delivery of this Agreement by the Buyer and the consummation by the Buyer of the transactions contemplated hereby have been (or will be) prior to the Closing Date duly authorized by the Board of Governors of the Buyer and no other corporate proceedings on the part of the Buyer is necessary to authorize this Agreement and such transactions. The Buyer has the full power and authority to enter into, execute and deliver this Agreement and to consummate the transactions contemplated hereby and any instruments or agreements required herein.

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5.3 EXECUTION AND ENFORCEABILITY. This Agreement has been duly executed and delivered by the Buyer and constitutes a valid and binding obligation of the Buyer enforceable in accordance with its terms subject to the enforcement of equitable remedies, bankruptcy, insolvency, moratorium and other laws affecting the rights of creditors generally and the judicial limitations of the performance of the remedy of specific performance.

5.4 SOPHISTICATED INVESTOR. The Buyer is a "Sophisticated Investor" (as such term is defined in this Agreement). The Buyer understands the business in which ASE is engaged and has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in ASE and making an informed investment decision with respect thereto. The Buyer has relied solely on its own investigation and due diligence. The Buyer has obtained sufficient information to evaluate the merits and risks of the investment and to make such a decision. The Buyer is aware of and able to bear the risks of the investment and is able to afford a complete loss of such investment.

ARTICLE 6.

NOTE AND COLLATERAL

6.1 NOTE. At the Closing Date, the Seller will lend ASE \$1,500,000 pursuant to the Note attached hereto as EXHIBIT B (the "Note"). It is expressly understood that ASE has the right to prepay the Note which shall result in the termination of the Security Agreement referred to in Section 6.2 hereof.

6.2 SECURITY AGREEMENT. At the Closing Date, ASE and the Seller will enter into the Security Agreement, attached hereto as EXHIBIT C (the "Security Agreement"). It is expressly recognized that the security interest of the Seller under the Security Agreement is subordinate to the security interest of National City Bank of Minneapolis ("Bank") and its participant lenders.

6.3 PLEDGE AGREEMENT. At the Closing Date, the Buyer shall grant a security interest in the 2,245,000 Shares to the Seller pursuant to the Pledge Agreement, attached hereto as EXHIBIT D (the "Pledge Agreement"), in order to secure the obligations of ASE to the Seller under the Note. The 2,245,000 Shares along with an executed stock power shall be held by Wiggin & Dana, LLP as escrow agent for the Seller pursuant to the Escrow Agreement, attached hereto as EXHIBIT E (the "Escrow Agreement").

6.4 MORTGAGES. At the Closing Date, if ASE's bank lender has taken mortgages in order to secure the obligations under the Note, ASE and the Seller will enter into a mortgage immediately behind the Bank in priority in order to secure the obligations of ASE to the Seller under the Note.

6.5 STOCKHOLDERS AGREEMENT. At the Closing Date, the Buyer and the Seller shall enter into the Stockholders Agreement, attached hereto as EXHIBIT F (the "Stockholders Agreement").

ARTICLE 7.

DELIVERY OF DOCUMENTS

On the Closing Date, the Buyer and the Seller shall deliver to the other party the following documents, instruments and agreements, together with such other documents, instruments and agreements as the other party (or its counsel) may reasonably request to consummate the purchase and sale contemplated hereby:

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7.1 By the Buyer to the Seller:

(a) the amount required to be paid under Section 2.1 hereof by a bank cashier's check or an appropriate wire transfer in immediately available funds; and

(b) evidence of compliance with the removal of the Seller (or its affiliate) and substitution of a new DSO Performance Bond and a new CSIST Performance Bond and release of Sellers under the existing DSO and CSIST Performance Bonds, as provided in Section 10.1 hereof;

(c) an executed Pledge Agreement;

(d) an executed Stockholders Agreement;

(e) the amount required to be paid under Section 10.3 hereof in respect to the Management Fee; and

(f) the amount required to be paid under Section 10.4 hereof in respect to the Seller's line of credit with ASE.

7.2 By the Seller to the Buyer:

(a) certificates evidencing all of the Shares being purchased and sold hereunder, free and clear of all encumbrances and other defects in title, duly endorsed or otherwise accompanied by duly executed stock powers sufficient to transfer ownership of the said certificates and the shares of stock evidenced thereby to the Buyer; and

(b) evidence of entering into and funding the Note and entering into the Security Agreement and Pledge Agreement; and

(c) an executed Stockholders Agreement.

ARTICLE 8.

EXPENSES AND BROKERS

The Buyer and the Seller shall each pay their respective costs and expenses of any character incurred in connection with this Agreement or the transaction contemplated hereby, including, without limitation, any commissions, fees or other compensation payable to any finder or broker acting on behalf of such party in

connection with the transaction contemplated by this Agreement. It is the parties' understanding that there are no such finders or brokers associated with this transaction.

ARTICLE 9.

TAXES

(a) Seller shall cause ASE to be included in the consolidated income tax returns of Seller for all periods ending on or prior to the Closing Date for which ASE is required to be so included. Buyer shall prepare

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and timely file all other tax returns required of ASE. Any such tax returns that include periods ending on or before the Closing Date shall, insofar as they relate to ASE, be on a basis consistent with the last previous such tax returns filed with respect to ASE, unless Buyer or Seller concludes that there is no reasonable basis for such position. Notwithstanding the foregoing, for calendar year 2001, the Buyer, the Seller, and ASE, as the case shall be, shall pro rate ASE's federal and state taxable income or loss pursuant to Regulation Section 1.1502-76(b)(2)(ii) as promulgated by the Internal Revenue Service.

(b) After the Closing Date, Buyer and Seller shall provide each other with such cooperation and information relating to ASE as any party reasonably may request in filing any tax return (or amended tax return) or refund claim, determining any tax liability or a right to a refund, conducting or defending any audit or other proceeding with respect to taxes which are the responsibility of such party or any of its affiliates. Buyer and Seller agree to furnish or cause to be furnished to one another and their representatives access, during normal business hours, to such information (including records pertinent to ASE) and assistance relating to ASE as is reasonably necessary for financial reporting and accounting matters, the preparation and filing of any tax returns, reports or forms or the defense of any tax claim or assessment; provided, however, that such access does not unreasonably disrupt the normal operations of ASE or Seller.

ARTICLE 10.

----- COVENANTS

10.1 BANK LINE; OUTSTANDING GUARANTEES. On or before the Closing Date, the Buyer shall secure an irrevocable line of credit for ASE with respect to the DSO Performance Bond and the CSIST Performance Bond. Buyer does hereby agree to indemnify the Seller for any liability or out-of-pocket cost with respect to such line of credit, it being understood that no such out-of-pocket cost is contemplated in the absence of any default thereunder. The line of credit shall not be amended without consent of Seller. Notwithstanding the foregoing, all of the Outstanding Guarantees listed on EXHIBIT G hereto shall remain in place, and the Buyer does hereby agree to indemnify the Seller for any liability or out-of-pocket cost with respect to such Outstanding Guarantees, it being understood that no such out-of-pocket cost is contemplated in the absence of any default thereunder. Additionally, the Guarantee Agreement, dated July 23, 1998 between Celsius, Inc. as guarantor and the Boeing Company as beneficiary ("Guarantee Agreement") shall remain in place unless Boeing agrees to amend, modify, release or terminate such guaranty. Buyer does hereby agree to indemnify the Seller for any liability or out-of-pocket cost with respect to such Guarantee Agreement, it being understood that no such out-of-pocket cost is contemplated in the absence of any default thereunder. The Guarantee Agreement shall not be amended without consent of Seller.

10.2 RELEASE OF SECURITY INTEREST. On or before the Closing Date and except for the Security Agreement, the Seller shall provide to the Buyer documentation evidencing the termination of any and all security interests in the assets of ASE granted by ASE to the Seller or its affiliates in return for certain

unsecured assurances from ASE to Seller which assurances shall be satisfactory to Seller in its sole reasonable discretion.

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10.3 MANAGEMENT FEE. On or before the Closing Date, the Buyer will cause ASE to pay the Seller the Management Fee (the "Management Fee") being accrued on a pro rata basis listed in EXHIBIT A, through the month-end preceding the Closing Date;

10.4 BORROWED MONEY. On or before the Closing Date, Buyer will cause ASE to repay all amounts then owed by ASE to Seller for borrowed money in cash or other immediately available funds.

10.5 OTHER GUARANTEES. After the Closing Date, Buyer will provide to ASE's benefit all guarantees and other assurances that may be requested by an ASE customer to permit ASE to operate in the ordinary course of business.

ARTICLE 11.

----- INDEMNIFICATION

Each of the parties does hereby and shall immediately upon demand indemnify and hold harmless the other party after the date of this Agreement, against and in respect of:

(a) any damages or deficiency resulting from any misrepresentation, breach of warranty or non-fulfillment of any agreement or covenant on the part of such party; and

(b) all actions, suits, proceedings, demands, assessments, judgments, costs and expenses (including, without limitation, reasonable attorneys' fees) incident to any of the foregoing.

(c) Seller's indemnification obligation thereunder shall not in any circumstance exceed singly or in the aggregate, the Purchase Price as defined in the Agreement ("Liability Cap").

(i) (d) NOTWITHSTANDING ANY OTHER PROVISION OF THIS AGREEMENT, TO THE FULLEST EXTENT PERMITTED BY LAW, NEITHER SELLER NOR ANY OF ITS AGENTS, EMPLOYEES, REPRESENTATIVES OR AFFILIATES SHALL BE LIABLE FOR CONSEQUENTIAL, INCIDENTAL, INDIRECT, PUNITIVE, EXEMPLARY, SPECIAL OR OTHER SIMILAR DAMAGES IN CONNECTION WITH DIRECT CLAIMS BY AN INDEMNIFIED PARTY WITH RESPECT TO THEIR INDEMNIFICATION OBLIGATIONS UNDER THIS AGREEMENT UNLESS ANY SUCH CLAIM ARISES OUT OF THE FRAUDULENT ACTIONS OF EITHER PARTY OR ITS PARENT OR SUBSIDIARIES. IN DETERMINING THE AMOUNT OF ANY LOSS, LIABILITY, OR EXPENSE FOR WHICH AN INDEMNIFIED PARTY IS ENTITLED TO INDEMNIFICATION UNDER THIS AGREEMENT, THE GROSS AMOUNT THEREOF WILL BE REDUCED (BUT NOT BELOW ZERO) BY THE NET PRESENT VALUE OF ANY CORRELATIVE INSURANCE PROCEEDS ACTUALLY REALIZED BY SUCH INDEMNIFIED PARTY UNDER POLICIES TO THE EXTENT THAT THE FUTURE PREMIUM RATE WILL NOT BE INCREASED BY CLAIM EXPERIENCE RELATING TO SUCH LOSS, LIABILITY OR EXPENSE.

(ii) (e) EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN ARTICLE 4, SELLER MAKES NO REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED. ANYTHING IN THIS AGREEMENT TO THE CONTRARY NOTWITHSTANDING, NO STOCKHOLDER, DIRECTOR, OFFICER, AFFILIATE, EMPLOYEE OR AGENT OF SELLER SHALL HAVE ANY PERSONAL LIABILITY TO THE OTHER PARTY OR ANY OTHER PERSON AS A RESULT OF THE BREACH OF ANY REPRESENTATION,

WARRANTY, COVENANT OR AGREEMENT OF SELLER OR ANY OF ITS AFFILIATES CONTAINED HEREIN AND NO MEMBER, DIRECTOR, OFFICER, AFFILIATE, EMPLOYEE

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OR AGENT OF THE SELLER SHALL HAVE ANY PERSONAL LIABILITY TO BUYER OR ANY OTHER PERSON AS A RESULT OF THE BREACH OF ANY REPRESENTATION, WARRANTY, COVENANT OR AGREEMENT CONTAINED HEREIN.

(f) Each of the parties hereto agrees that its sole and exclusive remedy after the Closing with respect to any and all claims relating to this Agreement, ASE, the events giving rise to this Agreement and the transactions provided for herein or contemplated hereby, shall be pursuant to the indemnification provisions contained in this Article 11. Buyer hereby waives, from and after the Closing, any claim or cause of action, known and unknown, foreseen and unforeseen, which it may have against the other parties hereto.

ARTICLE 12.

----- TERMINATION

This Agreement may be terminated and the transactions contemplated hereby abandoned at any time prior to the Closing Date:

(a) by mutual consent of the Seller and the Buyer; or

(b) by the Seller (as one party) or by the Buyer (as another party) upon written notice thereof to the other party if there has been a failure by the other party to perform or comply with any material agreement, covenant or condition herein required to be performed or complied with by such other party within the time required and such failure has continued for thirty (30) days following written notice thereof to such other party, provided, however, such cure period shall not extend beyond October 10, 2001; or

(c) by the Seller (as one party) or by the Buyer (as another party) upon written notice thereof to the other party if the fully executed Export License is not received by ASE by October 10, 2001.

(d) by either party upon written notice thereof to the other party if there has been a failure by the Buyer to obtain all Bank financing and security agreements in forms which are determined by the Seller or Buyer, as the case may be, to be satisfactory by August 20, 2001.

ARTICLE 13.

----- GENERAL PROVISIONS

13.1 SURVIVAL OF REPRESENTATIONS. The representations and warranties of the Seller and the Buyer contained in or made pursuant to this Agreement shall survive the consummation of the purchase and sale contemplated hereby for a period of eighteen (18) months from the Closing Date except for the representations and warranties set forth in Sections 4.2 and 4.4, which shall both survive the purchase and sale contemplated hereby and shall not terminate.

13.2 PARTIES IN INTEREST AND ASSIGNMENT. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the personal representative, successors and permitted assigns of the Seller and the Buyer, it being understood, however, that such assignment shall in

no way relieve the parties to this Agreement of their responsibilities and

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obligations under this Agreement.

13.3 NOTICES. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been given when personally delivered or deposited in the United States mail, mailed first class, registered or certified, postage prepaid, addressed as follows:

(a) If to the Buyer:

Minnesota ASE, LLC
222 South 9th Street, Suite 3000
Minneapolis, Minnesota 55402
Attn: Laurence E. Gamst

With a copy to:

Winthrop & Weinstine, P.A.
3000 Dain Rauscher Plaza
60 South Sixth Street
Minneapolis, Minnesota 55402
Attention: Richard A. Hoel

or at such other address as Buyer or his attorney shall have advised the Seller in writing; and

(b) If to the Seller:

Celsius Inc.
1800 Diagonal Road
Suite 280
Alexandria, VA 22315
Attention: Christer Persson

With a copy to:

Wiggin & Dana, LLP
P.O. Box 1832
New Haven, CT 06508
Attention: Terry Jones

or at such other address as Seller or his attorney may have advised the Buyer in writing.

13.4 ENTIRE AGREEMENT. This Agreement expresses the whole agreement between the parties with respect to the purchase and sale contemplated hereby, there being no representations, warranties or other agreements (oral or written) not expressly set forth or provided for herein.

13.5 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

13.6 CHANGES. Any and all agreements by the parties hereto to amend, change, extend, revise or discharge this Agreement, in whole or in part, shall be binding upon the parties to such agreement, even

though such agreements may lack legal consideration, provided such agreements are in writing and executed by the party agreeing to be bound thereby.

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13.7 GOVERNING LAW. This Agreement shall be deemed to be a contract made under the laws of the State of Minnesota, and for all purposes it, plus any related or supplemental documents and notices, shall be construed in accordance with and governed by the laws of such state.

13.8 CONSTRUCTION. Wherever possible, each provision of this Agreement and each related document shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement or any related document shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Agreement or such related documents.

13.9 WAIVER. No failure on the part of either party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy granted hereby or by any related document or by law.

13.10 PUBLICITY. Except as required by federal and state law and regulations, all publicity or disclosure of any matter to press agents concerning the transactions contemplated by this Agreement and all notices regarding this transaction shall be jointly planned, coordinated, and related only by mutual consent of Buyer and Seller.

IN WITNESS WHEREOF, the Seller and the Buyer have executed and delivered to the other party this Agreement effective as of the day and year first above written.

BUYER:

MINNESOTA ASE, LLC

By /s/

Its

SELLER:

CELSIUS INC.

By /s/

Its

EXHIBIT A

ITEMS TO BE PAID BY ASE TO SELLER

MANAGEMENT FEE OF \$17,500 PER MONTH X 8 MONTHS = \$140,000

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EXHIBIT B

PROMISSORY NOTE

\$1,500,000.00

Minneapolis, Minnesota
September __, 2001

1. FOR VALUE RECEIVED, Aero Systems Engineering, Inc., a Minnesota corporation (the "Borrower"), hereby promises to pay to the order of Celsius, Inc., a Delaware corporation (the "Holder"), at such location as the Holder may direct, the principal sum of One Million Five Hundred Thousand and 00/100 Dollars (\$1,500,000.00), in lawful money of the United States and immediately available funds, together with interest on the unpaid balance accruing as of and from the date hereof at a rate equal to two percent (2%) per quarter.

2. Interest payments shall be made quarterly on March 31, June 30, September 30, and December 31 of each year, with the entire outstanding principal balance of this Note, together with any and all accrued and unpaid interest hereon, due and payable in full on _____, 2004.

3. The outstanding principal balance of this Note may be prepaid at any time at the option of the Borrower, in whole or in part without premium or penalty.

4. All payments and prepayments shall, at the option of the Holder, be applied first to any costs of collection, second to accrued interest on this Note, and lastly to principal.

5. Notwithstanding anything to the contrary contained herein, if the rate of interest or any other amounts due hereunder are determined by a court of competent jurisdiction to be usurious, then said interest rate and/or amounts shall be reduced to the maximum amount permissible under applicable Minnesota law.

6. This Note is secured by a certain Combination Mortgage, Assignment Of Rents, Security Agreement And Fixture Financing Statement of even date herewith executed by the Borrower in favor of the Holder (the "Security Agreement"), which Security Agreement is junior and subordinate to that certain security interest of National City Bank of Minneapolis (and any successors or replacements thereof), granted September __, 2001 pursuant to an agreement between the Holder and such Bank.

7. Upon the occurrence of an Event of Default (as defined herein) or at any time thereafter, the outstanding principal balance hereof and accrued interest and all other amounts due hereon shall, at the option of the Holder, become immediately due and payable, without notice or demand. During the occurrence of an Event of Default interest shall accrue at the rate of fourteen percent (14%) per annum.

8. Upon the occurrence of an Event of Default (as defined herein) or anytime thereafter, the Holder shall have the right to set off any and all amounts due hereunder by the Borrower to the Holder against any indebtedness or obligation of the Holder to the Borrower.

9. Upon the occurrence at any time of an Event of Default (as defined herein) or at any time thereafter, the Borrower promises to pay all costs of collection of this Note, including but not limited to reasonable attorneys' fees, paid or

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incurred by the Holder on account of such collection, whether or not suit is filed with respect thereto and whether such cost or expense is paid or incurred, or to be paid or incurred, prior to or after the entry of judgment.

10. As used herein, the term "Event of Default" shall mean the occurrence of any one or more of the following:

- a. The Borrower shall fail to pay, when due, any amounts required to be paid by the Borrower under this Note; or
- b. The Borrower shall be in default under the Security Agreement, the Pledge Agreement dated the date hereof in favor of the Holder, or under any material agreement with any lender to the Company, where such default has not been cured or waived within any applicable grace period; or
- c. The Borrower shall file or have filed against it a petition in bankruptcy or for an arrangement pursuant to any present or future state or federal bankruptcy act or under a similar federal or state law, or shall be adjudicated a bankrupt or insolvent, or shall make a general assignment for the benefit of creditors, or shall be unable to pay its debts generally as they become due, or any property of the Borrower shall be levied upon or attached in any proceeding.

11. Demand, presentment, protest and notice of nonpayment and dishonor of this Note are hereby waived.

12. This Note shall be governed by and construed in accordance with the laws of the state of Minnesota.

13. This Note is subject to the provisions of that certain Debt Subordination Agreement executed by the Holder in favor of National City Bank of Minneapolis, Minnesota dated September __, 2001.

AERO SYSTEMS ENGINEERING, INC.,
a Minnesota corporation

By: _____

Its: _____

EXHIBIT C

SECURITY AGREEMENT

September __, 2001

DEBTOR	Aero Systems Engineering, Inc.	SECURED PARTY	Celsius,
BUSINESS	358 East Fillmore Avenue	ADDRESS	1800 Diag

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Suite 280

OR RESIDENCE ADDRESS				

CITY	St. Paul, MN	55107	CITY	Alexandri
STATE & ZIP CODE			STATE & ZIP CODE	

1. SECURITY INTEREST AND COLLATERAL. To secure the payment and performance of each and every debt, liability and obligation of every type and description which Debtor may now or at anytime hereafter owe to Secured Party (whether such debt, liability or obligation now exists or is hereafter created or incurred, and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary; liquidated or unliquidated, or joint, several or joint and several; all such debts, liabilities and obligations being herein collectively referred to as the "Obligations"). Debtor hereby grants Secured Party a security interest (herein called the "Security Interest") in the following property (herein called the "Collateral") :

All of the following properties, assets and rights of the Debtor, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof:

All personal and fixture property of every kind and nature including, without limitation, all furniture, fixtures, equipment, raw materials, inventory, other goods, accounts, contract rights, rights to the payment of money, insurance refund claims and all other insurance claims and proceeds, tort claims, chattel paper, electronic chattel paper, documents, instruments, securities and other investment property, deposit accounts, rights to payment under letters of credit, letter-of-credit rights, supporting obligations of every nature, and general intangibles including, without limitation, all tax refund claims, license fees, patents, patent applications, trademarks, trademark application, trade names, copyrights, copyright applications, rights to sue and recover for past infringement of patents, trademarks and copyrights, computer programs, computer software, engineering drawings, service marks, customer lists, goodwill, and all licenses, permits, agreements of any kind or nature pursuant to which (i) the Debtor operates or has authority to operate; (ii) the Debtor possesses, uses or has authority to possess or use property (whether tangible or intangible) of others, or (iii) others possess, use, or have authority to possess or use property (whether tangible or intangible) of the Debtor, and all recorded data of any kind or nature, regardless of the medium of recording, including, without limitation, all software, writings, plans, specifications, and schematics, together with, to the extent not listed above as original Collateral, all substitutions and replacements for and products of any of the foregoing property not constituting consumer goods and together with proceeds of any and all of the foregoing property and, in the case of all tangible Collateral, together with all accessions and, except in the case of consumer goods, together with (i) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any such goods, and (ii) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods.

The Debtor acknowledges and agrees that, with respect to any term used herein that is defined in either (i) Article 9 of the Uniform Commercial Code as in force in the jurisdiction in which this financing statement was signed by the Debtor at the time that it was signed, or (ii) Article 9 as in force at any

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relevant time in the jurisdiction in which a financing statement for the Collateral is filed, the meaning to be ascribed thereto with respect to any particular item of the property shall be that under the more encompassing of the two definitions.

2. REPRESENTATIONS, WARRANTIES AND AGREEMENTS. Debtor represents, warrants and agrees that:

- (a) Debtor is a corporation, organized under the laws of Minnesota, with the exact legal name shown above.
- (b) The Collateral will be used primarily for business purposes.
- (c) Debtor's chief executive office is located at the address of Debtor shown at the beginning of this Agreement.
- (d) Debtor has no commercial tort claims except:

- (e) Debtor shall preserve its corporate existence and not merge into or consolidate with any other entity or sell all or substantially all of its assets.

3. Additional Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

(a) Debtor has (or will have at the time Debtor acquires rights in Collateral hereafter arising) absolute title to each item of Collateral free and clear of all claims, security interests, liens and encumbrances and restrictions on transfer and pledge, except the Security Interest, and security interests listed on Schedule A and will defend the Collateral against all claims or demands of all persons other than Secured Party. Debtor will not sell or otherwise dispose of the Collateral or any interest therein without the prior written consent of Secured Party, except that, until the occurrence of an Event of Default and the revocation by Secured Party of Debtor's right to do so, Debtor may sell any inventory constituting Collateral to buyers in the ordinary course of business and equipment which is obsolete or which is being replaced. If Debtor is a corporation, this Agreement has been duly and validly authorized by all necessary corporate action, and, if Debtor is a partnership, the partner(s) executing this Agreement has (have) authority to act for the partnership.

(b) Debtor will not permit any tangible Collateral to be located in any state (and, if county filing is required, in any county) in which a financing statement covering such Collateral is required to be, but has not in fact been, filed in order to perfect the Security Interest.

(c) Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or will be when arising or issued) the valid genuine and legally enforceable obligation, subject to no defense, set-off or counterclaim (other than those arising in the ordinary course of business) of the account debtor or other obligor named therein or in

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Debtor's records pertaining thereto as being obligated to pay such obligation. Debtor will neither agree to any material modification or amendment nor agree to any cancellation of any such obligation without Secured Party's prior written consent, and will not subordinate any such right to payment to claims of other creditors of such account debtor or other obligor.

(d) Debtor will

(i) keep all tangible Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof;

(ii) promptly pay all taxes and other governmental charges levied or assessed upon or against any Collateral or upon or against the creation, perfection or continuance of the Security Interest;

(iii) keep all Collateral free and clear of all security interests, liens and encumbrances except the Security Interest and those security interests listed on Schedule A;

(iv) at all reasonable times, permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records pertaining to the Collateral and its business and financial condition and to send and discuss with account debtors and other obligors requests for verifications of amounts owed to Debtor;

(v) keep accurate and complete records pertaining to the Collateral and pertaining to Debtor's business and financial condition and submit to Secured Party such periodic reports concerning the Collateral and Debtor's business and financial condition as Secured Party may from time to time reasonably request;

(vi) promptly notify Secured Party of any loss of or material damage to any Collateral or of any adverse change, known to Debtor, in the prospect of payment of any sums due on or under any instrument, chattel paper, or account constituting Collateral;

(vii) if Secured Party at any time so requests (whether the request is made before or after the occurrence of an Event of Default), promptly deliver to Secured Party any instrument, document or chattel paper constituting Collateral, duly endorsed or assigned by Debtor;

(viii) bear the risk of loss of the Collateral and at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (in case of Collateral consisting of motor vehicles) and such other risks and in such amounts as Secured Party may reasonably request, with any loss payable to Secured Party to the extent of its interest;

(ix) from time to time execute such financing statements as Secured Party may reasonably require in order to perfect the Security Interest, and, if any Collateral consists of a motor vehicle, execute such documents as may be required to have the Security Interest properly noted on a certificate of title;

(x) pay when due or reimburse Secured Party on demand for all costs of collection of any of the Obligations and all other out-of-pocket

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expenses (including in each case all reasonable attorneys' fees) incurred by Secured Party in connection with the creation, perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings;

(xi) execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured Party's rights under this Agreement;

(xii) not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance; and

(xiii) not permit any tangible Collateral to become part of or to be affixed to any real property without first assuring to the reasonable satisfaction of Secured Party that the Security Interest will be prior and senior to any interest, or lien then held or thereafter acquired by any mortgagee of such real property or the owner or purchaser of any interest therein.

If Debtor at any time fails to perform or observe any agreement contained in this Section 3(d), and if such failure shall continue for a period of ten calendar days after Secured Party gives Debtor written notice thereof (or, in the case of the agreements contained in clauses (viii) and (ix) of this Section 3(d),

immediately upon the occurrence of such failure, without notice or lapse of time), Secured Party may (but need not) perform or observe such agreement on behalf and in the name, place and stead of Debtor (or, at Secured Party's option, in Secured Party's own name) and may (but need not) take any and all other actions which Secured Party may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens, or encumbrances, the performance of obligations under contracts or agreements with account debtors or other obligors, the procurement and maintenance of insurance, the execution of financing statements, the endorsement of instruments, and the procurement of repairs, transportation or insurance); and, except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, Debtor shall thereupon pay Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees) incurred by Secured Party in connection with or as a result of Secured Party's performing or observing such agreements or taking such actions, together with interest thereon from the date expended or incurred by Secured Party at the highest rate then applicable to any of the Obligations. To facilitate the performance or observance by Secured Party of such agreements of Debtor, Debtor hereby irrevocably appoints (which appointment is coupled with an interest) Secured Party, or its delegate, as the attorney-in-fact of Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of Debtor, any and all instruments, documents, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by Debtor under this Section 3 and Section 4.

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4. Perfection of Security Interests.

(a) Debtor shall, from time to time, execute such financing statements as Secured Party may reasonably require in order to perfect the Security Interest. If any Collateral consists of a motor vehicle or other personal property with a certificate of title, Debtor shall execute such documents as may be required to have the Security Interest properly noted on a certificate of title. Debtor shall execute, deliver or endorse any and all instruments, documents, assignments, security agreements and other agreements and writings which Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Security Interest and Secured party's rights under this Agreement.

(b) To the extent permitted by law, Debtor hereby authorizes Secured Party to file one or more financing statements (each a "Financing Statement") describing the Collateral or any agricultural liens or other statutory liens held by Secured Party.

(c) Debtor shall have possession of the Collateral, except where expressly otherwise provided in this Security Agreement. Where collateral is in the possession of a third party, Debtor will join with Secured Party in notifying the third party of Secured Party's security interest and obtaining an acknowledgement from the third party that it is holding the Collateral for the benefit of the Secured party.

(d) Debtor will cooperate with Secured Party in obtaining control with respect to Collateral consisting of deposit accounts, investment property, letter-of-credit rights and electronic chattel paper.

(e) Debtor will not create any chattel paper without placing a legend on the chattel paper acceptable to Secured Party that indicates that Secured Party has a security interest in the chattel paper.

(f) To the extent Debtor uses the Loan to purchase Collateral, Debtor's repayment of the Loan shall apply on a "first-in, first-out" basis so that the portion of the Loan used to purchase a particular item of Collateral shall be paid in the chronological order the Debtor purchased the Collateral.

5. Lock Box, Collateral Account. If Secured Party so requests at any time (whether before or after the occurrence of an Event of Default), Debtor will direct each of its account debtors to make payments due under the relevant account or chattel paper directly to a special lock box to be under the control of Secured Party. Debtor hereby authorizes and directs Secured Party to deposit into a special collateral account to be established and maintained with or by Secured Party all checks, drafts and cash payments, received in said lock box. All deposits in said collateral account shall constitute proceeds of Collateral and shall not constitute payment of any Obligation. At its option, Secured Party may at any time after an Event of Default, apply finally collected funds on deposit in said collateral account to the payment of the Obligations in such order of application as Secured Party may determine, or permit Debtor to withdraw all or any part of the balance on deposit in said collateral account. If a collateral account is so established, Debtor agrees that it will promptly deliver to Secured Party, for deposit into said collateral account, all payments on accounts and chattel paper received by it. All such payments shall be delivered to Secured Party in the form received (except for Debtor's endorsement where necessary). Until so deposited, all payments on accounts and chattel paper

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received by Debtor shall be held in trust by Debtor for and as the property of Secured Party and shall not be commingled with any funds or property of Debtor.

6. Account Verification and Collection Rights of Secured Party. Secured Party shall have the right to verify any accounts in the name of Debtor or in its own name; and Debtor, whenever requested, shall furnish Secured Party with duplicate statements of the accounts, which statements may be mailed or delivered by Secured Party for that purpose. Notwithstanding Secured Party's rights under Section 5 with respect to any and all debt instruments, chattel papers, accounts, and other rights to payment constituting Collateral (including proceeds), Secured Party may at any time (after the occurrence of an Event of Default) notify any account debtor, or any other person obligated to pay any amount due, that such chattel paper, account, or other right to payment has been assigned or transferred to Secured Party for security and shall be paid directly to Secured Party. If Secured Party so requests at any time after an Event of Default, Debtor will so notify such account debtors and other obligors in writing and will indicate on all invoices to such account debtors or other obligors that the amount due is payable directly to Secured Party. At any time after Debtor gives such notice to an account debtor or other obligor, Secured Party may (but need not), in its own name or in Debtor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such chattel paper, account, or other right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor.

7. ASSIGNMENT OF INSURANCE. Debtor hereby assigns to Secured Party, as additional security for the payment of the Obligations, any and all moneys (including but not limited to proceeds of insurance and refunds of unearned premiums) due or to become due under and all other rights of Debtor under or with respect to, any and all policies of insurance covering the Collateral, and Debtor hereby directs the issuer of any such policy to pay any such moneys directly to Secured Party. After the occurrence of an Event of Default, Secured Party may (but need not), in its own name or in Debtor's name, execute and deliver proofs of claim, receive all such moneys, indorse checks and other instruments representing payment of such moneys, and adjust, litigate, compromise or release any claim against the issuer of such policy.

8. EVENTS OF DEFAULT. An event of default under that certain Credit Agreement between Debtor and National City Bank dated the date hereof, and attached as Exhibit A to this Agreement, shall constitute an event of default under this Agreement (herein called "Event of Default").

9. REMEDIES UPON EVENT OF DEFAULT. Upon the occurrence of an Event of Default under Section 8 and at any time thereafter, Secured Party may exercise any one or more of the following rights and remedies:

(i) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand;

(ii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process (without a prior hearing or notice thereof, which Debtor hereby expressly waives), and the right to sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, Secured Party may require

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Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party which is reasonably convenient to both parties, and if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 11) at least 10 calendar days prior to the date of intended disposition or other action;

(iii) exercise or enforce any or all other rights or remedies available to Secured Party by law or agreement against the Collateral, against Debtor or against any other person or property. Upon the occurrence of the Event of Default described in Section 8(v)(B), all Obligations shall be immediately due and payable without demand or notice thereof. Secured Party is hereby granted a nonexclusive, worldwide and royalty-free license to use or otherwise exploit all trademarks, trade secrets, franchises, copyrights and patents of Debtor that Secured Party deems necessary or appropriate to the disposition of any Collateral.

10. OTHER PERSONAL PROPERTY. Unless at the time Secured Party takes possession of any tangible Collateral, or within seven days thereafter, Debtor gives written notice to Secured Party of the existence of any goods, papers or other property of Debtor, not affixed to or constituting a part of such Collateral, but which are located or found upon or within such Collateral, describing such property, Secured Party shall not be responsible or liable to Debtor for any action taken or omitted by or on behalf of Secured Party with respect to such property without actual knowledge of the existence of any such property or without actual knowledge that it was located or to be found upon or within such Collateral.

11. MISCELLANEOUS. This Agreement does not contemplate a sale of accounts, or chattel paper. Debtor agrees that each provision whose box is checked is a part of this Agreement. This Agreement can be waived, modified, amended, terminated or discharged and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at the most recent address shown on Secured Party's records. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to preserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application. Secured Party has no obligations to attempt to satisfy the Obligations by collecting them from any other person liable for them and Secured Party may release, modify or waive any collateral provided by any other person to secure any of the Obligations, all without affecting Secured Party's rights against Debtor. Debtor hereby waives any right it may have to require Secured Party to pursue any third person for any of the Obligations. This Agreement shall be binding upon

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and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waives notice of Secured Party's acceptance hereof. Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effect as the original for all purposes of a financing statement. This Agreement shall be governed by the internal laws of the where the main office of the Secured Party is located. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations. If this Agreement is signed by more than one person as Debtor, the term "Debtor" shall refer to each of them separately and to both or all of them jointly; all such persons shall be bound both severally and jointly with the other(s); and the Obligations shall include all debts, liabilities and obligations owed to Secured Party by any Debtor solely or by both or several or all Debtors jointly or jointly and severally, and all property described in Section 1 shall be included as part of the Collateral, whether it is owned jointly by both or all Debtors or is owned in whole or in part by one (or more) of them.

CELSIUS, INC.

AERO SYSTEMS ENGINEERING, INC.

By_____

By_____

Title_____

Title_____

By_____

Title_____

SCHEDULE A

SECURITY INTERESTS

1.) COMBINATION MORTGAGE, ASSIGNMENT OF RENTS, SECURITY AGREEMENT AND FIXTURE FINANCING STATEMENT. This Combination Mortgage, Assignment of Rents, Security Agreement and Fixture Financing Statement ("Mortgage"), dated as of September ____, 2001 is made by Aero Systems Engineering, Inc., a Minnesota corporation (the "Mortgagor"), for the benefit of National City Bank of Minneapolis, MN in

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the aggregate principal amount of \$9,000,000.00.

EXHIBIT A

CREDIT AGREEMENT

COMBINATION MORTGAGE, ASSIGNMENT OF RENTS,
SECURITY AGREEMENT AND FIXTURE FINANCING STATEMENT

This Combination Mortgage, Assignment of Rents, Security Agreement and Fixture Financing Statement ("Mortgage"), dated as of September __, 2001 is made by Aero Systems Engineering, Inc., a Minnesota corporation (the "Mortgagor"), for the benefit of Celsius Inc., a Delaware corporation (the "Mortgagee"). Capitalized terms used, but not otherwise defined herein, shall have the meanings set forth in the Promissory Note referred to below.

RECITALS

WHEREAS, the Mortgagor has entered into a Promissory Note, dated as of the date hereof, with the Mortgagee (such Agreement, together with any and all amendments, supplements or modifications thereof and any and all notes issued in substitution therefor, or restatements thereof, is herein called the "Note");

WHEREAS, the Mortgagor has executed the Note, dated as of the date hereof, payable to the Mortgagee in the aggregate principal amount of One Million and Five Hundred Thousand Dollars (\$1,500,000.00) to evidence the Mortgagor's obligation to repay the advances to be made by the Mortgagee under the Note;

WHEREAS, the principal of the Note, with interest thereon at the rate or rates provided in the Note, is finally due and payable as provided in the Note; and

WHEREAS, as a condition to making the initial advance under the Note, the Mortgagee has required the execution and delivery of this Mortgage to the Mortgagee.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS MORTGAGE, THE MAXIMUM PRINCIPAL AMOUNT OF INDEBTEDNESS SECURED BY THIS MORTGAGE, EXCLUDING ADVANCES MADE BY THE MORTGAGEE IN PROTECTION OF THE MORTGAGED PROPERTY OR THE LIEN OF THIS MORTGAGE, IS \$1,500,000.

NOW, THEREFORE, in consideration of the Mortgagor's interest in the premises contained herein and for the purpose of securing (a) the repayment of the indebtedness evidenced by the Note, including all interest thereon, (b) the payment of all other sums with interest thereon as may be advanced by the Mortgagee in accordance with this Mortgage and any other instruments securing payment of the

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Note (the indebtedness evidenced by the Note and all such other sums are hereinafter collectively referred to as the "Indebtedness"), and (c) the performance of all the covenants and agreements of the Mortgagor contained in the Note and this Mortgage, the Mortgagor does hereby mortgage, grant, bargain, sell, assign, transfer and convey unto the Mortgagee forever, for the benefit of the Mortgagee, all the tracts or parcels of land located in Ramsey County and Hennepin County, Minnesota, described in Exhibit A attached hereto (the "Land"), together with all of the Mortgagor's rights, title, claim and interest, now owned or hereafter acquired, in and to:

- (1) all of the buildings, structures and other improvements now standing or at any time hereafter constructed or placed upon the Land (the "Improvements");
- (2) all building materials, fixtures, furniture, appurtenances, apparatus, machinery, goods, supplies, equipment, vehicles, parts, tools and other tangible personal property of any and every nature whatsoever that is now or hereafter (A) attached or affixed to the Land or the Improvements, or both, (B) situated upon or about the Land or Improvements, or both, regardless of whether physically affixed or severed or capable of severance from the Land or Improvements, or (C) regardless of where situated, used, usable, or intended to be used in connection with any present or future use, operation, occupation or enjoyment of or upon the Land, including without limitation any and all heating, air conditioning, water, gas, lighting, incinerating and power equipment; engines, compressors, conveyors, condensers, fans, dryers, blowers, pipes, pumps, tanks, motors, conduits, wiring and switchboards; plumbing, lifting, cleaning, fire prevention, fire extinguishing, sprinkling, refrigerating, ventilating, waste removal and communications equipment and apparatus; boilers, furnaces, vacuum cleaning systems, elevators, exhaust systems, refrigerators, cabinets and partitions; rugs, attached floor coverings, lockers, building materials; furniture, finishings and office equipment; and any additions, accessions, renewals, replacements and substitutions of any or all of the foregoing, it being understood that the enumeration of any specific articles of tangible property shall in no way exclude or be held to exclude any items of tangible property not specifically mentioned;
- (3) all easements, interests, privileges, licenses, permits and other rights of any nature whatsoever benefiting or otherwise appurtenant to the Land or the Improvements, or both, including without limitation, the benefit of all rights of-way, easements, riparian and littoral rights, water, water rights and powers, rights to and to sell fill, strips or gores of land, streets, alleys, ways, passages, paving, railroad sidings, drainage rights, sewer rights, and rights of ingress and egress to and from the Land and all adjoining property, whether now existing or hereafter arising, together with the reversion or reversions, remainder or remainders; leases, rents, issues, incomes, and profits of, related to or in any way arising, from any portion of the Land or the Improvements; all rights, royalties and profits in connection with all minerals, oil and gas and other hydrocarbon substances thereon or therein, development rights or credits, air rights, water, water rights flowing through, belonging or in any way appertaining to the Land, and all of the Mortgagor's water rights that are personal property under Minnesota law, including but not limited to all ditch and ditch rights, reservoir and reservoir rights, stock or interests in water, irrigation or ditch companies, permits, consents, operating agreements, consent orders and all other tangible property and rights relating to any or all of the aforesaid property or the

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operation thereof; all flowers, shrubs, landscaping, trees and timber and other emblements now or hereafter located on the Land or under or above the same, or any part of parcel thereof;

- (4) all of the water, sanitary and storm sewer systems and lines now or hereafter owned by the Mortgagor which are now or hereafter located on, over or upon the Land or any part thereof, including all water mains, service laterals, hydrants, valves and appurtenances, lift and pump

stations, sanitary sewer lines, sanitary sewer mains, sanitary sewer laterals, sanitary sewer manholes and sanitary sewer appurtenances;

- (5) all of Mortgagor's right, title, interest, property, claim, demand, judgments, awards proceeds and settlements or payments, including interest thereon and the right to receive the same, at law as well as in equity, as a result of (A) insurance proceeds pursuant to the insurance provisions hereof, or (B) the exercise of the right of eminent domain or other condemnation or taking of the property encumbered by this Mortgage, or (C) the alteration of the grade of any street, or (D) any other injury to, condemnation of, taking or requisitioning of, conversion of (voluntary or involuntary), damage to or decrease in the value of the property encumbered by this Mortgage;

- (6) all plans; specifications; maps; surveys; studies; reports; permits; licenses; architectural, engineering, development, construction, management, maintenance, service and other contracts; books of account; insurance policies; and other documents, of whatever kind or character, relating to the use, development, construction upon, occupancy, leasing, management, sale or operation of the Land and the Improvements;

- (7) all additions, accessions, increases, parts, fittings, accessories, replacements, substitutions, betterments, repairs and proceeds to any and all of the foregoing

(all of the foregoing, together with the Land are hereinafter referred to as the "Mortgaged Property"). As to Parcel 3 on Exhibit A, the Mortgaged Property is subject to the terms and conditions contained in the Ground Lease, dated September 1, 1977, by and between Port Authority of the City of Saint Paul, as Landlord, and Mortgagor as Tenant.

To Have and To Hold the Mortgaged Property unto the Mortgagee, its successors and assigns, forever; provided, nevertheless, that this Mortgage is upon the express condition that if the Mortgagor shall pay as and when due and payable the principal of and interest on the Note and all other Indebtedness, and shall cancel and terminate any commitment of the Mortgagee to make future advances to the Mortgagor, and shall also keep and perform each and every covenant and agreement of the Mortgagor herein contained, then this Mortgage and the estate hereby granted shall cease and be and become void and shall be released and satisfied of record at the expense of the Mortgagor; otherwise this Mortgage shall be and remain in full force and effect.

The Mortgagor represents, warrants and covenants to and with the Mortgagee that it is lawfully seized of the Land described on Exhibit A as Parcels 1 and 2 in fee simple, and owns a leasehold interest with an option to purchase the Land described on Exhibit A as Parcel 3, and has good right and

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full power and authority under all applicable provisions of law and under its Articles of Incorporation and Bylaws to execute this Mortgage and to mortgage the Mortgaged Property; that the Mortgaged Property is free from all liens, security interests and encumbrances except as listed in Exhibit B attached hereto; and that the Mortgagor will warrant and defend the title to the Mortgaged Property and the lien and priority of this Mortgage against all claims and demands of all persons whomsoever, whether now existing or hereafter arising, not listed in Exhibit B. The covenants and warranties of this paragraph shall survive foreclosure of this Mortgage and shall run with the Land.

The Mortgagor further covenants and agrees as follows:

1. Payment of the Note. The Mortgagor will duly and punctually pay the principal of and interest on the Note in accordance with the terms of the Note and all other Indebtedness, when and as due and payable. The provisions of the Note are hereby incorporated by reference into this Mortgage as fully as if set forth at length herein.

2. Fund for Taxes and Assessments.

- (a) Upon the written request by the Mortgagee following the occurrence and during the continuance of an Event of Default hereunder, the Mortgagor shall pay to the Mortgagee on the first day of each month until the Event of Default is cured, a sum equal to one-twelfth of the yearly taxes and assessments levied against the Mortgaged Property as estimated initially and from time to time by the Mortgagee, to be applied by the Mortgagee to pay said taxes and assessments (such amounts being hereafter referred to as the "Funds"). The Mortgagee shall apply the Funds to pay said taxes and assessments prior to the date that penalty attaches for nonpayment so long as the amount of Funds held by the Mortgagee is sufficient at that time to make such payments. Such Funds shall not be, nor be deemed to be, trust funds, and the Mortgagee shall have the right to hold the Funds in any manner the Mortgagee elects and may commingle the Funds with other moneys held by the Mortgagee.
- (b) If the amount of the Funds held by the Mortgagee shall exceed at any time the amount deemed necessary by the Mortgagee to provide for the payment of taxes and assessments, such excess shall, at the option of the Mortgagee, either be promptly repaid to the Mortgagor or be credited to the Mortgagor on the next monthly installment of Funds due. If at any time the amount of the Funds held by the Mortgagee shall be less than the amount deemed necessary by the Mortgagee to pay taxes and assessments as they fall due, the Mortgagor shall promptly pay to the Mortgagee any amount necessary to make up the deficiency upon notice from the Mortgagee to the Mortgagor requesting payment thereof. The Funds are hereby pledged to the Mortgagee as additional security for the Indebtedness.
- (c) The Mortgagee may apply in any order as the Mortgagee shall determine in its sole discretion, any Funds held by the Mortgagee at the time of application to pay taxes and assessments which are then or will thereafter become due or as a credit against the Indebtedness. Upon payment in full of all Indebtedness and the expiration or termination of any commitment of the Mortgagee to make advances under the Note, the Mortgagee shall promptly refund to the Mortgagor any Funds held by the Mortgagee.

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3. Payment of Taxes, Assessments and Other Charges. Subject to payments in the manner provided under paragraph 2 and to paragraph 7 relating to contests, the Mortgagor shall pay before a penalty might attach for nonpayment thereof, all taxes and assessments and all other charges whatsoever levied upon or assessed or placed against the Mortgaged Property, except that assessments may be paid in installments so long as no fine or penalty is added to any installment for the nonpayment thereof. The Mortgagor shall likewise pay when due all taxes, assessments and other charges, levied upon or assessed, placed or made against, or measured by, this Mortgage, or the recordation hereof, or the Indebtedness secured hereby. In the event of any legislative action or judicial decision after the date of this Mortgage, imposing upon the Mortgagee the obligation to pay any such taxes, assessments or other charges, or deducting the amount secured by this Mortgage from the value of the Mortgaged Property for the purpose of taxation, or changing in any way the laws now in force for the taxation of mortgages, deeds of trust or debts secured thereby, or the manner of the operation of any such taxes so as to affect the interests of the Mortgagee, then, and in such event, the Mortgagor shall bear and pay the full amount of such taxes, assessments or other charges. Notwithstanding the foregoing provisions of this paragraph, if for any reason payment by the Mortgagor of any such taxes, assessments or other charges would be unlawful, or if the payment thereof would render the indebtedness evidenced by the Note usurious, the Mortgagee may declare the whole sum secured by this Mortgage, with interest thereon, to be immediately due and payable. The Mortgagor shall promptly furnish to the Mortgagee all notices received by the Mortgagor of amounts due under

this paragraph and in the event the Mortgagor shall make payment directly, the Mortgagor shall promptly furnish to the Mortgagee receipts evidencing such payments.

4. Payment of Utility Charges. Subject to paragraph 7 relating to contests, the Mortgagor shall pay all charges (exclusive of charges which are the obligations of third parties to pay) made by utility companies, whether public or private, for electricity, gas, heat, water, or sewer, furnished or used in connection with the Mortgaged Property or any part thereof, and will, upon written request of the Mortgagee, furnish proper receipts evidencing such payment.

5. Liens. Subject to paragraph 7 hereof relating to contests, the Mortgagor shall not create, incur or suffer to exist any lien, encumbrance or charge on the Mortgaged Property or any part thereof, other than the liens set forth in Exhibit B hereto. Subject to paragraph 7 hereof relating to Contests, the Mortgagor shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Mortgaged Property within fifteen (15) calendar days of the date that the Mortgagor or the Mortgagee receives notice of same, whichever occurs first.

6. Compliance with Permitted Encumbrances and Laws. Subject to paragraph 7 relating to contests, the Mortgagor shall comply with all present and future statutes, laws, rules, orders, regulations and ordinances affecting the Mortgaged Property, any part thereof or the use or operation thereof and shall comply with all covenants,

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conditions and restrictions applicable to the Mortgagor which are contained in any document constituting a permitted encumbrance as set forth in Exhibit B hereto.

7. Permitted Contests. The Mortgagor shall not be required to (i) pay any tax, assessment or other charge referred to in paragraph 3 hereof, (ii) pay any charge referred to in paragraph 4 hereof, (iii) discharge or remove any lien, encumbrance or charge referred to in paragraph 5 hereof, or (iv) comply with any statute, law, rule, regulation or ordinance referred to in paragraph 6 hereof, so long as the Mortgagor shall (1) contest, in good faith, the existence, amount or the validity thereof, the amount of damages caused thereby or the extent of its liability therefor, by appropriate proceedings which shall operate during the pendency thereof to prevent (A) the collection of, or other realization upon the tax, assessment, charge or lien, encumbrance or charge so contested, (B) the sale, forfeiture or loss of the Mortgaged Property or any part thereof and (C) any interference with the use or occupancy of the Mortgaged Property or any part thereof and (2) shall give such security to the Mortgagee as may be demanded by the Mortgagee to ensure compliance with the foregoing provisions of this paragraph 7. The Mortgagor shall give prompt written notice to the Mortgagee of the commencement of any contest referred to in this paragraph 7.

8. Insurance.

(a) Risks to be Insured. The Mortgagor, at its sole cost and expense, will maintain insurance of the following character:

(i) Insurance on any Improvements now existing or hereafter erected on the Land and on the fixtures and personal property included in the Mortgaged Property against loss by fire, and other hazards covered by the so-called "all-risk" form of policy without a co-insurance clause in an amount equal to the actual replacement cost thereof (exclusive of foundations and excavations) without deduction for physical depreciation. The Mortgagor will at its sole cost and expense, from time to time and at any time, at the request of the Mortgagee, provide the Mortgagee with evidence satisfactory to the Mortgagee of the replacement cost of the Mortgaged Property. While any Improvement

is in the course of being constructed or rebuilt on the Land, the Mortgagor shall provide the aforesaid hazard insurance in builder's risk completed value form, including coverage available on the so-called "all-risk" non-reporting form of policy for an amount equal to 100% of the insurable replacement value of such building or other improvement.

(ii) If the Mortgaged Property includes steam boilers or other equipment for the generation or transmission of steam, insurance against loss or damage by explosion, rupture or bursting of steam boilers, pipes, turbines, engines and other pressure vessels and equipment, in an amount satisfactory to the Mortgagee, without a co-insurance clause.

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- (iii) If the Land or any part thereof is located in a designated official flood-hazardous area, flood insurance insuring the Improvements now existing or hereafter erected on the Land in an amount equal to the lesser of the outstanding principal balance of the Indebtedness or the maximum limit of coverage made available with respect to such Improvements under the Federal Flood Disaster Protection Act of 1973, as amended, and the regulations issued thereunder.
 - (iv) Comprehensive general liability insurance, including broad form property damage, blanket contractual and personal injuries (including death resulting therefrom), containing minimum limits per occurrence not less than \$1,000,000.
 - (v) While any Improvement is in the course of being constructed, renovated or rebuilt on the Land, such workers' compensation insurance as is required by statute.
 - (vi) Insurance against interruption of business in respect of the Mortgaged Property in an amount sufficient to pay one (1) year's debt service on the Note (assuming that the loan evidenced by the Note has been fully advanced), including principal and interest thereof and together with tax and assessment payments described in paragraph 2.
 - (vii) Such other insurance as may from time to time be reasonably required by the Mortgagee in order to protect the interest of the Mortgagee.
- (b) Policy Provisions. All policies of insurance required pursuant to paragraph 8(a): (1) shall contain a standard noncontributory mortgagee clause naming Mortgagee as the person to which all payments made by such insurance company shall be paid, (2) shall be maintained throughout the term of this Mortgage without cost to Mortgagee, (3) shall contain such provisions as Mortgagee deems reasonably necessary or desirable to protect the interests of the Mortgagee, including, without limitation, endorsements providing that neither Mortgagor, Mortgagee nor any other party shall be a co-insurer under said policies and that Mortgagee shall receive at least thirty (30) days prior written notice or, if the risk is reinsured, at least thirty (30) days prior written notice, of any modification, reduction or cancellation, (4) shall be for a term of not less than one year, (5) shall be issued by an insurer licensed in the State of Minnesota, (6) shall provide that Mortgagee may, but shall not be obligated to, make premium payments to prevent any cancellation, endorsement, alteration or reissuance, and such payments shall be accepted by the insurer to prevent same, (7) shall be satisfactory in form and substance to Mortgagee and shall be approved by Mortgagee as to amounts, form, risk coverage, deductibles, loss payees and insureds, and (8) shall provide that all claims shall be allowable on events as they occur. All insurance policies and renewals thereof maintained by the Mortgagor pursuant to subparagraphs (a)(i) through (a)(iii) and (a)(vi) above shall contain a standard mortgagee clause in favor of and in form acceptable to the Mortgagee. The insurance maintained pursuant to subparagraph (a)(iv) and (a)(v) shall name the Mortgagee as an additional insured. Within ten (10) days after written demand, Mortgagor

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shall reimburse Mortgagee for all of Mortgagee's reasonable costs and expenses incurred in obtaining any or all of said policies or otherwise causing the compliance with the terms and provisions of this paragraph 8, including (without limitation) obtaining updated flood hazard certificates and replacement of any so-called "forced placed" insurance coverages. All policies required pursuant to paragraph 8(a) shall be issued by an insurer with a claims paying ability rating of "A" or better by Standard & Poor's Ratings Services. Mortgagor shall pay the premiums for such policies as the same become due and payable. If Mortgagor receives from any insurer any written notification or threat of any actions or proceedings regarding the non-compliance or non-conformity of the Mortgaged Property with any insurance requirements, Mortgagor shall give prompt notice thereof to Mortgagee.

- (c) Delivery of Policy. Upon demand, the Mortgagor will deliver to the Mortgagee copies of certificates satisfactory to the Mortgagee evidencing the insurance which is required under subparagraphs (a) (i) through (a) (vi) and the Mortgagor shall promptly furnish to the Mortgagor copies of all renewal notices and all receipts of paid premiums received by them.
- (d) Assignment of Policies. In the event of the entry of judgment of foreclosure, sale of the Mortgaged Property by non-judicial foreclosure sale or delivery of a deed in lieu of foreclosure, Mortgagee hereby is authorized (without the consent of Mortgagor) to assign any and all policies to the purchaser or transferee thereunder, or to take such other steps as Mortgagee may deem advisable to cause the interest of such transferee or purchaser to be protected by any of the policies without credit or allowance to Mortgagor for prepaid premiums thereon.
- (e) Notice of Damage or Destruction, Adjusting Loss. If the Mortgaged Property or any part thereof shall be damaged or destroyed by fire or other casualty, the Mortgagor will promptly give written notice thereof to the insurance carrier and the Mortgagee, and will not adjust any damage or loss which is estimated by the Mortgagee in good faith to exceed \$100,000 unless the Mortgagee shall have joined in such adjustment; but if there has been no adjustment of any such damage or loss within four months from the date of occurrence thereof and if an Event of Default shall exist at the end of such four-month period or at any time thereafter, the Mortgagee may alone make proof of loss, adjust and compromise any claim under the policies and appear in and prosecute any action arising from such policies. In connection therewith, the Mortgagor does hereby irrevocably authorize, empower and appoint the Mortgagee as attorney-in-fact for the Mortgagor (which appointment is coupled with an interest) to do any and all of the foregoing in the name and on behalf of the Mortgagor.
- (f) All sums paid under any policy required by subparagraphs 8(a) (i) through a(iii) and a(vi) shall be paid directly to the Mortgagee. If the aggregate cost of restoration or repair of the Mortgaged Property destroyed by the casualty giving rise to such proceeds does not (in the reasonable judgment of the Mortgagee) exceed 75% of the outstanding balance of the Note, the Mortgagee shall, upon the Mortgagor's request, apply such sums (after first deducting therefrom the Mortgagee's expenses incurred in collecting the same, including reasonable attorneys' fees) to such restoration or repair (the "Restoration") upon satisfaction of the following conditions:
 - (i) No Event of Default or event that, but for the passing of time or the giving of notice, or both, would be an Event of Default,

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shall have occurred and be continuing at the time of such request.

- (ii) Prior to commencing the Restoration, other than temporary work to protect property or prevent interference with business, the Mortgagee shall have been furnished and shall have approved (A) the plans and specifications for the Restoration, (B) the Mortgagor's

choice of an architect or engineer for the purpose of supervising the Restoration, (C) a sworn construction statement duly executed by the Mortgagor, showing all costs and expenses of any kind incurred or estimated to be incurred in completing the Restoration, (D) a copy of each contract let by the Mortgagor relating to completion of the Restoration, and (E) evidence satisfactory to the Mortgagee that all required permits for completion of the Restoration have been obtained.

- (iii) The Mortgagor shall deposit with the Mortgagee the difference, if any, between the cost of the Restoration and the amount of the insurance proceeds available for such purpose.
- (iv) The Mortgaged Property can, in Mortgagee's judgment, with diligent restoration or repair, be returned to an economic unit not less valuable and not less useful than the Mortgaged Property was prior to the casualty within the earlier to occur of (i) six months after receipt of the insurance proceeds by either Mortgagor or Mortgagee and (ii) the stated maturity date of the Note.
- (v) The Mortgagor shall authorize the Mortgagee to disburse such funds and such proceeds in installments as work progresses and to pay fees and charges of any title insurance company engaged as disbursing agent, including but not limited to fees in connection with title searches as to mechanics' liens arising in connection with the Restoration, fees of any architect or engineer engaged by the Mortgagee to review the plans and specifications for the Restoration and to make periodic inspections of the Restoration, and reasonable attorney's fees incurred by the Mortgagee in connection with the Restoration.
- (vi) Each request for a draw of such funds shall be limited to the total costs of Restoration actually incurred to the date of such draw request, minus such holdback as the Mortgagee may reasonably require, and minus prior disbursements made by the Mortgagee to the Mortgagor in connection with any previous draw made in connection with the Restoration.
- (vii) At the time of submission of any draw request, the Mortgagor shall submit to the Mortgagee a search prepared by a title insurance company acceptable to the Mortgagee, showing that no mechanic's liens appear of record with respect to the Mortgaged Property that have not been discharged of record.
- (viii) To the extent that the cost of completing the Restoration, as estimated at any time and from time to time by the Mortgagee in good faith, shall exceed the proceeds and funds then held by the

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Mortgagee for such Restoration, the Mortgagor shall promptly deposit with the Mortgagee an amount equal to such excess. The Mortgagee may disburse such deposited sums prior to further disbursement of any insurance proceeds.

- (ix) The Mortgagor shall have provided to the Mortgagee such zoning letters, surveys and other documentation as the Mortgagee shall reasonably require to establish that upon completion of the Restoration the Mortgaged Property shall (i) be in compliance with all applicable laws, regulations and ordinances, and (ii) shall have access to public streets which the Mortgagee shall determine either is identical to or better than the access to the Mortgaged Property which existed prior to the event which necessitated the Restoration.

- (x) The Mortgagor shall have provided to the Mortgagee letters of estoppel from each tenant, if any, of the Mortgaged Property confirming that such tenant's Lease will remain in full force and effect following the Restoration.

In all other cases, namely, in the event that the Mortgagor does not elect to restore or repair the Mortgaged Property pursuant to the above provisions of this paragraph 8(f) or otherwise fails to meet the requirements of clauses (i) through (x) above, then, in any such event, the Mortgagee may, in its discretion and notwithstanding the adequacy of its security, either make such proceeds available to the Mortgagor for the Restoration upon the conditions and in accordance with such procedures as the Mortgagee may require, or apply the proceeds toward reduction of the Indebtedness, in such order of application as the Mortgagee may determine. Any application of insurance proceeds to the principal of the Note shall not extend or postpone the due dates of the principal installment payments due under the Note or change the amount of any such installments.

- (g) Reimbursement of the Mortgagee's Expenses. The Mortgagor shall promptly reimburse the Mortgagee upon demand for all of the Mortgagee's expenses incurred in connection with the collection of the insurance proceeds, including but not limited to reasonable attorneys' fees, and all such expenses, together with interest from the date of disbursement at an annual rate equal to the interest rate in effect under the Note at the Default Rate (unless collection of interest from the Mortgagor at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from the Mortgagor under applicable law) shall be additional amounts secured by this Mortgage.

9. Preservation and Maintenance of the Mortgaged Property. The Mortgagor (i) shall keep the Improvements now or hereafter erected on the Land in safe and good repair and condition, ordinary depreciation excepted; (ii) shall, upon damage to or destruction of the Mortgaged Property or any part thereof by fire or other casualty, restore, repair, replace or rebuild the Mortgaged Property that is damaged or destroyed to the condition it was in immediately prior to such damage or destruction, whether or not any insurance proceeds are available or sufficient for such purpose, unless the Mortgagee shall have elected to apply insurance proceeds to the reduction of the Indebtedness in

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accordance with paragraph 8(f) above; (iii) shall constantly maintain the parking and landscaped areas of the Mortgaged Property; (iv) shall not commit waste or permit impairment or deterioration of the Mortgaged Property; (v) shall not cause or permit any alteration of the design or structural character of any Improvement now or hereafter erected on the Land; and (vi) shall not remove from the Land any of the fixtures and personal property included in the Mortgaged Property except as permitted by the Note.

10. Inspection. The Mortgagee, or its agents, shall have the right at all reasonable times, to enter upon the Mortgaged Property for the purposes of inspecting the Mortgaged Property or any part thereof; it being understood that such rights of inspection shall not affect the rights of inspection granted to the Mortgagee in the Note.

11. Protection of the Mortgagee's Security. Subject to the rights of the Mortgagor under paragraph 7 hereof, if the Mortgagor fails to perform any of the covenants and agreements (except for Section 1) contained in this Mortgage within ten (10) days after Mortgagee's written demand or if any action or proceeding is commenced which affects the Mortgaged Property or the interest of the Mortgagee therein, or the title thereto, then the Mortgagee, at Mortgagee's option, may perform such covenants and agreements, defend against and/or investigate such action or proceeding, and take such other action as the Mortgagee deems necessary to protect the Mortgagee's interests. The Mortgagee is hereby given the irrevocable power of attorney in

connection therewith (which power is coupled with an interest and is irrevocable) to enter upon the Mortgaged Property as the Mortgagor's agent in the Mortgagor's name to perform any and all covenants and agreements to be performed by the Mortgagor as herein provided. Any amounts or expenses disbursed or incurred by the Mortgagee pursuant to this paragraph 11, with interest thereon, shall become additional Indebtedness of the Mortgagor secured by this Mortgage. Unless the Mortgagor and the Mortgagee agree in writing to other terms of repayment, such amounts shall be immediately due and payable, and shall bear interest from the date of disbursement at the Default Rate under the Note, unless collection from the Mortgagor of interest at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from the Mortgagor under applicable law. The Mortgagee shall, at its option, be subrogated to the lien of any mortgage or other lien discharged in whole or in part by the Indebtedness or by the Mortgagee under the provisions hereof, and any such subrogation rights shall be additional and cumulative security for this Mortgage. Nothing contained in this paragraph 11 shall require the Mortgagee to incur any expense or do any act hereunder, and the Mortgagee shall not be liable to the Mortgagor for any damages or claims arising out of action taken, unless such action constitutes gross negligence or willful misconduct by the Mortgagee pursuant to this paragraph 11.

12. Condemnation.

- (a) The Mortgagor hereby irrevocably assigns to the Mortgagee any award or payment which becomes payable to the Mortgagor on account of the Mortgaged Property by reason of any taking of the Mortgaged Property,

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or any part thereof, whether directly or indirectly or temporarily or permanently, in or by condemnation or other eminent domain proceedings (hereinafter called "Taking"). Forthwith upon receipt by the Mortgagor of notice of the institution of any proceeding or negotiations for a Taking, the Mortgagor shall give notice thereof to the Mortgagee. The Mortgagee may appear in any such proceedings and participate in any such negotiations and may be represented by counsel. The Mortgagor, notwithstanding that the Mortgagee may not be a party to any such proceeding, will promptly give to the Mortgagee copies of all notices, pleadings, judgments, determinations and other papers received by the Mortgagor therein. The Mortgagor will not enter into any agreement permitting or consenting to the taking of the Mortgaged Property, or any part thereof, or providing for the conveyance thereof in lieu of condemnation, with anyone authorized to acquire the same in condemnation or by eminent domain unless the Mortgagee shall first have consented thereto in writing, which consent shall not be unreasonably withheld. All Taking awards shall be adjusted jointly by the Mortgagor and the Mortgagee. All awards payable as a result of a Taking shall be paid to the Mortgagee, which may, at its option, apply them, after first deducting the Mortgagee's expenses incurred in the collection thereof, to the payment of the Indebtedness, whether or not due and in such order of application as the Mortgagee may determine, or to the repair or restoration of the Mortgaged Property, in such manner as the Mortgagee may determine. Notwithstanding the previous sentence, any award payable as a result of a temporary or partial Taking that the Mortgagee reasonably believes will last no longer than six (6) months, after deducting the Mortgagee's expenses incurred in the collection thereof, shall be applied by the Mortgagee first to make improvements, repairs or restorations necessitated by such Taking and then in accordance with the previous sentence. Any application of Taking awards shall not extend or postpone the due dates of any regularly scheduled payment or mandatory prepayment payable under the Note or change the amount of any such payment or prepayment.

- (b) If the Taking involves the taking of any Improvement now or hereafter located on the Land, the Mortgagor shall, upon receipt of the condemnation award, proceed, with reasonable diligence, to demolish and remove any ruins and complete repair or restoration of the Mortgaged Property as

nearly as possible to its respective size, type and character immediately prior to the Taking, whether or not the condemnation awards are available or adequate to complete such repair or restoration. The Mortgagor shall promptly reimburse the Mortgagee upon demand for all of the Mortgagee's expenses (including reasonable attorney's fees) incurred in the collection of awards and their disbursement in accordance with this paragraph, and all such expenses, together with interest from the date of disbursement at the interest rate in effect under the Note at the Default Rate (unless collection of interest from the Mortgagor at such rate would be contrary to applicable law, in which event such amounts shall bear interest at the highest rate which may be collected from the Mortgagor under applicable law) shall be additional amounts secured by this Mortgage.

13. Sale, Transf