

 **AAR**<sup>®</sup> 2010 Annual Report

# TAKING FLIGHT

“Our ability to prevail in light of the economic challenges of 2010 had as much to do with the strength of our character as the strength of our products, services and solutions. AAR has always been a dynamic organization—for nearly 60 years that spirit of innovation has been the hallmark of our company. Time after time, we have demonstrated the rare ability to transform adversity into opportunity and 2010 was no exception. By never losing our focus on the customer and continuing to strategically diversify, we have emerged a smarter, stronger and more competitive organization. Now, more than ever, AAR is truly taking flight—opening new worlds of opportunity and charting a path for new levels of growth and success.”

*David P. Storch*

*Chairman and Chief Executive Officer*



To our stockholders, customers and employees:

**Fiscal 2010 was a year of transition for AAR. Faced with a difficult economic climate, we diversified our customer base, captured new business and generated cash to invest in our capabilities, our people and AAR's future.**

We generated sales of \$1.35 billion, down from \$1.42 billion in 2009. Sales to commercial customers fell 13.5% while sales to global government and defense customers increased 6.1%. Operating income declined 12.2% compared with the prior year as a result of the reduction of sales and gross profit in the Aviation Supply Chain and Maintenance, Repair and Overhaul (MRO) segments. Despite the decline, we generated \$153 million of cash from operations and \$124 million in free cash flow.

As we entered the year, our airline customers were sharply focused on managing their cash and fleet capacity and, where possible, deferring maintenance and spares spending. In government and defense markets, the U.S. Department of Defense and other government agencies were under intense budgetary pressures, faced with the need to rein in massive deficits. Through it all, we stayed focused on our four priorities: embedding quality, capturing new business, lowering cost and generating cash.

With a commitment to deliver operational excellence, we provided even more value to our customers and as a result, captured market share. For our MRO customers, we shortened maintenance intervals and made their aircraft available for revenue service sooner. For our supply chain partners, we provided the right parts to the right place at the right time. And for our mobility customers, we expanded AAR's product lines.

Our long-term strategy has been to build balance in our business mix between commercial and government markets. At the start of the last decade, defense sales accounted for only 17% of AAR's business, and as we closed fiscal 2010, they represented 48% of sales. In April 2010, we acquired Aviation Worldwide Services (AWS), a leading provider of mission-critical airlift support for nation-building, peace-keeping, humanitarian and contingency operations around the world. Overall, we feel very good about the balance between our commercial and government activities.

The commercial environment is showing signs of improvement as passenger traffic increases and airlines add capacity back into the system. In anticipation, we are investing in our supply chain and maintenance operations. Last year, we secured several multiyear contracts and finished the year with a broader customer base, a substantial backlog of engineering work and increased deal flow. AAR is a leading provider of services to the airline industry and I believe we are in an excellent position to grow our commercial business as markets recover.

While we anticipate that U.S. Defense budgets may see cuts, the majority of AAR's business in this market comes from the operations and maintenance portion of the budget, which we believe is much less susceptible to cuts. Our government and defense business is broad, diverse and full of potential. Approximately 60% of this business is manufacturing mobility products, precision machined parts and composite structures. The remaining government and defense business is focused on services, including supply chain, aircraft maintenance and modification and now, expeditionary airlift services.

Over the last year we also made a number of moves to strengthen our senior leadership team. Randy Martinez was appointed Group Vice President of our new Government and Defense Services segment. Jeffrey Schloesser, who recently retired from the U.S. Army as a Major General, joined us as President of AWS. Jeff brings more than 20 years of senior leadership and operations experience in the areas of aviation, counterinsurgency, unmanned systems and nation-building operations. Don Wetekam assumed the new role of Senior Vice President, Government and Defense Business

Development to sharpen our focus on growth opportunities and strategic positioning. Cheryle Jackson joined AAR as Vice President of Government Affairs and Corporate Development. Cheryle's vision and passion are driving forces behind our strategies to increase AAR's visibility and build alliances with state, federal and international government agencies.

### **In closing**

While there are many uncertainties surrounding the global economic recovery, we are optimistic about AAR's future. We performed very well following the last two economic downturns by finding niche markets and offering new and innovative solutions. You can count on us to do it again.

On behalf of AAR, I am grateful to our customers for their enduring trust and confidence. I also wish to thank our Board of Directors for their valuable insights and guidance. Lastly, I am proud of AAR's talented and dedicated employees, from our front offices to our back shops. It is the collective spirit of AAR's people that makes us who we are. The drive to be better, to serve our customers and to reward our stockholders—these are the traits that set AAR apart and will take us to greater heights.

Sincerely,



**David P. Storch**

Chairman and Chief Executive Officer

August 19, 2010

## To our stockholders, customers and employees:

I am pleased to report that AAR made substantial gains in several key areas in fiscal 2010. We expanded our engineering and manufacturing capabilities and developed more integrated solutions that increased value to our customers. We remained focused on generating cash, capturing new business, managing costs and delivering high-quality products and services. Through solid execution on these fronts, we entered the new fiscal year with optimism and momentum.

Our businesses generated \$153 million in operating cash flow in fiscal 2010 and \$218 million over the past two fiscal years. These funds were used judiciously to expand capabilities and diversify our portfolio with the acquisition of Aviation Worldwide Services. We are pleased with our progress of integrating AWS into the AAR family and its financial performance is in line with our expectations. In the upcoming year, we will apply AAR's proven methodologies and expertise to optimize AWS's supply chain management, inventory and maintenance programs. We remain focused on converting assets to cash and we reduced inventory and equipment available for lease by \$42 million. We have always viewed our balance sheet as a strategic asset and a differentiator and believe our strong liquidity position will position us to capture additional opportunities in our markets.

Staying close to customers and devising new and innovative solutions that grow our business will fuel our success. To this end, we entered new contracts, providing heavy maintenance services to Allegiant Air for its fleet of MD-80 aircraft and to Hawaiian Airlines for its fleet of B717 aircraft. We also created a dynamic supply chain and repair program for Air Canada Jazz and its fleet of Bombardier CRJ aircraft and entered into a long-term agreement with a major U.S. air carrier to maintain its Airbus narrow-body landing gear. In government and defense markets, we secured a contract to continue building specialized shelters to support the U.S. Army's in-theater operations. We also began providing airlift support under two new contracts, transporting cargo and U.S. and coalition personnel. The A400M cargo system program received a giant boost as the European customer countries agreed to invest in the future of this next-generation military airlifter.



**Timothy J. Romenesko**  
President and Chief Operating Officer

AAR signed agreements with Bombardier to design and build composite structures for their new C-series family of commercial aircraft and with Sikorsky to provide composite interiors and precision machining for their S-92 helicopter program. We are collaborating closely with Sikorsky to explore new opportunities to support its production and aftermarket requirements. Our AWS acquisition is further expanding AAR's presence in the rotorcraft market with helicopter airlift support and modification capabilities for specialized, tactical helicopters, as well as fixed-wing aircraft.

AAR continues to streamline operations and control costs to drive efficiency throughout our business. We are focused on increasing margins through technology and productivity improvements that also benefit our customers and we continue to expand into higher-value products and services that utilize our range of capabilities. As a result of these initiatives and by leveraging our scale, we are driving toward our SG&A target of 10% of sales.

Instilling quality in everything we do is an ongoing process at AAR. We continue to invest in lean initiatives and operational improvements that reduce turn-times and improve performance and productivity. We utilize training and technology to meet and exceed the expectations of our customers and regulators, and work with these groups, our employees and suppliers to ensure that we deliver the highest standards of quality. In fiscal 2010, our component repair business earned a Gold Performance Excellence Award from Boeing and we were voted the top provider of landing gear services by a field of 13,500 industry professionals.

I am incredibly proud of our team's accomplishments and look forward to fiscal 2011. Our products and capabilities are well aligned with our customers' current and emerging requirements. We are poised to capture new business and execute against our plan, creating value for our customers and growth opportunities for our employees.

Sincerely,



**Timothy J. Romenesko**

President and Chief Operating Officer

August 19, 2010

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[Aviation Supply Chain](#) [Maintenance, Repair and Overhaul](#) [Structures and Systems](#) [Government and Defense Services](#)

AAR is a leading provider of products and services to the worldwide aviation and government and defense industries. Our diverse and balanced portfolio contributes to AAR's financial strength and our ability to serve customers today, tomorrow and into the future.



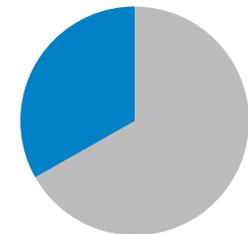
AAR has built a reputation as a leading provider of supply chain solutions for the aerospace industry. Our logistics, distribution and component repair businesses work together to reduce costs, increase parts availability and minimize downtime for our customers' aircraft. Our advanced IT integration capabilities connect customers' and suppliers' business systems to provide real-time access to operational data and visibility across the entire supply chain. Through this powerful combination, we offer fully integrated inventory management solutions for aircraft and engines using skills that we developed over nearly 60 years of serving the aviation and aerospace industry.

#### AAR BUSINESSES

*Aircraft Component Services*  
*Aircraft Sales and Leasing*  
*Aircraft Turbine Center*  
*Allen Asset Management*

#### PERCENT OF SALES

30%





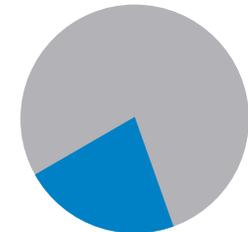
AAR is one of the top 10 providers of aircraft maintenance, repair and overhaul services in the world. We support commercial airlines and government fleet operators with services that are combined into custom solutions built around our customers' unique requirements. Our services cover everything from major structural repairs to the replacement of a single part and are backed by a safety system that leverages best practices from across the industry. Advanced engineering rounds out these diverse capabilities and gives customers a single source for all their maintenance and modification needs. Simply put, we help customers operate aircraft more efficiently while maintaining their high levels of safety and service.

**AAR BUSINESSES**

- Aircraft Services*
- Engineering Services*
- Landing Gear Services*
- PMA Development and Supply*

**PERCENT OF SALES**

**22%**





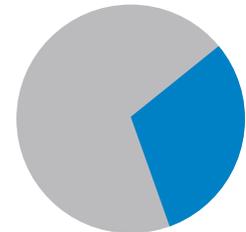
AAR provides a wide range of high-value manufacturing and design services, developing and building specialized products and components that are used in a variety of defense and aerospace applications. Our mobility products are used to support the mobilization of troops and supplies into theaters of operation and sustain in-theater activity. We also develop customized cargo systems for a variety of commercial and military aircraft types. Our advanced composite structures and precision machined parts are used in major commercial and defense programs and are helping to advance innovative new platforms in development. AAR puts its capabilities to work where they're needed most—solving problems for customers.

**AAR BUSINESSES**

- Cargo Systems*
- Mobility Systems*
- Precision Systems*

**PERCENT OF SALES**

**33%**





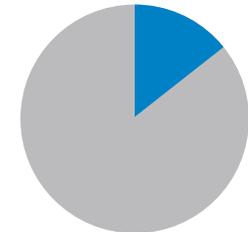
AAR offers a unique alternative to traditional aerospace and defense service providers. We are agile and able to respond in days, not months, with a proven track record of supporting in-theater activity around the world. We provide a variety of niche services to support our government and defense customers. Our logistics services and IT technologies keep advanced aircraft platforms and ground equipment mission-ready and operating at peak efficiency, while our advanced communication systems serve as a critical link during natural disasters and humanitarian aid operations. Airlift services, the newest addition to the AAR portfolio, speed people, cargo and supplies wherever they need to be around the world.

**AAR BUSINESSES**

- Aviation Worldwide Services*
- Defense Systems and Logistics*
- Integrated Technologies*

**PERCENT OF SALES**

**15%**



## CORPORATE OFFICERS

David P. Storch  
Chairman and  
Chief Executive Officer

Timothy J. Romenesko  
President and  
Chief Operating Officer

Michael K. Carr  
Vice President, Tax and  
Assistant Treasurer

Peter K. Chapman  
Vice President,  
Chief Commercial Officer

James J. Clark  
Vice President,  
Commercial Strategy and  
Business Development

Cheryle R. Jackson  
Vice President,  
Government Affairs and  
Corporate Development

Dany Kleiman  
Group Vice President,  
Maintenance, Repair  
and Overhaul

Kevin M. Larson  
Vice President,  
Chief Information Officer

Randy J. Martinez  
Group Vice President,  
Government and Defense Services

Richard J. Poulton  
Vice President,  
Chief Financial Officer  
and Treasurer

David E. Prusiecki  
Vice President, Defense Programs

Robert J. Regan  
Vice President,  
General Counsel and Secretary

Michael J. Sharp  
Vice President, Controller  
and Chief Accounting Officer

Timothy O. Skelly  
Vice President, Human Resources

Terry D. Stinson  
Group Vice President,  
Structures and Systems

Donald J. Wetekam  
Senior Vice President,  
Government and Defense  
Business Development

## BOARD OF DIRECTORS

David P. Storch  
Chairman and  
Chief Executive Officer,  
AAR CORP.

Norman R. Bobins  
Non-Executive Chairman,  
The PrivateBank and  
Trust Company — Chicago

Michael R. Boyce  
Chairman and Chief Executive  
Officer, PQ Corporation  
Chairman and Chief Executive  
Officer, The Peak Group

James G. Brocksmith, Jr.  
Independent Business  
Consultant  
Retired Deputy Chairman  
and Chief Operating Officer,  
KPMG LLP

Gerald F. Fitzgerald, Jr.  
Chairman and President,  
Cornerstone Bancorp, Inc.  
Chairman and President,  
LaSalle Bancorp, Inc.

Ronald R. Fogleman  
USAF (Ret.)  
President and Chief Operating  
Officer, B Bar J Cattle Company

James E. Goodwin  
Chairman,  
Federal Signal Corporation  
Retired Chairman and  
Chief Executive Officer, UAL, Inc.  
and United Airlines, Inc.

Patrick J. Kelly  
Managing Director, KMK &  
Associates, LLC

Timothy J. Romenesko  
President and  
Chief Operating Officer,  
AAR CORP.

Marc J. Walfish  
Founding Partner,  
Merit Capital Partners

Ronald B. Woodard  
Chairman, MagnaDrive, Inc.  
Retired President, Boeing  
Commercial Airplane Group

*Honorary*  
Ira A. Eichner  
Founder and Chairman  
of the Board Emeritus

AUDIT COMMITTEE

James E. Goodwin, Chairman  
Norman R. Bobins  
James G. Brocksmith, Jr.  
Gerald F. Fitzgerald, Jr.  
Marc J. Walfish  
Ronald B. Woodard

EXECUTIVE COMMITTEE

David P. Storch, Chairman  
James E. Goodwin  
Marc J. Walfish

COMPENSATION COMMITTEE

James G. Brocksmith, Jr., Chairman  
Michael R. Boyce  
Ronald R. Fogleman  
Patrick J. Kelly  
Ronald B. Woodard

NOMINATING AND  
GOVERNANCE COMMITTEE

Ronald R. Fogleman, Chairman  
Michael R. Boyce  
James E. Goodwin  
Marc J. Walfish

## Selected Financial Data

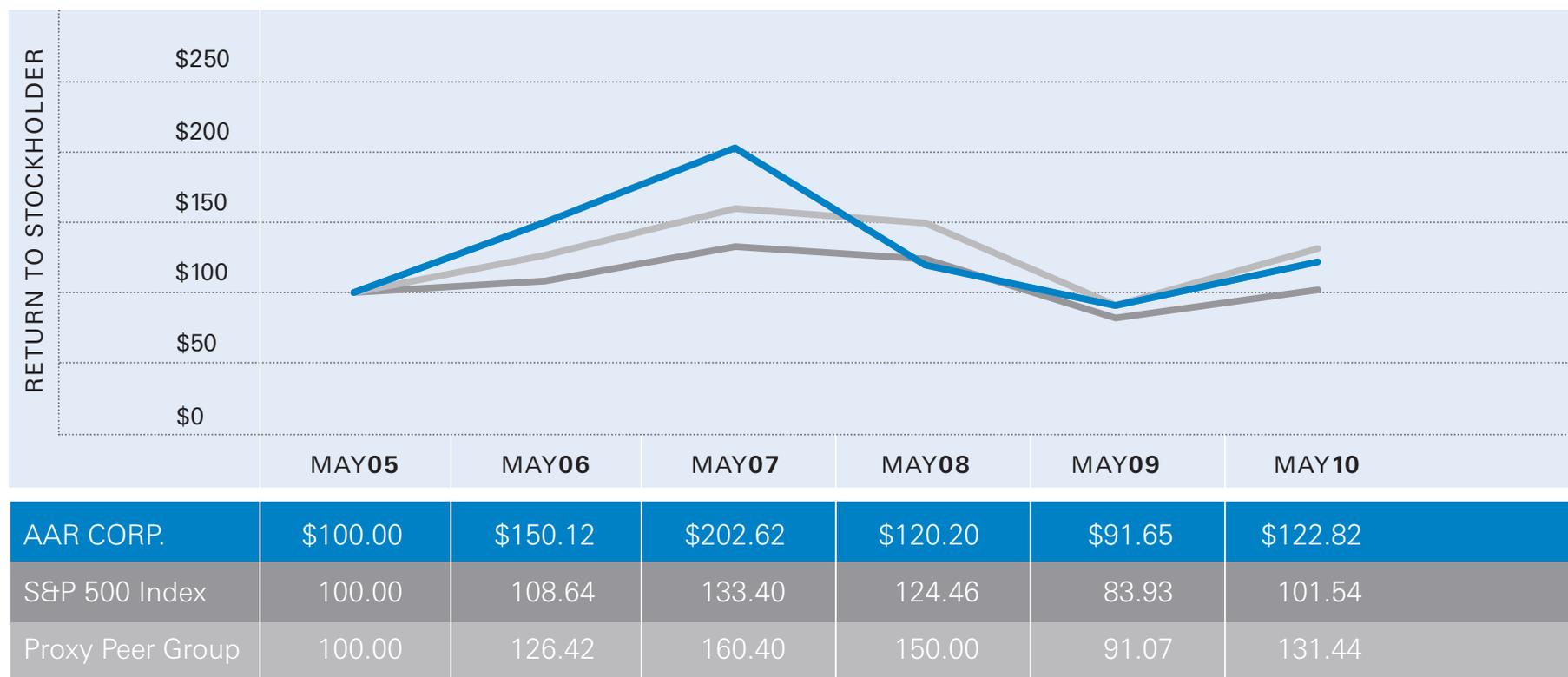
For the Year Ended May 31,

In thousands, except per share data

	2010	2009	2008	2007	2006
OPERATING PERFORMANCE					
Net sales	\$1,352,151	\$1,423,976	\$1,384,919	\$1,061,169	\$885,518
Net income attributable to AAR	44,628	56,772	68,158	54,474	33,561
Diluted earnings per share	\$1.16	\$1.45	\$1.71	\$1.40	\$0.94
FINANCIAL POSITION					
Working capital	\$ 537,879	\$ 596,894	\$ 564,932	\$ 389,215	\$436,666
Total assets	1,501,042	1,375,905	1,359,263	1,066,200	977,126
Total debt	428,507	381,478	413,378	280,699	267,008
Stockholder's equity	746,350	696,734	650,867	523,330	455,990

## Comparison of Cumulative 5-Year Total<sup>1</sup>

The following chart compares five-year cumulative total stockholder return (including reinvestment of dividends).



#### CORPORATE HEADQUARTERS

AAR CORP.  
1100 North Wood Dale Road  
Wood Dale, Illinois 60191  
Telephone: 630-227-2000  
Facsimile: 630-227-2059  
www.aarcorp.com

#### TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.  
Providence, Rhode Island

#### ANNUAL MEETING OF STOCKHOLDERS

The annual meeting of stockholders will be held at 9:00 a.m. (CDT) on Wednesday, October 13, 2010, at AAR Corporate Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

#### THE INVESTOR SERVICE PROGRAM

AAR CORP. provides its stockholders the opportunity to purchase additional shares of common stock of the Company by automatic reinvestment of dividends and optional additional investments. Stockholders may obtain information regarding this plan by contacting the Corporate Secretary, AAR CORP., 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

#### SPECIAL COUNSEL

Schiff Hardin LLP  
Chicago, Illinois

#### TICKER SYMBOL

AAR stock is traded on the New York and Chicago Stock Exchanges under the ticker symbol AIR.