



2011  
Annual Report

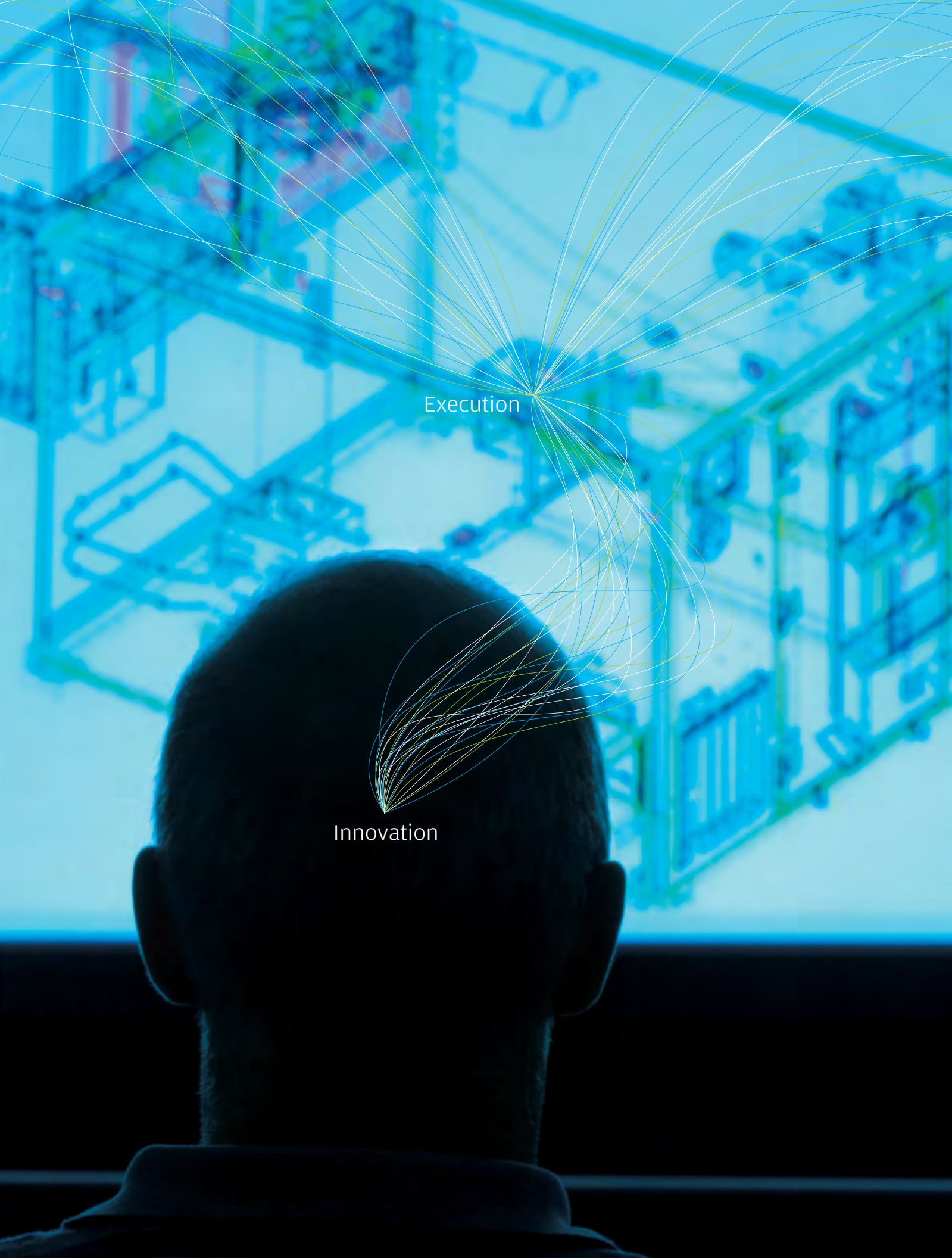


Connecting:

Stakeholders

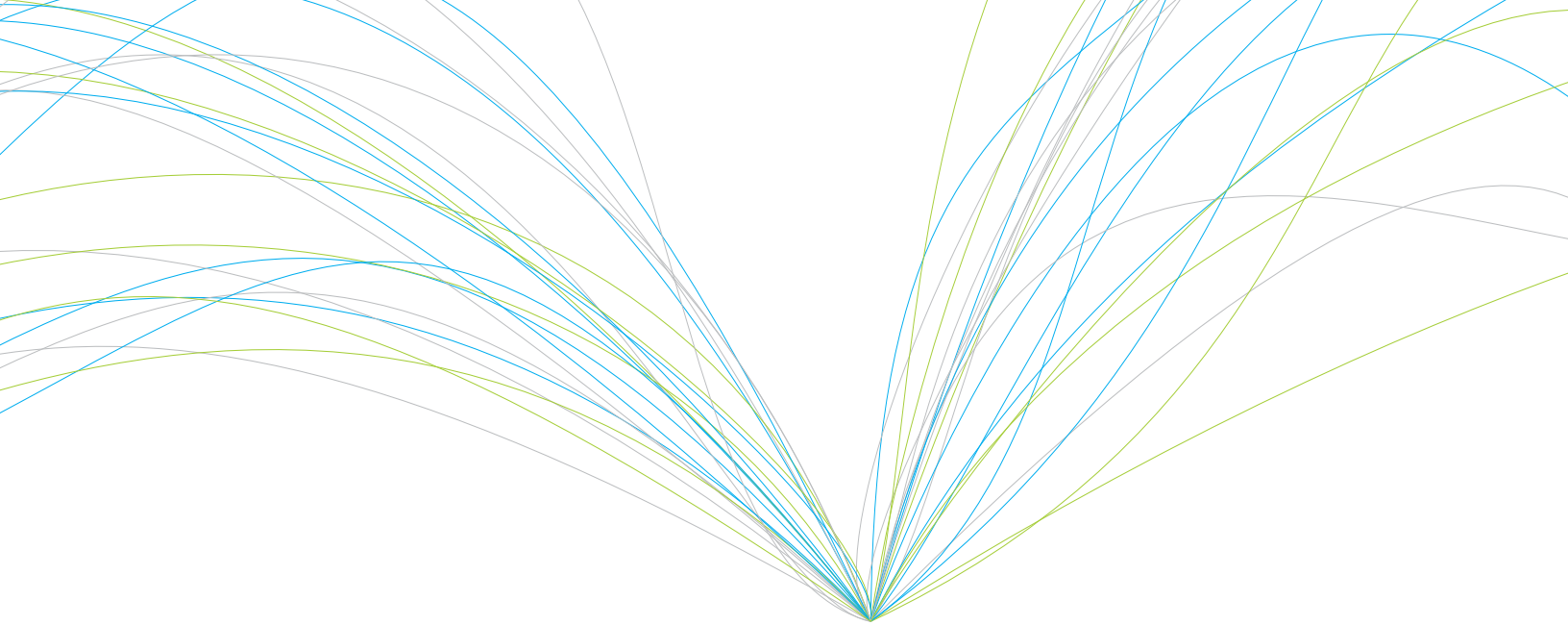
Value





Execution

Innovation



AAR achieved record growth in fiscal 2011, despite continuing volatility in our operating environment. Our culture of innovation – a hallmark of the Company for nearly 60 years – enabled us to rise to the challenges of uncertain times and changing industry dynamics.

AAR is a progressive business that provides diverse products and services to help customers succeed. We supply everything from individual parts to entire aircraft. Our facilities keep planes flying safely through rigorous maintenance and engineering solutions. We design and build complex structures and specialized products. We transport people and supplies to support national priorities and troops in the field.

With a clear vision and an enduring entrepreneurial spirit, we are connecting our employees, customers, stockholders, and communities to value and new opportunities for growth.

AAR delivered strong performance in fiscal 2011, reflecting our long-term strategies to provide more value to our customers, build on the talent of our team and drive profitable growth for our stockholders. We can point to great progress on each of these fronts during the past year.



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

**David P. Storch**  
*Chairman and  
Chief Executive Officer*

## Selected Financial Highlights

For the Year Ended May 31,

In thousands except per share data

	2011	2010	2009	2008	2007
<b>Operating Performance</b>					
Net sales	\$1,775,782	\$1,316,416	\$1,380,529	\$1,327,512	\$1,004,557
Income from continuing operations	73,139	45,436	61,144	70,825	57,317
Diluted earnings per share from continuing operations	\$1.81	\$1.21	\$1.56	\$1.77	\$1.47
<b>Financial Position</b>					
Working capital	497,975	521,642	596,894	564,932	389,215
Total assets	1,703,727	1,500,181	1,375,905	1,359,263	1,066,200
Total debt	437,159	428,507	381,478	413,378	280,699
Stockholder's equity	835,289	746,350	696,734	650,867	523,330

The Company delivered exceptional financial results. Sales in fiscal 2011 were a record \$1.78 billion, up 35% from the prior year. Sales to government and defense customers accounted for 53% of total sales, reflecting our focused efforts to create a balanced business mix. Sales to commercial customers accounted for 47% of sales, driven by improved industry conditions and market share gains. Income from continuing operations, also a new record, was up 61%, to \$73.1 million, and rose to \$1.81 per diluted share from \$1.21 per diluted share a year earlier.

As we write this letter, it appears that the global economy and our operating environment may face more volatility. Fortunately, our initiatives to strengthen AAR's value proposition and grow the business have prepared us well for uncertain economic times. We are balanced and diversified, close to our customers, financially solid, and well positioned to compete in the dynamic aerospace, government and defense markets.

### Value Across Our Businesses

The strides made by AAR's businesses over the past year reinforce our confidence in the Company's future. In each of our business segments we invested in value-added services and operational improvements, won or expanded key customer relationships and built a solid platform for growth.

In our *Aviation Supply Chain* segment, we invested in additional technologies and equipment that enable us to support newer aircraft platforms and service a wider range of components. Subsequent to year end, we launched a major aftermarket

distribution relationship with Unison Industries. AAR was selected as Unison's exclusive distributor to strengthen its market position and provide access to new channels in both commercial and defense markets. The agreement is valued at more than \$600 million over a 10-year term.

In *Government & Defense Services*, the integration and growth of our Airlift business were significant achievements. Acquired in fiscal 2010, the business was re-branded as AAR Airlift Group, relocated to Melbourne, Florida in April 2011 and is now fully operational as part of the AAR family of businesses. AAR Airlift added 14 new aircraft to support operations, won new business valued at \$546 million and increased sales organically by mid-double digits. During the year, the business transported approximately 255,000 passengers, and carried approximately 42 million pounds of mail and cargo in support of our customers around the world. We are immensely proud and honored to support those who serve.

Our *Maintenance, Repair & Overhaul* (MRO) business captured several new customers and expanded relationships in fiscal 2011. For the first time, annual hours sold at our airframe maintenance facilities exceeded three million hours, reflecting our customers' preference for AAR as an MRO provider of choice. AAR was ranked among the top third-party airframe MRO providers in the world based on man-hours by *Aviation Week* magazine, and independent studies have ranked us as the #1 MRO provider in North America.

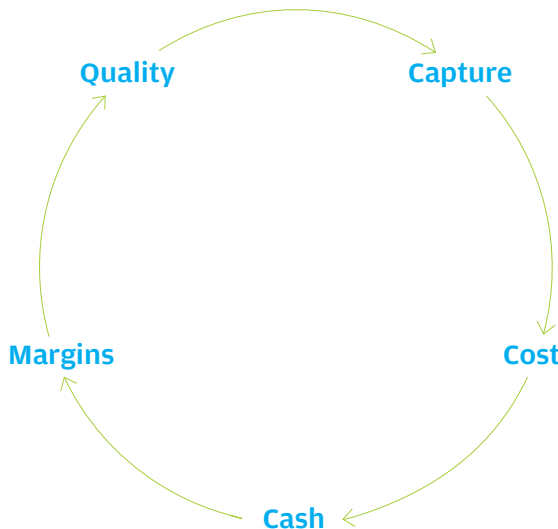
In *Structures & Systems*, key program wins included orders from Spirit AeroSystems for machined parts and assemblies to be used

Lean initiatives in Supply Chain, Landing Gear, Mobility and Cargo

Continued investments in company-wide quality systems

Operating margin improvement from 7.1% to 7.8%

Strategic sourcing programs



\$109M in Operating Cash Flow

Record annual sales of \$1.8B

- ▶ 35% growth YOY

New business wins

- ▶ Unison, Virgin America, USTRANSCOM, Spirit AeroSystems, Air Canada and Finnair

- ▶ Robust deal flow

SG&A down to 9.8% of sales from 11.1%

on Boeing commercial aircraft, follow-on orders to provide parts for the U.S. Army Family of Medium Tactical Vehicles (FMTV) program, and a contract to build specialized cargo pallets for the U.K. Ministry of Defence. We also have been awarded contracts by Lockheed Martin to produce composite and machined parts for the F-35 Joint Strike Fighter. We extended our mobility product line to include lightweight multi-purpose shelters (LMS), which feature the latest advancements in shelter design and manufacturing technology.

**A Sharp Focus on Operations**

Much of AAR’s progress in recent years was the result of our disciplined operational focus, and fiscal 2011 was no exception. We executed well across five key operating dimensions: *Quality, Capture, Cost, Cash and Margins*.

We continue to invest in programs to improve quality across the Company. We launched an internally developed performance reporting and information system, APRISe, that helps us report, analyze and respond quickly to quality and safety events. We are again proud that for the *sixth* year, 100% of AAR’s eligible aviation maintenance technicians (AMTs) earned FAA Diamond Awards for meeting or exceeding FAA training requirements. Congratulations to our worldwide team of 2,835 AMTs who earned this distinction. Another

important initiative, 1MRO, is creating uniform processes across our maintenance facilities so that customers experience the same high level of service, regardless of location.

We successfully captured market share, with top-line growth far outpacing that of our industry. Sales to commercial customers increased 24% year over year, while the overall growth rate in the industry was considerably lower. In defense markets, we experienced 46% sales growth, attributable largely to the addition of AAR Airlift and a full year of revenue from the KC-10 Extender Contractor Logistics Support (CLS) program. AAR’s industry-leading growth reflects our sharp focus on high-value services, operational excellence and our ability to capitalize on market opportunities.

We delivered on our cost objectives, as selling, general and administrative (SG&A) expenses fell below 10% of sales. Our fiscal 2011 SG&A ratio of 9.8%, down from 11.1% a year earlier, was achieved mainly by leveraging our cost structure and implementing efficiency and Lean process improvement initiatives across our businesses.

We generated \$109 million in operating cash flow – including \$49 million in the fourth quarter. AAR ended fiscal 2011 with a

strong balance sheet and enhanced our financial flexibility with a new senior \$400 million unsecured revolving credit facility.

We achieved margin expansion primarily through growth in our higher margin businesses, greater efficiency in our operations and strategic sourcing programs. As a result, operating margin rose to 7.8% in fiscal 2011 from 7.1% a year ago, with a fourth quarter operating margin of 8.2%.

Reflecting our commitment to deliver stockholder value, AAR's Board of Directors declared a quarterly cash dividend of \$0.075 per share during the third quarter. This decision was based on the strength of our balance sheet, our confidence in AAR's ability to generate cash on a consistent basis and our industry-leading position.

AAR was named one of "The Most Trustworthy Companies" by *Forbes* in September 2010 – a distinction that recognizes financial transparency and is held by less than 5% of public companies. Credit for this recognition goes to our employees, who live up to AAR's values of integrity, performance and accountability every day.

#### **Flight Plan for Profitable Growth**

In fiscal 2012 and beyond, AAR will continue to follow a course designed to move us further up the value chain for customers, position the Company to serve attractive markets, and power superior financial performance. We have identified a number of strategic priorities that will propel us toward these goals:

- ▶ Create a dynamic work environment for our team
- ▶ Build balance and diversify our portfolio through expanded capabilities
- ▶ Pursue geographic expansion in growing markets, including Asia and the Middle East
- ▶ Increase engineering content and value-added services
- ▶ Develop and deepen customer relationships
- ▶ Create scale in our businesses through organic growth and selected acquisitions

We are well aware of the challenges facing our industry in the coming year. Global concerns about another economic downturn may lead to lower spending on air travel, reducing the need for some commercial services. Defense budgets face further restrictions. Despite these challenges, AAR has the foundation and flexibility to succeed in uncertain economic times. Our value proposition for

aircraft operators and manufacturers becomes even more compelling as customers seek to do more with less. In government and defense markets, a majority of our services support core operations and maintenance – areas historically less vulnerable to budget cuts. Finally, our balance sheet remains a source of strength, stability and resiliency, particularly during a difficult cycle.

We know AAR can count on the commitment, skill and professionalism of our employees to navigate any challenge. We want to thank our customers for their willingness to partner and grow with us. We deeply appreciate our stockholders' investment and belief in our abilities and potential. And, we thank our Board of Directors for their active engagement and commitment to sound governance.

On behalf of everyone at AAR, we look forward to rewarding your confidence by continuing to provide exceptional value and strong performance. As in previous challenging cycles, we will move forward strong and unified, by innovating, executing and connecting AAR's vision to value for our employees, customers, stockholders and communities.

Sincerely,



David P. Storch  
*Chairman and Chief Executive Officer*



Timothy J. Romenesko  
*President and Chief Operating Officer*

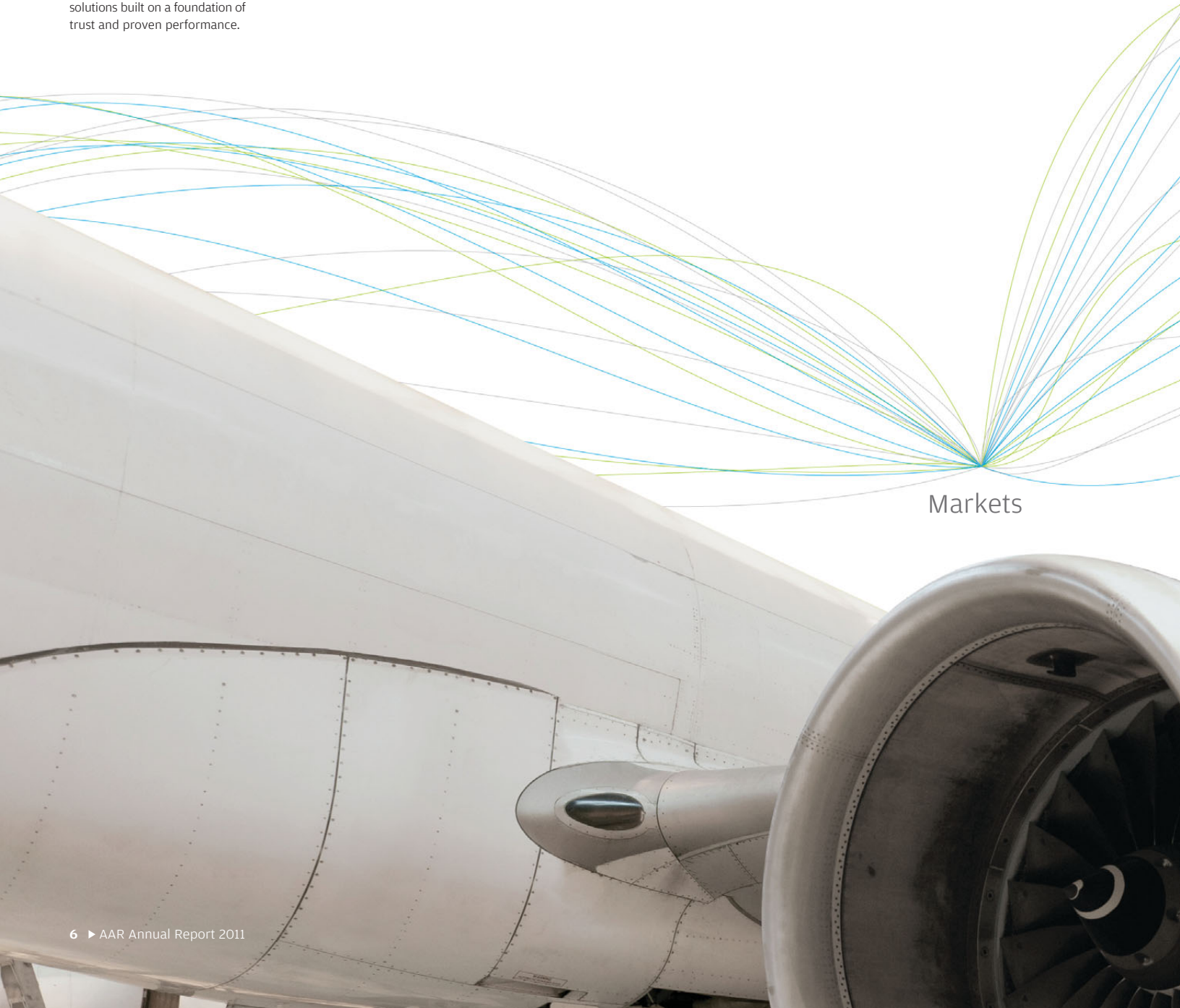
August 24, 2011

# Commercial Aviation



Increasingly, AAR is selected by leading global carriers to provide our full range of engineering solutions and aircraft maintenance, repair and overhaul services. This demonstrates our 1MRO strategy in action – bundled solutions built on a foundation of trust and proven performance.

AAR's long-term business outlook for commercial aviation is positive. The commercial fleet is expected to grow worldwide at an annual rate of 3.6% over the next 20 years.<sup>1</sup> Continued economic growth in China, India and Brazil will contribute to increased air traffic globally. Airlines increasingly look to partner with outside service providers, with roughly 30% to 50% of MRO work done by third parties.<sup>2</sup> In short, long-term growth in commercial aviation and outsourcing trends are expected to drive rising demand for our services, even if the near-term picture is clouded by economic uncertainty.



Markets



The worldwide commercial fleet is expected to grow 3.6% annually over the next 20 years



An estimated  
**30%–50%**  
of airline MRO work is now completed by third parties



Opportunities





## Total-Value Solutions

Positioned to meet the growing needs of commercial customers, AAR's service offering is broad and deep. We provide total-value solutions that enable passenger and cargo airlines to operate more productively and efficiently, while maintaining on-time performance, reliability and safety.

Today, AAR's services include supply chain programs for factory new, overhauled and repaired engine and airframe parts and components. Commercial customers rely on our MRO facilities for essential maintenance, repair and overhaul services and engineering solutions. We also sell and lease commercial aircraft and jet engines and design and manufacture cargo systems and complex structural components for the aviation market.

Over time, our ability to develop and deliver engineering solutions, customized inventory management programs and other advanced offerings will provide more value to our commercial customers. By increasing our MRO capabilities and footprint, we can further leverage our expertise and capabilities. In addition, we see opportunities to add services that will position AAR to benefit from aircraft build cycles, such as additional component manufacturing and precision machining to complement our industry leading aftermarket business.



Launching a major new relationship at the 2011 Paris Air Show, AAR was named exclusive worldwide distributor for Unison Industries' full line of electrical components, sensors and systems. Our world-class supply chain and customer support network enables Unison to consolidate distributors and tap into new markets.

# Government and Defense



Our largest acquisition to date, AAR's Airlift Group is now fully integrated into AAR. The business contributed significantly to the expansion of our government and defense sales and provides a new platform for growth. Airlift is vital to the critical missions of transporting personnel, supplies and mail in austere environments around the world.

In fiscal 2011, for the first time, government and defense customers provided more than half of AAR's sales. This reflects a focused effort to diversify and balance our business mix. We see significant potential in this market, despite budget cuts and an anticipated winding down of the U.S. military presence in the Middle East.

While weapons procurement and R&D may have a higher profile, the largest percentage of U.S. military spending goes to operations and maintenance – a key area served by AAR and one that has historically been less susceptible to cuts. With spending for C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance) programs consuming more than 10% of the U.S. defense budget every year through 2016, we see a strong niche market for integration and maintenance services.<sup>3</sup> Beyond these defense activities, there are opportunities to serve diverse government agencies by supporting nation-building and humanitarian missions.

## Capabilities

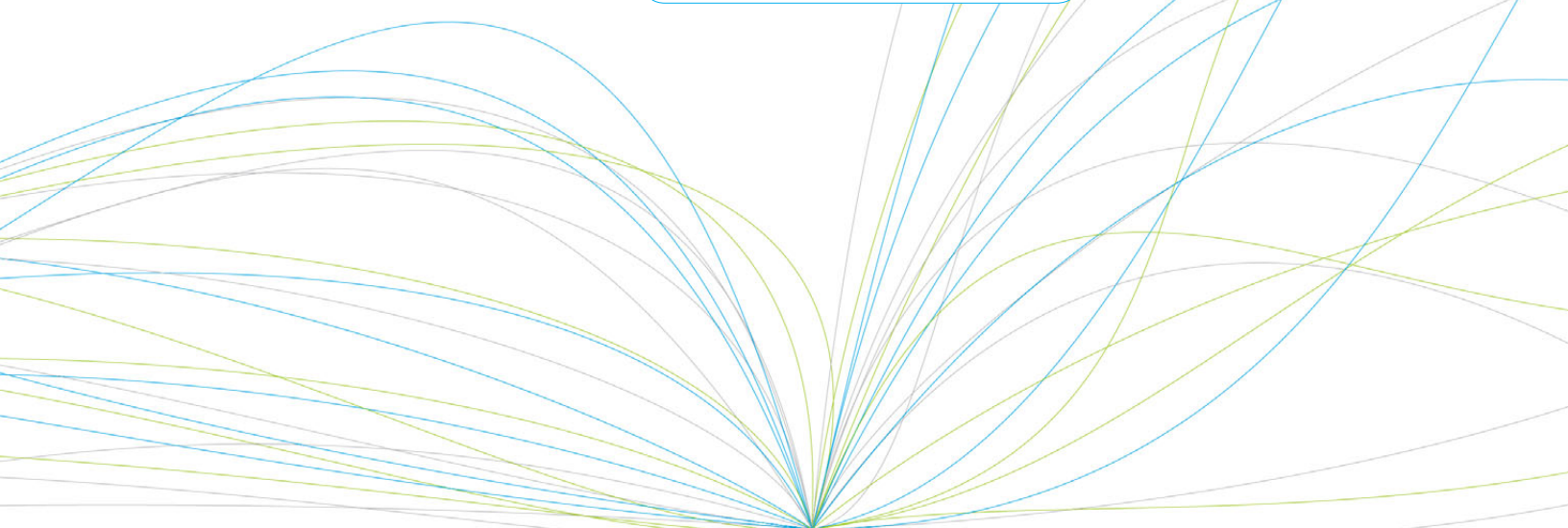




Operations and maintenance spending is expected to rise to

**38%**

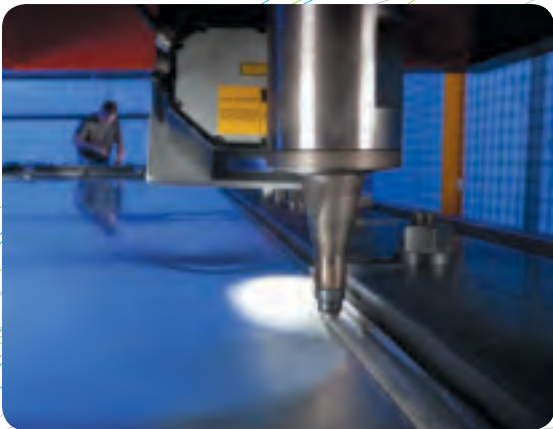
of the defense budget between 2010 and 2015.<sup>4</sup>



## Critical Missions



Expanding our mobility systems product line, we invested in advanced technologies such as friction stir welding. With this new capability, we produce lightweight multipurpose shelters with electromagnetic interference (EMI) shielding to protect sensitive electronics in the field.



## Rapid, Reliable Deployment

AAR adds value for government and defense customers by meeting the need for mobility and logistics in extreme environments – supporting rapid deployment and maintaining the reliability of vehicles and equipment. We transport personnel and cargo, mainly supporting the U.S. Department of Defense, and perform specialized aircraft engineering and design modifications. We offer logistics services, including supply chain, maintenance and repair programs, while other AAR units provide engineering, design, manufacturing and integration services for defense communications and mobile structures.

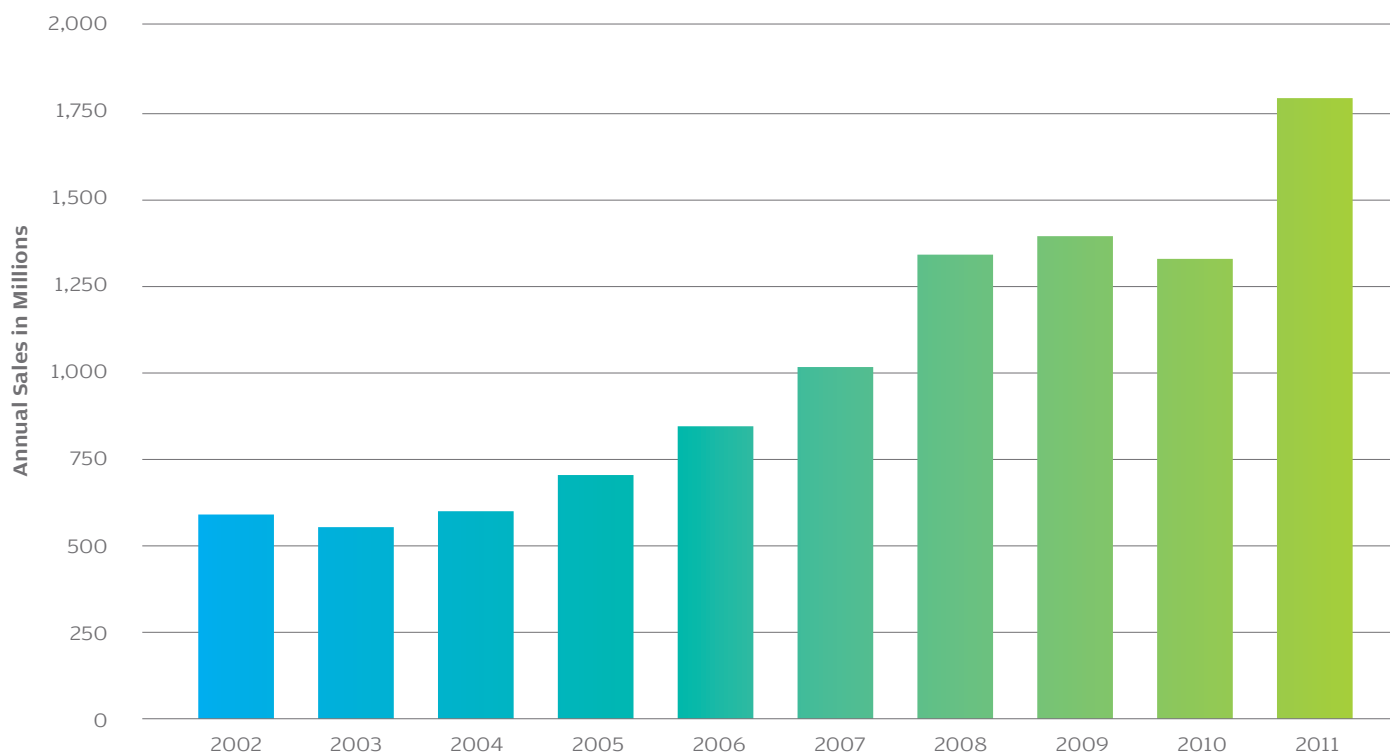
In 2011, we received the Secretary of Defense Performance-Based Logistics (PBL) Award for component-level supply chain support for Navy helicopters. Our logistics support for the KC-10 Extender tanker/cargo aircraft has met or exceeded all performance requirements. Recognized as one of the “Top 100” providers of

defense-related services by *Defense News*, AAR rose 11 places on the list from 2010 to 2011.<sup>5</sup>

Our growth will come from enhancing AAR’s value proposition for government and defense customers and capitalizing on changing industry dynamics in a period of budget scrutiny and constraint. Existing programs may remain in service longer, leading to additional opportunities for our supply chain, maintenance and field support operations. Further, by building relationships with non-defense customers, such as the Departments of State and Homeland Security, we seek to expand our reach by supporting national priorities around the world.

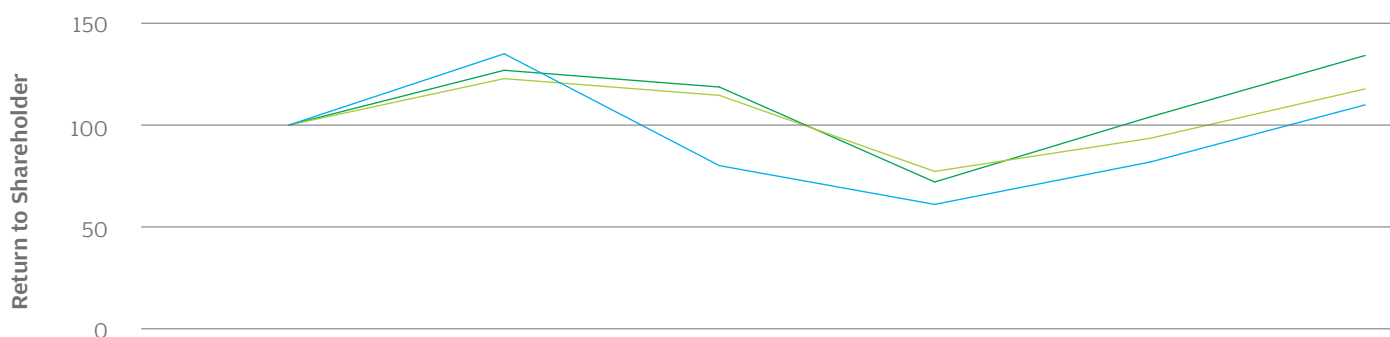


## Ten-Year Sales Growth



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

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



	May '06	May '07	May '08	May '09	May '10	May '11
AAR CORP.	\$100	\$134.97	\$ 80.07	\$61.05	\$ 81.81	\$109.91
S&P 500 Index	100	122.79	114.57	77.25	93.47	117.73
Proxy Peer Group	100	126.88	118.65	72.04	103.97	134.15

<sup>1</sup> Assumes \$100 invested on May 31, 2006, and reinvestment of dividends in the Company's common stock, the S&P 500 Index and the Proxy Peer Group listed in the AAR CORP. 2011 Proxy Statement. The S&P 500 Index is comprised of domestic industry leaders in four major sectors: Industrials, Financials, Utilities and Transportation, and serves as a broad indicator of the performance of the U.S. equity market. The Proxy Peer Group companies are listed in the CD&A section of the AAR CORP. 2011 Proxy Statement.

Source: Standard & Poor's



# AAR At-a-Glance

AAR is a leading, diversified provider of products and value-added services to the worldwide aerospace and government and defense industries that serves customers through four operating segments:



## Aviation Supply Chain

Customers rely on our Aviation Supply Chain segment for logistics, distribution, component repair, inventory management and leasing solutions that reduce costs and increase aircraft availability.



- ▶ Supply chain solutions
- ▶ Aircraft and engine parts supply
- ▶ Component repair
- ▶ Aircraft and engine sales and leasing



## Government & Defense Services

AAR provides a variety of specialized services to support vital defense, government and humanitarian operations around the world.



- ▶ Expeditionary airlift
- ▶ Supply logistics
- ▶ Specialized aircraft modifications
- ▶ Command and control systems and technical services



## Maintenance, Repair & Overhaul (MRO)

As one of the world's largest providers of MRO solutions, we help customers operate efficiently and safely with services that range from scheduled maintenance and structural repairs to re-engineering aircraft interiors.

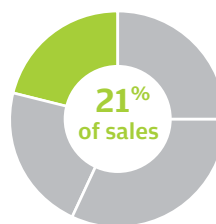


- ▶ Aircraft maintenance and modifications
- ▶ Landing gear, wheel and brake services
- ▶ Engineering services
- ▶ Technical services



## Structures & Systems

Our Structures & Systems group supplies aerospace structures, shelters and cargo systems that enable activities such as mobilizing and supporting troops, handling cargo, and machining aircraft components.



- ▶ Specialized mobility products
- ▶ Cargo systems
- ▶ Precision machining
- ▶ Composite structures

# AAR Leadership

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## 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*

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*

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## 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*

Ronald R. Fogleman  
*President and Chief Operating Officer, B Bar J Cattle and Consulting Company General, U.S. Air Force (Ret.)*

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*

Peter Pace  
*General, U.S. Marine Corps (Ret.)*  
*Retired Chairman of the Joint Chiefs of Staff*

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*

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## Audit Committee

James E. Goodwin, Chairman  
Norman R. Bobins  
James G. Brocksmith, Jr.  
Patrick J. Kelly  
Marc J. Walfish  
Ronald B. Woodard

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## Compensation Committee

Ronald B. Woodard, Chairman  
James G. Brocksmith, Jr.  
Norman R. Bobins  
Michael R. Boyce  
Ronald R. Fogleman  
Peter Pace

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## Executive Committee

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

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## Nominating And Governance Committee

Ronald R. Fogleman, Chairman  
Michael R. Boyce  
James E. Goodwin  
Patrick J. Kelly  
Peter Pace  
Marc J. Walfish

# Stockholder Information

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## Corporate Headquarters

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

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## 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.

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## Transfer Agent and Registrar

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

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## Special Counsel

Schiff Hardin LLP  
Chicago, Illinois

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## Independent Registered Public Accounting Firm

KPMG, LLP  
Chicago, Illinois

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## Ticker Symbol

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

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## Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 9:00 a.m. (Chicago time) on Wednesday, October 12, 2011, at AAR Corporate Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.



Employees

Customers

Stockholders

Communities