AAR CORP
Form DEF 14A
August 31, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

AAR CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, OCTOBER 10, 2012

August 31, 2012

To Our Stockholders:

We cordially invite you to attend our 2012 annual meeting of stockholders. Information about the annual meeting is set forth below and in the accompanying proxy statement.

Date:	Wednesday, October 10, 2012
Time:	9:00 a.m., Chicago time
Place:	AAR CORP. One AAR Place 1100 North Wood Dale Road Wood Dale, Illinois 60191
Purposes:	At the annual meeting, you will be asked to:
	Elect three Class I directors;
	Vote on an advisory resolution to approve executive compensation;
	Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2013; and
	Transact any other business that may properly come before the annual meeting or any adjournment or postponement of the meeting.
Record Date:	You may vote your shares at the annual meeting if you were a stockholder on August 20, 2012.
Voting:	**Your vote is important. We encourage you to vote your shares as soon as possible over the Internet, by telephone, or by completing and returning the enclosed proxy card in the postage-paid envelope provided.**

By Order of the Board of Directors,

Robert J. Regan
Vice President, General Counsel and Secretary

PROXY STATEMENT FOR THE
2012 ANNUAL MEETING OF STOCKHOLDERS

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Important Notice Regarding the Availability of Proxy Materials
for the Annual Meeting of Stockholders to be Held on Wednesday, October 10, 2012:

Copies of this Notice and Proxy Statement
and the Company's 2012 Annual Report to Stockholders
(including the Annual Report on Form 10-K for the fiscal year ended May 31, 2012)
are available free of charge at *www.proxyvote.com*.

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2012 PROXY STATEMENT SUMMARY

This summary highlights certain information addressed in more detail elsewhere in this proxy statement. You should read carefully the entire proxy statement before voting your shares.

Annual Meeting:	Wednesday, October 10, 2012 at 9:00 a.m., Chicago time, at AAR CORP.'s corporate headquarters located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191
Record Date:	Monday, August 20, 2012
Voting:	You may vote your shares at the annual meeting if you were a stockholder as of the close of business on the record date. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on at the annual meeting.

Proposals to be Voted On:	**Proposal**	**Board Recommendation**
Proposal 1:	Election of three Class I directors (pages 5-9)	**FOR ALL NOMINEES**

Name	**Age**	**Brief Biography**
Anthony K. Anderson	56	Independent Business Consultant. Vice Chairperson and Managing Partner of Midwest Area at Ernst & Young LLP from July 2006 to April 2012. New director nominee this year.
Michael R. Boyce	64	Chairman and Chief Executive Officer of PQ Corporation (a specialty chemicals and catalyst company). Since 1998, Chairman and Chief Executive Officer of The Peak Group (an operating and acquisition company); Director of AAR CORP. since 2005.
David P. Storch	59	Chairman of the Board and Chief Executive Officer of AAR CORP; Director of AAR CORP. since 1989.

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	Proposal	Board Recommendation
Proposal 2:	Vote on an advisory resolution to approve the executive compensation paid to the Company's five named executive officers (page 10)	**FOR**
Proposal 3:	Ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2013 (page 11)	**FOR**

Executive Compensation:

Fiscal 2012 and Fiscal 2013 Highlights

Our stockholders approved the Company's executive compensation program for Fiscal 2011 (beginning June 1, 2010 and ending May 31, 2011) by a vote of over 93% at our 2011 annual meeting. The Compensation Committee maintained the same pay-for-performance structure for the Company's executive compensation program in Fiscal 2012 (beginning June 1, 2011 and ending May 31, 2012) and Fiscal 2013 (beginning June 1, 2012 and ending May 31, 2013) that was in place in Fiscal 2011: base salary, an annual cash incentive award opportunity, and long-term stock incentive compensation, consisting of performance-based restricted stock, time-based restricted stock and stock options.

The Compensation Committee made other key executive compensation decisions in Fiscal 2012, including:

The Compensation Committee approved a 2% increase in the *base salaries* of the named executive officers.

At management's recommendation, the Compensation Committee reduced by approximately 30% the *annual cash incentives* that would have been payable under the corporate Fiscal 2012 short-term incentive plan to the Company's Chief Executive Officer, David P. Storch and to the three other named executive officers who participated in that plan. Management's recommendation was principally due to its sensitivity to the Company's share price performance during Fiscal 2012. As a result, Mr. Storch received an annual cash incentive award of $850,000, as compared to the award amount that would have been payable under the terms of the Fiscal 2012 short-term incentive plan ($1,197,906) and his prior year award ($1,400,900).

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The Compensation Committee approved *variable performance-based compensation* representing approximately 42% of the total compensation (as reported in the Summary Compensation Table on page 46) of each of Mr. Storch and three other named executive officers and 17% of the fifth named executive officer. Variable performance-based compensation includes annual cash incentive, performance-based restricted stock and stock options, but does not include base salary and time-based restricted stock.

The Compensation Committee approved *long-term stock incentive compensation* representing at least 55% of the total compensation of each of Mr. Storch and three other named executive officers and 38% of the total compensation of the fifth named executive officer. Long-term stock incentive compensation includes performance-based restricted stock, time-based restricted stock and stock options. The value of this compensation is based on its grant date fair value and thus does not reflect its current value or the actual value that will be recognized by the named executive officers. This long-term stock incentive compensation, designed to align the executives' interests with those of the Company's stockholders, is also now subject to longer vesting requirements.

For Fiscal 2013, Compensation Committee acted on management's recommendations and made the following decisions with respect to executive compensation:

Froze the *base salaries* of the named executive officers at their Fiscal 2012 levels, subject to review at mid-year; and

Adopted earnings per share and free cash flow as new performance measures for *annual cash incentives*, consistent with the Company's emphasis on total stockholder return.

Further, in light of the Company's share price performance during Fiscal 2012, the Compensation Committee, at management's recommendation, reduced the *long-term stock incentive compensation* opportunity of the Chief Executive Officer and the other named executive officers by more than one-half of their Fiscal 2012 levels.

The Compensation Committee also implemented a new incentive compensation recoupment policy to provide for the recoupment or "clawback" of annual cash incentive compensation and long-term stock incentive compensation under certain circumstances involving a restatement of the Company's financial statements in accordance with the Dodd-Frank Act.

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The following table reflects the impact of the Compensation Committee's decisions with respect to base salary, annual cash incentive and long-term incentive compensation on Mr. Storch's actual compensation in Fiscal 2011 and Fiscal 2012 and his target compensation in Fiscal 2013:

Chief Executive Officer Compensation

Compensation Element	Fiscal 2011 (Actual) ($)	Fiscal 2012 (Actual) ($)	Fiscal 2013 (Target) ($)
Base Salary	850,000	867,000	867,000
Annual Cash Incentive	1,400,900	850,000	1,083,000
Long-Term Incentive Compensation	2,364,013	3,243,205	1,548,000

Key Compensation Policies and Practices

The following policies and practices are key elements of the Company's executive compensation program:

Annual stockholder approval of executive compensation

No guaranteed bonuses

Significant vesting periods for stock options and stock awards

No repricing of underwater stock options

No dividends on unearned performance-based restricted stock

Stock ownership and retention guidelines for directors and officers

Policy prohibiting short sales and hedging transactions

No tax gross-ups (except in grandfathered contracts for Mr. Storch and Mr. Romenesko)

Clawback of incentive compensation in the event of a financial restatement

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Corporate Governance: The Company believes that good corporate governance is an essential part of its corporate culture. The Company's Board of Directors oversees the Chief Executive Officer and the management team in the development and implementation of corporate governance practices designed to enhance the competitive standing, financial success, and long-term stockholder value of the Company.

The following table provides a snapshot of the Company's key corporate governance practices:

Corporate Governance Information	**As of August 31, 2012**
Size of Board	11
Number of Independent Directors	9
Average Age of Directors	64
Average Tenure of Directors	9 years
Director Retirement Age	72
Board Diversity	Yes
Acting Lead Independent Director	Yes
Stock Ownership and Retention Guidelines	Yes
Annual Stock Grant to Non-Employee Directors	Yes
Independent Directors Executive Sessions	Yes
Independent Compensation Consultant	Yes
Annual Board and Committee Self-Evaluations	Yes
Code of Business Ethics and Conduct	Yes
Ethics Hotline Policy	Yes
Related Person Transaction Policy	Yes
Disclosure Committee for Financial Reporting	Yes
Annual Advisory Approval of Executive Compensation	Yes

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One AAR Place
1100 North Wood Dale Road
Wood Dale, Illinois 60191

We will hold our 2012 annual meeting of stockholders on Wednesday, October 10, 2012, at 9:00 a.m., Chicago time, at AAR CORP.'s corporate headquarters located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191. We cordially invite you to attend the annual meeting and ask that you vote on the proposals described in this proxy statement.

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING

Why am I receiving the proxy materials?

Our Board of Directors is providing these proxy materials to you, beginning on or about August 31, 2012, in connection with its solicitation of proxies for use at the Company's 2012 annual meeting of stockholders.

What information is contained in the proxy materials?

The proxy materials contain information about the proposals to be voted on at the annual meeting, the compensation of our directors and most highly paid executive officers, corporate governance and other information about the Company.

How do I access the proxy materials electronically?

Again this year we are pleased to be distributing our proxy materials via the Internet under the "notice and access" approach permitted by the rules of the Securities and Exchange Commission ("SEC"). This approach reduces the cost and environmental impact of printing and distributing the proxy materials for our annual meeting.

We mailed a "Notice of Internet Availability of Proxy Materials" to all of our stockholders on or about August 31, 2012 so that you can choose to receive your proxy materials and vote your shares over the Internet. The Notice provides you with instructions on how to:

- Access and review our proxy materials over the Internet;
- Submit your vote over the Internet; and
- Request and receive printed proxy materials.

This proxy statement and our annual report to stockholders for the fiscal year ended May 31, 2012 (referred to in this proxy statement as "Fiscal 2012") may be viewed online at ***www.proxyvote.com.***

What proposals are stockholders voting on at the annual meeting?

Stockholders will vote on three proposals at the annual meeting:

Proposal 1 The election of Anthony K. Anderson, Michael R. Boyce, and David P. Storch as Class I directors to serve until the 2015 annual meeting of stockholders;

Proposal 2 An advisory resolution to approve executive compensation; and

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Proposal 3 The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2013 (referred to in this proxy statement as "Fiscal 2013").

Who is entitled to vote?

You are entitled to vote your shares if you were an AAR CORP. stockholder at the close of business on August 20, 2012. This date is referred to in this proxy statement as the "record date."

Stockholder of Record. If you were a "stockholder of record" at the close of business on the record date, you may vote your shares at the annual meeting. You are a "stockholder of record" if your shares are registered in your name with the Company's transfer agent.

Beneficial Owner. If you were a "beneficial owner" of shares at the close of business on the record date, you must give voting instructions to your broker, bank or other intermediary who is the "nominee" holder of your shares. You are a "beneficial owner" of shares if your shares are held in a stock brokerage account or by a bank, or other nominee. The Company has directed brokers, banks and other nominees to obtain voting instructions from their beneficial owners. Proxies submitted by nominees on behalf of beneficial owners will count toward a quorum and will be voted as instructed by the beneficial owners. You will receive additional instructions from your broker, bank or other nominee explaining how you may vote your shares held in street name.

A list of stockholders of record entitled to vote will be available at the Company's corporate headquarters for 10 days prior to the meeting and at the meeting location during the meeting.

On the record date, 39,940,227 shares of common stock of the Company were outstanding. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on at the annual meeting.

How do stockholders vote by proxy or in person?

Stockholders of record at the close of business on the record date may vote on the matters that are before the annual meeting by proxy by completing, signing, dating and returning the enclosed proxy card, by voting by telephone or over the Internet, or by attending the annual meeting and voting in person.

How do stockholders vote by telephone or over the Internet?

Specific instructions for using the telephone and Internet voting methods are set forth on the proxy card. These instructions are designed to authenticate your identity, allow you to give your voting instructions and confirm that those instructions have been properly recorded. You may vote by telephone or over the Internet 24 hours a day, seven days a week, until 10:59 p.m. (Chicago time) on the day prior to the annual meeting. If you vote by telephone or over the Internet, please do not return your proxy card.

How do stockholders revoke a proxy?

You may revoke your proxy (e.g., to change your vote) at any time before it is exercised by:

- Sending a written notice of revocation to the Secretary of the Company at the Company's address listed on the first page of this proxy statement;

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- Submitting another proxy by telephone or over the Internet;
- Delivering a later dated, signed proxy; or
- Voting in person at the annual meeting.

How will the proxy holders vote the shares?

The proxy holders will vote shares in accordance with instructions on the proxy card. If no instructions are given, the proxy holders will vote the shares as follows:

- **FOR** the election of three Class I director nominees;
- **FOR** the advisory resolution on executive compensation; and
- **FOR** the ratification of KPMG LLP as the Company's independent registered public accounting firm for Fiscal 2013.

If any other matter properly comes before the annual meeting, the proxy holders will use their judgment to vote in a manner consistent with the best interest of stockholders. If any director nominee becomes unavailable for election for any reason prior to the annual meeting vote, the Board may reduce the number of directors to be elected or substitute another person as nominee, in which case the proxy holders will vote for the substitute nominee.

What are the quorum and vote requirements?

A quorum of stockholders is necessary to hold a valid meeting. A quorum will exist if a majority of the outstanding shares of common stock entitled to vote at the meeting is present in person or by proxy at the annual meeting. Abstentions and broker non-votes, if any, will be counted as present for purposes of determining whether there is a quorum. A "broker non-vote" will occur when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that proposal and has not received instructions from the beneficial owner.

Please note that brokers will have discretionary authority to vote your shares on the ratification of KPMG; however, brokers may not vote your shares on the election of directors or the advisory resolution on executive compensation without your specific instructions. Please return your proxy card or vote by telephone or over the Internet so that your vote can be counted.

Inspectors of election appointed for the annual meeting will tabulate all votes cast in person or by proxy at the annual meeting. In the event a quorum is not present at the annual meeting, we expect that the annual meeting will be adjourned or postponed to solicit additional proxies.

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The following table indicates the vote required for approval of each matter to be presented to the stockholders at the annual meeting and the effect of "withhold" votes, abstentions, and broker non-votes.

Proposal	Required Vote	Effect of "Withhold" Votes, Abstentions and Broker Non-Votes
Proposal 1 Election of Class I Directors	Affirmative vote of a plurality of the shares of common stock present and entitled to vote (the three nominees who receive the greatest number of votes will be elected directors of the Company).	"Withhold" votes and broker non-votes will have no effect on the voting for the election of directors.
Proposal 2 Advisory Resolution on Executive Compensation	Affirmative vote of a majority of the shares of common stock present and entitled to vote.	Abstentions will have the effect of a vote "against" and broker non-votes will have no effect on the voting for this matter.
Proposal 3 Ratification of the Appointment of KPMG LLP	Affirmative vote of a majority of the shares of common stock present and entitled to vote.	Abstentions will have the effect of a vote "against" and broker non-votes will have no effect on the voting for this matter.

Who is the Company's proxy solicitor?

The Company has engaged D. F. King & Co., Inc., 48 Wall Street, New York, New York 10005, to assist the Company in soliciting proxies at a total estimated cost of $11,500, plus reasonable out-of-pocket expenses. The cost of soliciting proxies will be paid by the Company. D. F. King & Co., Inc. may solicit proxies by mail, telephone, facsimile, e-mail, or in person. Certain officers, directors and employees of the Company may also solicit proxies for no additional compensation.

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PROPOSAL 1 ELECTION OF DIRECTORS

The Company's Restated Certificate of Incorporation and By-Laws provide that the Board of Directors shall consist of between three and 15 directors, with the exact number of directors to be set from time to time by the Board. The number of directors is currently set at 11. The members of the Board are divided into three classes, each having a three-year term that expires in successive years: Class I (three directors), Class II (four directors), and Class III (four directors). James Brocksmith, Jr., a director of the Company since 2001, is retiring from the Board on October 10, 2012 and will not stand for reelection as a director at the annual meeting.

The Board of Directors has nominated three individuals to be elected as Class I directors at the annual meeting, each to serve a three-year term expiring at the 2015 annual meeting or until the individual is succeeded by another qualified director who has been duly elected. The nominees for director in Class I at the annual meeting are Anthony K. Anderson, Michael R. Boyce, and David P. Storch. Mr. Anderson is proposed to fill the director vacancy created by the upcoming retirement of Mr. Brocksmith.

Each nominee other than Mr. Anderson is currently serving as a director of the Company. Each nominee other than Mr. Storch has been determined by the Board to be "independent" within the meaning of the rules of the New York Stock Exchange ("NYSE") and the Securities and Exchange Commission ("SEC").

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ELECTION OF ALL DIRECTOR NOMINEES.

Information about Our Director Nominees and Our Continuing Directors

Information about the director nominees and continuing directors whose terms expire in future years is set forth below:

	Director Since
DIRECTOR NOMINEES:	
Class I Directors whose terms expire at the 2012 annual meeting:	
ANTHONY K. ANDERSON, 56: Since April 2012, an independent business consultant. From 2006 to April 2012, Vice Chairperson and Managing Partner of Midwest Area at Ernst & Young LLP (a global accounting firm). Prior thereto, served in various management positions during a 35-year career with Ernst & Young LLP. *Director Qualifications:* The Board of Directors concluded that Mr. Anderson should serve as a director of the Company based on his 35 years working with a global accounting firm, his accounting and financial knowledge, his leadership in developing talent management programs for professional staff, and his professional, civic and charitable service, including as a director of numerous not-for-profit organizations.	

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	Director Since
MICHAEL R. BOYCE, 64: Since 2005, Chairman and Chief Executive Officer of PQ Corporation (a specialty chemicals and catalyst company). Since 1998, Chairman and Chief Executive Officer of The Peak Group (an operating and acquisition company). From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc. (a chemicals company). Current public company directorship: Stepan Company. *Director Qualifications:* The Board of Directors concluded that Mr. Boyce should serve as a director of the Company based on his experience as Chairman and Chief Executive Officer of two leading global organizations, his insight into global manufacturing, supply and distribution practices and his international business development skills.	2005
DAVID P. STORCH, 59: Since 2007, Chairman of the Board and Chief Executive Officer of AAR CORP. From 2005 to 2007, Chairman of the Board, President and Chief Executive Officer of AAR CORP. From 1996 to 2005, President and Chief Executive Officer of AAR CORP. From 1989 to 1996, President and Chief Operating Officer of AAR CORP. From 1988 to 1989, Vice President of AAR CORP. Current public company directorships: KapStone Paper and Packaging Corp. and Kemper Corporation. *Director Qualifications:* The Board of Directors concluded that Mr. Storch should serve as a director of the Company based on his current position as Chairman and Chief Executive Officer of the Company, his leadership and management skills, his understanding of the Company's businesses gained during his 34-year career with the Company, his knowledge of the commercial aviation and government and defense services markets, and his leadership role in transforming the Company into a leading international provider of products and services to the commercial aviation and government and defense services markets.	1989

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	Director Since
CONTINUING DIRECTORS:	
Class II Directors whose terms expire at the 2013 annual meeting:	
NORMAN R. BOBINS, 69: Since 2008, Non-Executive Chairman of The PrivateBank and Trust Company - Chicago (a financial services company). From May 2007 until October 2007, Chairman of the Board of LaSalle Bank Corporation. From 2002 to 2007, President and Chief Executive Officer of LaSalle Bank Corporation. From 2006 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2002 to 2007, Senior Executive Vice President at ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank Corporation.	2007
Current public company directorships: AGL Resources Inc., The PrivateBancorp, Inc. and SIMS Metal Management Limited	
Director Qualifications: The Board of Directors concluded that Mr. Bobins should serve as a director of the Company based on his 43 years of banking experience, his financial and accounting knowledge, his service as a director of other public companies, and his civic involvement as a director of various not-for-profit organizations.	
JAMES E. GOODWIN, 68: Since 2009, Chairman of Federal Signal Corporation (a safety and security products manufacturer). From 2007 to 2008, Interim President and Chief Executive Officer of Federal Signal Corporation. From 2001 to 2007, an independent business consultant. From 1999 to 2001, Chairman and Chief Executive Officer of UAL, Inc. and United Airlines, Inc., from which he retired after 34 years. From 1998 to 1999, President and Chief Operating Officer of United Airlines, Inc. From 1992 to 1998, Senior Vice President of United Airlines, Inc.	2002
Current public company directorships: Federal Signal Corporation and John Bean Technologies Corporation.	
Other public company directorship held in the past five years: First Chicago Bancorp.	
Director Qualifications: The Board of Directors concluded that Mr. Goodwin should serve as a director of the Company based on his airline industry experience and expertise, including his leadership positions at UAL, Inc. and United Airlines, Inc., his management experience and his financial expertise, as well as his global consulting experience and his service as a director of other public companies.	

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	Director Since
TIMOTHY J. ROMENESKO, 55: Since 2007, President and Chief Operating Officer of AAR CORP. From 1994 to 2007, Vice President, Chief Financial Officer and Treasurer of AAR CORP. From 1991 to 1994, Corporate Controller of AAR CORP. *Director Qualifications:* The Board of Directors concluded that Mr. Romenesko should serve as a director of the Company based on his current leadership position as President and Chief Operating Officer of the Company, his experience in various accounting and financial capacities during his 30-year career with the Company and his knowledge of the Company's commercial aviation and government and defense services markets.	2007
MARC J. WALFISH, 60: Founding Partner of Merit Capital Partners (a mezzanine investor company) since 2003. From 1991 to 2003, partner at William Blair Mezzanine Capital Partners. From 1978 to 1991, various positions at Prudential Capital Corporation, most recently as Senior Vice President. *Director Qualifications:* The Board of Directors concluded that Mr. Walfish should serve as a director of the Company based on his experience in the finance industry, including as a founding partner of Merit Capital Partners, a mezzanine investor company, his knowledge of the capital markets and his expertise in corporate finance, strategic planning and risk management.	2003
Class III Directors whose terms expire at the 2014 annual meeting:	
RONALD R. FOGLEMAN, 70: Since 1997, President and Chief Operating Officer of B Bar J Cattle & Consulting Company (a consulting company). From 1994 to 1997, General, Chief of Staff of the United States Air Force, Washington, D.C. Current public company directorship: Alliant Techsystems, Inc. (ATK) Other public company directorship held in the past five years: World Air Holdings, Inc. *Director Qualifications:* The Board of Directors concluded that General Fogleman should serve as a director of the Company based on his leadership skills and record of accomplishment during a 34-year career with the United States Air Force, his business experience and business relationships gained through his senior management positions at two consulting organizations, his understanding of the government defense and services markets and his service as a director of other public companies.	2001
PATRICK J. KELLY, 57: Since 1986, Managing Director of KMK & Associates, LLC (a private equity firm with interests in companies operating in the food, distribution, technology, financial services, real estate and energy industries). *Director Qualifications:* The Board of Directors concluded that Mr. Kelly should serve as a director of the Company based on his leadership and operational experience at various businesses, his background as a long-term chief executive officer and his business expertise gained through his experience at a private equity firm with a diversified portfolio of operating companies.	2006

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	Director Since
PETER PACE, 66: General, U.S. Marine Corps (Retired). From 2005 to 2007, Chairman of the Joint Chiefs of Staff. Current public company directorship: Pike Electric Corporation, Inc. *Director Qualifications:* The Board of Directors concluded that General Pace should serve as a director of the Company based on his leadership and management skills and experience from over 40 years of service with the United States Marine Corps, culminating in his appointment as the sixteenth Chairman of the Joint Chiefs of Staff (the most senior position in the United States Armed Forces), where he served from 2005 to 2007 as the principal military adviser to the President, the Secretary of Defense, the National Security Council and the Homeland Security Council.	2012
RONALD B. WOODARD, 69: Since 2003, Chairman of MagnaDrive, Inc. (an industrial torque transfer equipment company, which he co-founded following his retirement from The Boeing Company after 32 years). From 1995 to 1998, President of the Boeing Commercial Airplane Group. From 1991 to 1994, Vice President and General Manager of the Renton Division of Boeing Commercial Aircraft. From 1987 to 1991, President of deHavilland Aircraft. Prior to that, Vice President and General Manager of the Materiel Division of Boeing Commercial Aircraft, and various other management positions. Current public company directorship: Coinstar, Inc. Other public company directorship held in the past five years: Continental Airlines, Inc. *Director Qualifications:* The Board of Directors concluded that Mr. Woodard should serve as a director of the Company based on his original equipment manufacturing experience while at The Boeing Company, his knowledge of the commercial aviation industry and his experience as a director of other public companies, including Continental Airlines, Inc.	2004

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PROPOSAL 2   ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION

We are asking our stockholders to approve the following advisory resolution on the compensation awarded to our five named executive officers for Fiscal 2012, as disclosed in this proxy statement:

> **"RESOLVED,** that the stockholders of the Company approve, on an advisory basis, the compensation of the named executive officers for Fiscal 2012, as reported in this proxy statement pursuant to Item 402 of Regulation S-K under the Securities Exchange Act of 1934, including the Compensation Discussion and Analysis, compensation tables and narrative discussion."

Our Board of Directors recommends a vote **"FOR"** this advisory resolution for the following principal reasons:

- Our compensation policies and practices have proven effective over time in achieving the Company's compensation goals of attracting, retaining, motivating and rewarding executives of the Company and aligning their interests with the interests of the Company's stockholders; and

- The Company has in place a performance-based compensation system that links executive pay to the performance of the Company. In Fiscal 2012, variable performance-based compensation   meaning annual cash incentives, performance-based restricted stock and stock options   represented a significant percentage of each named executive officer's total compensation.

Our Board of Directors determined that the advisory resolution, commonly known as a "say on pay" proposal, should be voted on annually by our stockholders given the importance of the Company's executive compensation program. While the advisory resolution is not binding on the Board of Directors, the Board will review and consider the results of the "say on pay" vote, the opinions of our stockholders, and other relevant factors in making future decisions regarding the Company's executive compensation program.

We encourage our stockholders to read the "Compensation Discussion and Analysis" and the "Summary Compensation Table" and other related compensation tables and narrative located elsewhere of this proxy statement. These sections describe our executive compensation policies and practices and provide detailed information about the compensation of our named executive officers.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE <u>FOR</u> THE APPROVAL OF THE ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION.

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PROPOSAL 3 RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Company's independent registered public accounting firm reports to, and is engaged at the direction of, the Audit Committee of the Company's Board of Directors.

The Audit Committee appointed KPMG LLP ("KPMG") as the Company's independent registered public accounting firm for Fiscal 2013, after consideration and determination of KPMG's independence in light of all services rendered to the Company and its performance as the Company's independent registered public accounting firm. The Board of Directors asks that stockholders ratify the appointment of KPMG as the Company's independent registered public accounting firm for Fiscal 2013. Representatives of KPMG are expected to be present at the annual meeting, with the opportunity to make a statement if they so desire and to respond to appropriate questions of stockholders.

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the aggregate fees billed by KPMG to the Company for Fiscal 2012 and Fiscal 2011 for audit, audit-related, tax, and other services provided by the Company's independent registered public accounting firm.

Description of Fees	Fiscal 2012 ($)	Fiscal 2011 ($)
Audit Fees	1,745,635	1,275,000
Audit-Related Fees[1]	221,781	63,386
Tax Fees[2]	298,776	335,536
All Other Fees	0	0

1 Audit-related fees in Fiscal 2012 were for a comfort letter, due diligence, technical research on convertible debt accounting and statutory audits of foreign subsidiaries. Fiscal 2011 audit-related fees were for a comfort letter and statutory audits of foreign subsidiaries.

2 Tax fees include domestic and foreign income tax return reviews.

Audit Committee pre-approval is required for any audit, audit-related, tax or other services to be provided by the independent registered public accounting firm.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2013.

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Audit Committee Report for Fiscal 2012

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. The Company's management is primarily responsible for the Company's financial statements and the quality and integrity of the reporting process and systems of internal control. The Company's independent registered public accounting firm is responsible for auditing the Company's financial statements and the effectiveness of internal controls over financial reporting and for expressing opinions thereon.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the Company's audited financial statements for the fiscal year ended May 31, 2012 with the Company's management and representatives of the Company's independent registered public accounting firm, including a discussion of the reasonableness of significant judgments and accounting estimates, and clarity of disclosures in the financial statements. The Audit Committee also reviewed with management and the independent registered public accounting firm the preparation of the financial statements and related disclosures contained in the Company's earnings announcements and quarterly reports. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with United States generally accepted accounting principles ("GAAP"), and the independent registered public accounting firm has expressed an opinion based on their audit that the financial statements are in conformance with GAAP in all material respects. The Audit Committee is not responsible for planning or conducting audits, or the determination that the Company's financial statements are complete and accurate and in accordance with GAAP. That is the responsibility of management and the independent registered public accounting firm.

The Audit Committee reviewed and discussed with the independent registered public accounting firm and management the overall scope and plans for the audit, the quality, adequacy and assessment of the effectiveness of internal controls over financial reporting, and the Internal Audit Department's management, organization, responsibilities, budget and staffing. The Audit Committee also met with the independent registered public accounting firm representatives without management present and discussed the results of their audits, their evaluation of the Company's internal controls over financial reporting, disclosure controls and the overall quality (not just acceptability) of the Company's accounting policies and financial reporting.

The Audit Committee also discussed with the representatives of the independent registered public accounting firm (i) the matters required to be discussed by the Statement on Auditing Standards, No. 114, "*The Auditor's Communication With Those Charged With Governance*," and (ii) the independent registered public accounting firm's independence from the Company and its management, including the matters in the written disclosures and letter furnished to the Audit Committee by the independent registered public accounting firm and required by applicable requirements of the Public Company Accounting Oversight Board. The Audit Committee determined that the non-audit services provided to the Company by the independent registered public accounting firm are compatible with maintaining the independent registered public accounting firm's independence.

In reliance on its review of the audited financial statements and the discussions referred to above and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in its charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended May 31, 2012 for filing with the SEC.

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The Audit Committee also reviewed and assessed the adequacy of the Audit Committee charter and conducted an Audit Committee self-assessment in which it concluded that the Committee operates effectively and successfully carried out all of its charter responsibilities.

Respectfully submitted,

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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CORPORATE GOVERNANCE

General

The Company is committed to good corporate governance. We regularly review our policies and procedures, giving due consideration to current developments and "best practices." We believe that we comply with all applicable SEC and NYSE rules and regulations and have adopted additional corporate governance practices that we believe are in the best interests of the Company and its stockholders.

Copies of the following corporate governance documents are available on the Company's website at ***www.aarcorp.com*** under "Investor Relations/Corporate Governance":

- Corporate Governance Guidelines
- Categorical Standards for Determining Director Independence
- Code of Business Ethics and Conduct
- Audit Committee Charter
- Compensation Committee Charter
- Nominating and Governance Committee Charter
- Executive Committee Charter

These corporate governance documents are also available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Company maintains an Ethics Hotline through an independent third-party provider to receive confidential complaints, information, suggestions or recommendations concerning the Company, its officers, directors, employees, policies, procedures, employment and business practices, accounting or audit matters, financial reporting or compliance with other Company policies or applicable regulatory or legal requirements. The Ethics Hotline is toll-free and permits callers to identify themselves or remain anonymous at their election.

Director Nominations and Qualifications

The Board of Directors, acting through its Nominating and Governance Committee, is responsible for identifying, evaluating and recommending candidates for director. The Nominating and Governance Committee obtains recommendations from management, other directors, business and community leaders, and stockholders, and may retain the services of a consultant to assist in identifying candidates. The Nominating and Governance Committee considers all director candidates in the same manner, including director candidates recommended by stockholders, regardless of the source of the recommendation. In its evaluation of director candidates, the Nominating and Governance Committee considers the factors specified in the Company's Corporate Governance Guidelines, including:

- Professional background and relevant business and industry experience;

Current employment, leadership experience and other board service;

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- Demonstrated business acumen or special technical skills or expertise (e.g., audit, financial, legal or aviation/aerospace), particularly in areas where the Board currently lacks specific skills;

- A commitment to enhancing stockholder value and serving the interests of all stockholders;

- Independence (including within the meaning of the applicable NYSE rules) and freedom from any conflicts of interest that would interfere with a director's ability to discharge his duties;

- Willingness and ability to make the commitment of time and attention necessary for effective Board service; and

- A high level of integrity and professional and personal ethics and values consistent with those of the Company.

The Nominating and Governance Committee considers the racial, ethnic and gender diversity of the Board and director candidates, as well as the diversity of their knowledge, skills, experience, background and perspective, to assure that the Company maintains the benefit of a diverse, balanced and effective Board. In Fiscal 2011, the Board engaged an independent executive search firm to consider Board diversity and to provide information on the identification and recruitment of women and minority Board candidates. The Board expressed its view that Board diversity is a key priority for the Company, to be addressed no later than the next director vacancy. With Mr. Brocksmith's upcoming retirement at the 2012 annual meeting of stockholders, the Board acted on this priority to embrace racial diversity by recommending that the stockholders fill this director vacancy by electing Anthony K. Anderson to the Board.

A full list of the qualifications of director candidates considered by the Committee is set forth in the Corporate Governance Guidelines on the Company's website at ***www.aarcorp.com*** under "Investor Relations/Corporate Governance" and is available in print to any stockholder upon written request to the Secretary of the Company at the address listed on the first page of this proxy statement. The Nominating and Governance Committee regularly reviews these qualifications and the performance of individual directors and the Board as a whole.

Following its evaluation of director candidates, the Nominating and Governance Committee recommends its director nominees to the Board of Directors. Based on its review and consideration of the Committee's recommendation, the Board makes the final determination of director nominees to be elected by the Company's stockholders.

Stockholders may submit a proposed nomination to the Nominating and Governance Committee for consideration with respect to the 2013 annual meeting of stockholders by writing to the Secretary, AAR CORP., One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191. To be considered, proposed nominations must be received by the Secretary of the Company no later than April 13, 2013, must state the reasons for the proposed nomination and contain the information required under the Company's By-Laws, including the full name and address of each proposed nominee, as well as a brief biographical history setting forth past and present directorships, employment and occupations, information as to stock ownership, other arrangements regarding the common stock, and any other qualifications. Proposed nominations must also include a statement indicating that the proposed nominees have consented to being named in the proxy statement and to serve if elected.

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Director Independence

A majority of the members of the Board of Directors must be independent directors under the Company's Corporate Governance Guidelines and applicable SEC and NYSE rules. The Nominating and Governance Committee and the Board of Directors review each director annually and make a determination concerning independence after consideration of all known facts and circumstances. The Board has established categorical standards to assist it in determining director independence. The Company's "Categorical Standards for Determining Director Independence" include all of the elements of the applicable SEC and NYSE rules with respect to director independence, as well as those of the Company, and are attached as Appendix A to this proxy statement. Based on these categorical standards, its review of all relevant facts and information available, and the recommendations of the Nominating and Governance Committee, the Board, at its meeting in July 2012, affirmatively determined that no director has a material relationship with the Company that would impair the director's ability to exercise independent judgment and, accordingly, that each director is an independent director, except for David P. Storch, due to his status as Chairman of the Board and Chief Executive Officer of the Company, and Timothy J. Romenesko, due to his status as President and Chief Operating Officer of the Company. Under the NYSE rules, a director employed by the Company is not an independent director by definition.

Board Leadership Structure

The Board of Directors determines the leadership structure for the Board and the Company in a manner that it believes best serves the interests of the Company's stockholders. The Board has no fixed policy with respect to combining or separating the offices of Chairman of the Board and Chief Executive Officer. Currently, the Company's Chief Executive Officer, David P. Storch, is also Chairman of the Board. The Board believes a combined Chairman and Chief Executive Officer is the most effective and appropriate leadership structure for the Board and the Company at this time for the following principal reasons:

Mr. Storch is the second Chairman and Chief Executive Officer in the Company's 61-year history. This stability at the most senior executive position within the Company has had a strong and positive impact on the Company's culture and contributed to the Company's ability to respond to business cycles in the commercial aviation and government and defense services markets.

Mr. Storch has served the Company in senior management positions for over 22 years (beginning in 1989 as President and Chief Operating Officer of the Company, his assumption of the Chief Executive Officer title in 1996 and his assumption of the Chairman of the Board title in 2005). Prior to becoming President, Mr. Storch started and grew our engine business into the Company's then largest subsidiary.

Mr. Storch's combination of expertise and experience provides the Company with a unique skill-set, including: his knowledge of the commercial aviation and government and defense services markets; his shaping of the Company's culture; his understanding of the Company's businesses, employees and customers; and his leadership role in the Company's transformation from a supplier of aircraft parts and aftermarket services for commercial airlines into a leading international provider of products and services to the commercial aviation and government and defense services markets. Under Mr. Storch's leadership, the Company has received numerous industry awards, including recognition in

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2012 as "Parts Supplier of the Year" and "One of the World's Top 5 MROs" by *Airline Economics* magazine based on a vote of more than 11,000 senior-level aviation and investment executives, and "Best Airframe MRO Provider in the Americas" by *Aircraft Engineering, Technology and Maintenance* magazine in a vote of industry professionals.

The Board of Directors, particularly the non-management directors, provides substantial independent oversight of the conduct of the Company's business. The Company does not have a lead director in title, but the Chairman of the Nominating and Governance Committee (currently, Ronald R. Fogleman) acts in that capacity and chairs all executive sessions of the non-management directors. The non-management directors meet regularly in executive sessions, including at every regularly scheduled Board meeting, after which the Chairman of the Nominating and Governance Committee briefs Mr. Storch, as appropriate.

The Board of Directors conducts an annual evaluation of the Chairman and Chief Executive Officer that focuses on Mr. Storch's performance in carrying out the responsibilities of the two positions. In Fiscal 2012, the Board concluded at his evaluation that Mr. Storch's performance as Chairman and Chief Executive Officer of the Company was exemplary and that the combined position continues to serve the best interests of the Company's stockholders.

Risk Management Oversight

The Board of Directors, directly and through its committees, is responsible for overseeing management's process for assessing and managing the Company's exposure to risks. In that role, the Board regularly reviews and responds to management's business strategies and initiatives, the Company's quarterly and annual financial results, and information relating to the Company's competitive position, customer base, and capital and liquidity position. The Board holds an annual strategy session with senior management devoted entirely to a review and consideration of the Company's businesses, markets, customers, competitors, and strategic initiatives and direction. This meeting includes an assessment of the key challenges and risks of the Company's businesses, and the opportunities for addressing and responding to these challenges and risks.

The Audit Committee, on behalf of the Board, oversees the enterprise risk management committee, which is composed of Company employees and is responsible for identifying the principal risks to the Company, developing and implementing risk mitigation strategies and reporting to the Audit Committee. The enterprise risk management committee meets regularly with the Audit Committee to review and discuss the Company's principal risks and outline its risk mitigation approach for addressing these risks. The Audit Committee reports to the Board on risks relating to accounting, financial reporting and legal compliance, risks identified by the Company's internal and external auditors, and matters raised through the Company's Ethics Hotline. The Compensation Committee oversees and reports to the Board on the Company's incentive compensation programs to assure that they are appropriately structured to incentivize officers and key employees while assuring appropriate risk. The Nominating and Governance Committee oversees and reports to the Board on corporate governance risks, including director independence and related party transactions.

The Board and its committees receive information from and have regular access to the individual members of management responsible for managing risk, including the Company's Chief Executive Officer, President, Chief Financial Officer, Group Vice Presidents, Controller,

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General Counsel and Internal Auditor. The directors also meet each quarter with a broader group of the Company's employees at regularly scheduled Board dinners as an informal way of learning more about the Company's businesses and its employees.

Executive Sessions

Independent directors of the Board meet in executive session without management as part of each regular Board meeting and otherwise when circumstances make it advisable or necessary. The Chairman of the Nominating and Governance Committee presides at the executive sessions of independent directors.

Communications with the Board of Directors

Stockholders and other interested parties may communicate with the Board, the Chairman of the Board, independent directors as a group, or any individual director or Committee Chairman by mail addressed to:

AAR CORP.
Attention: Independent Directors (or the name of the individual director)
c/o Corporate Secretary
One AAR Place
1100 North Wood Dale Road
Wood Dale, Illinois 60191

The independent members of the Board of Directors have approved procedures for the processing, review and disposition of all communications sent by stockholders or other interested parties to the Board of Directors.

Corporate Governance Guidelines

The Board of Directors adopted Corporate Governance Guidelines to codify long-standing policies and procedures and to demonstrate its commitment to corporate governance best practices. These Guidelines, under the administration of the Nominating and Governance Committee of the Board of Directors, address director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, management evaluation and succession, and the annual performance evaluation of the Board of Directors. These Guidelines are reviewed and approved annually by the Nominating and Governance Committee and the Board of Directors.

Code of Business Ethics and Conduct

The Company's Code of Business Ethics and Conduct adopted by the Board of Directors applies to all directors, officers, and employees, including the Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Chief Financial Officer, and the Chief Accounting Officer and Controller. The purpose of the Code of Business Ethics and Conduct is to promote the highest ethical standards in the Company's business practices and procedures, including the ethical handling of actual or apparent conflicts of interest; full, fair and timely disclosure; and compliance with applicable laws and governmental rules and regulations. Employees are encouraged to report to the Company any conduct that they believe in good faith to be in violation of the Code of Business Ethics and Conduct. We will post any amendments to the Code of Business Ethics and Conduct and any waivers from the Code granted by the Board to directors or executive officers on the Company's website, as required under SEC rules.

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The Board reviewed and revised the Code of Business Ethics and Conduct in Fiscal 2012 to ensure that it reflects evolving best practices.

Related Person Transaction Policy

The purpose of the Related Person Transaction Policy, as adopted by the Board of Directors, is to provide for the identification, review, and consideration of transactions between the Company or its subsidiaries and any related persons. "Related persons" means: the Company's directors; director nominees; executive officers; greater than five percent beneficial owners of the Company's voting securities; members of their immediate families; and any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner, a principal, or in a similar position, or in which such person has a 10% or greater beneficial ownership interest.

Under the Policy, any related person transaction involving amounts in excess of $120,000, must be reviewed, considered, and approved by the Board of Directors directly or through the Nominating and Governance Committee. Review of a proposed related person transaction takes into consideration the purpose of, and the potential benefits to the Company from, the related person transaction, and the impact of the related person transaction on a director's independence in the event that the related person is a director or an immediate family member of a director. No member of the Board or the Nominating and Governance Committee may participate in any review, consideration, or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person.

The Policy provides that the Company may undertake certain pre-approved related person transactions (e.g., transactions in which the related person's interest derives solely from his or her service as a director of another corporation or entity that is a party to the transaction) without further specific review, consideration and approval.

The Company has a Founder's Agreement dated October 19, 2010 with Ira A. Eichner, the Founder and former Chairman of the Board of the Company. The Founder's Agreement recognizes Mr. Eichner's extraordinary contributions to the Company for over 55 years and the value to the Company of an ongoing relationship with Mr. Eichner. Under the Founder's Agreement, upon request of the Company and subject to his availability, Mr. Eichner serves as an ambassador for the Company and provides consulting services on operational and strategic issues. Mr. Eichner receives a quarterly retainer of $25,000 and is reimbursed for business expenses incurred in service to the Company. Mr. Eichner also participates in the Company's Non-Employee Directors' Retirement Plan until December 1, 2015 (see "Director Compensation Table," footnote 5). Mr. Eichner is Mr. Storch's father-in-law.

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Board Committees

The Board has an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, and an Executive Committee. The following table shows the current members of each committee:

Director	Audit Committee	Compensation Committee	Nominating and Governance Committee	Executive Committee
Norman R. Bobins	X	X		
Michael R. Boyce		X	X	
James G. Brocksmith, Jr.*	X	X		
Ronald R. Fogleman		X	Chair	
James E. Goodwin	Chair		X	X
Patrick J. Kelly	X		X	
Peter Pace		X	X	
Timothy J. Romenesko				
David P. Storch				Chair
Marc J. Walfish	X		X	X
Ronald B. Woodard	X	Chair		

* Mr. Brocksmith will continue to serve on the Audit Committee and the Compensation Committee until his retirement from the Board on October 10, 2012.

Audit Committee

The Audit Committee is comprised entirely of independent directors qualified to serve on the Audit Committee under applicable SEC and NYSE rules and the Company's Categorical Standards for Determining Director Independence. Its members are James E. Goodwin (Chairman), Norman R. Bobins, James G. Brocksmith, Jr., Patrick J. Kelly, Marc J. Walfish, and Ronald B. Woodard. The Board of Directors has determined that each Audit Committee member is an "audit committee financial expert" within the meaning of applicable SEC rules.

The Audit Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Audit Committee and the Board of Directors at their July 2012 meetings. The full text of the Audit Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Audit Committee is primarily concerned with the integrity of the Company's financial statements, compliance with legal and regulatory requirements and the performance of the Company's internal audit function and independent registered public accounting firm. The Audit Committee performs the specific functions described in its charter, including:

- Approves and engages the independent registered public accounting firm that audits the Company's consolidated financial statements;

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- Pre-approves all non-audit and audit-related services furnished by the independent registered public accounting firm;
- Maintains communication between the Board and the independent registered public accounting firm;
- Monitors the qualifications, independence and performance of the independent registered public accounting firm;
- Oversees and reviews the Company's financial reporting processes and practices;
- Oversees and reviews the quality and adequacy of internal controls over financial reporting, disclosure controls and the organization and performance of the Company's internal audit department;
- Reviews the scope and results of audits;
- Oversees the Company's enterprise risk management committee; and
- Meets with the independent registered public accounting firm representatives and internal audit department representatives without members of management present.

The Audit Committee held nine meetings during Fiscal 2012. The Audit Committee Report for Fiscal 2012 appears on page 12.

Compensation Committee

The Compensation Committee is comprised entirely of independent directors as defined under applicable SEC and NYSE rules and the Company's Categorical Standards for Determining Director Independence. Its members are Ronald B. Woodard (Chairman), Norman R. Bobins, Michael R. Boyce, James G. Brocksmith, Jr., Ronald R. Fogleman, and Peter Pace.

The Compensation Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Compensation Committee and the Board of Directors at their July 2012 meetings. The full text of the Compensation Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Compensation Committee is primarily concerned with establishing, reviewing and approving Chief Executive Officer compensation, reviewing and approving other senior executive compensation and overseeing the AAR CORP. Stock Benefit Plan and any other compensation and employee benefit plans. The Compensation Committee performs the specific functions described in its charter, including:

- Reviews and approves compensation policies and practices for all elected corporate officers, including named executive officers;
- Sets the compensation of the Chief Executive Officer and, together with the full Board, evaluates the Chief Executive Officer's performance;
- Administers the Company's annual cash incentive and long-term stock incentive programs for officers, the AAR CORP. Stock Benefit Plan, and the AAR CORP. Section 162(m) Incentive Goal Program;

Recommends director compensation and benefits to the Board for approval; and

Oversees administration of certain other employee benefit, director deferred compensation, savings and retirement plans.

The Compensation Committee held five meetings during Fiscal 2012. The Compensation Committee Report on Executive Compensation for Fiscal 2012 appears on page 45.

Nominating and Governance Committee

The Nominating and Governance Committee is comprised entirely of independent directors as defined under applicable SEC and NYSE rules and the Company's Categorical Standards for Determining Director Independence. Its members are Ronald R. Fogleman (Chairman), Michael R. Boyce, James E. Goodwin, Patrick J. Kelly, Peter Pace, and Marc J. Walfish.

The Nominating and Governance Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Nominating and Governance Committee and the Board of Directors at their July 2012 meetings. The full text of the Nominating and Governance Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Nominating and Governance Committee is responsible for both nominating and governance matters as described in its charter. The Nominating and Governance Committee performs the specific functions described in its charter, including:

Oversees the composition, structure and evaluation of the Board and its committees;

Reviews, considers, and acts upon related person transactions;

Develops and recommends Corporate Governance Guidelines for Board approval; and

Monitors and screens directors for independence and recommends to the Board qualified candidates for election as directors and to serve on Board committees.

The Nominating and Governance Committee held two meetings during Fiscal 2012.

Executive Committee

The Executive Committee is comprised of David P. Storch (Chairman), James E. Goodwin, and Marc J. Walfish. Mr. Goodwin and Mr. Walfish are each independent directors as defined by applicable NYSE rules and the Company's Categorical Standards for Determining Director Independence.

The Executive Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Executive Committee and the Board of Directors at their July 2012 meetings. The full text of the Executive Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Executive Committee is authorized to meet between meetings of the Board of Directors and exercise certain powers of the Board with respect to urgent matters or other matters referred to it by the Board for deliberation or action, subject to limitations imposed by the Committee's charter, the Board, applicable law and the Company's By-Laws.

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The Executive Committee held two meetings during Fiscal 2012.

Board Meetings and Attendance

During Fiscal 2012, the Board held five meetings and acted by unanimous written consent on two occasions. All persons who were directors during Fiscal 2012 attended at least 75% of the Board meetings and meetings of Board committees on which they served.

The Company's Corporate Governance Guidelines provide that directors are expected to attend all stockholder meetings. All the members of the Company's Board of Directors attended the Company's 2012 annual meeting of stockholders.

Director Compensation

The Board believes that compensation for any director who is not an officer or employee of the Company or any subsidiary (a "Non-Employee Director") should be a mix of cash and equity compensation. Director compensation and benefits are recommended to the Board of Directors from time to time by the Compensation Committee for Board approval. Directors who are officers or employees of the Company or any subsidiary receive no additional compensation for service on the Board or any of its committees.

The following table identifies the elements of director compensation in effect during Fiscal 2012:

Compensation Element	Fiscal 2012 Non-Employee Director Compensation Program
Annual Retainer	$50,000
Committee Chair Annual Retainer	$10,000
Board and Committee Meeting Fees	$2,500 ($1,250 for telephone meetings)
Annual Stock Grant	5,000 shares of common stock (vesting after one year)

Annual retainer fees are paid quarterly, Committee Chairman retainer fees are paid annually in September, and meeting fees are paid promptly following each meeting attended. The annual stock grant was approved at the Board's April 2012 meeting with an effective date of June 1, 2012. Each Non-Employee Director may elect to defer receipt of the retainers and meeting fees pursuant to the Company's Non-Employee Directors' Deferred Compensation Plan (the "Director Plan"). Under the Director Plan, deferred retainer fees are converted into stock units equivalent to shares of common stock, and deferred meeting fees are credited with interest quarterly based on the 10-Year United States Treasury Bond rate. Distributions of deferred retainer fees under the Director Plan are made in cash or in shares of common stock of equivalent value, at the participant's election, and distribution of deferred meeting fees are made in cash, in each case upon termination of service on the Board or on the happening of certain other events, as specified in the Director Plan.

Each Non-Employee Director, upon being elected a director, receives term life insurance coverage of $200,000 and is eligible (with spouse) to participate in a Company-paid, annual physical program. The Company also reimburses its directors for travel, lodging and related expenses they incur in attending Board and committee meetings.

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Director Compensation Table

The following table sets forth all compensation paid to each Non-Employee Director for Fiscal 2012:

Name[1]	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)[5]	All Other Compensation ($)[6]	Total ($)
Norman R. Bobins	87,500	128,900	0	0	0	720	217,120
Michael R. Boyce	78,750	128,900	0	0	0	720	208,370
James G. Brocksmith, Jr.	96,250	128,900	0	0	34,651	3,970	263,771
Ronald R. Fogleman	83,750	128,900	0	0	0	1,459	214,109
James E. Goodwin	91,250	128,900	0	0	0	720	220,870
Patrick J. Kelly	81,250	128,900	0	0	0	720	210,870
Peter Pace	76,250	128,900	0	0	0	720	205,870
Marc J. Walfish	82,500	128,900	0	0	0	720	212,120
Ronald B. Woodard	91,250	128,900	0	0	0	720	220,870

1

Mr. Storch and Mr. Romenesko are not included in this table as they are employee directors of the Company and receive no additional compensation for their service as directors. Their compensation from the Company is set forth in the Summary Compensation Table in this proxy statement.

2

The following table provides a breakdown of director fees earned or paid in cash for Fiscal 2012:

Name	Annual Retainer ($)	Committee Chair Retainer Fees ($)	Meeting Fees ($)	Total ($)
Norman R. Bobins	50,000	0	37,500	87,500
Michael R. Boyce	50,000	0	28,750	78,750
James G. Brocksmith, Jr.	50,000	6,250	40,000	96,250
Ronald R. Fogleman	50,000	6,250	27,500	83,750
James E. Goodwin	50,000	6,250	35,000	91,250
Patrick J. Kelly	50,000	0	31,250	81,250
Peter Pace	50,000	0	26,250	76,250
Marc J. Walfish	50,000	0	32,500	82,500
Ronald B. Woodard	50,000	2,500	38,750	91,250

3

The amounts in this column reflect the aggregate grant date fair value of the Fiscal 2012 restricted stock awards granted to each Non-Employee Director computed in accordance with FASB ASC Topic 718. As of May 31, 2012, each Non-Employee Director held 4,001 unvested restricted shares, other than General Pace who held 1,334 unvested restricted shares.

4

No stock options were granted to Non-Employee Directors in Fiscal 2012. The aggregate number of shares issuable pursuant to stock options held by each Non-Employee Director as of May 31, 2012 was as follows: Mr. Bobins, 0; Mr. Boyce, 0; Mr. Brocksmith, 7,000; General Fogleman, 7,000; Mr. Goodwin, 7,000; Mr. Kelly, 0; General Pace, 0; Mr. Walfish, 17,000; and Mr. Woodard, 3,500.

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5 Mr. Brocksmith is the only current director eligible to receive benefits under the Company's Non-Employee Directors' Retirement Plan upon retirement from the Board. Effective April 10, 2001, the Company terminated this Plan, which provides for quarterly cash payments following retirement in an amount equal to 25% of the annual retainer for a period equal to the total number of years of service as a director, up to a maximum of 10 years, or until death. The amount in this column represents the increase in the present value of accumulated benefits under this Plan during Fiscal 2012, determined by using assumptions consistent with those used for reporting purposes in the Company's 2012 Form 10-K. There were no preferential or above-market earnings credited under the Company's Non-Employee Directors' Deferred Compensation Plan.

6 This column includes reimbursed expenses in connection with spousal travel and/or travel and hotel expense in connection with the Company-paid director/spouse annual physical program as well as the cost of the annual physical program and the cost of term life insurance.

Compensation Committee Interlocks and Insider Participation

Messrs. Bobins, Boyce, Brocksmith and Woodard, General Fogleman and General Pace, all of whom are independent Non-Employee Directors, are the current members of the Compensation Committee of the Board of Directors of the Company. During Fiscal 2012, none of the executive officers of the Company served on the board of directors or compensation committee of any entity whose officers served either on the Board of Directors of the Company or on the Compensation Committee of the Board of Directors of the Company.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") describes our Fiscal 2012 executive compensation program. It provides information about the goals and the key elements of the program and explains the reasons behind the Compensation Committee's executive compensation decisions. Our focus in this CD&A is the Fiscal 2012 compensation of the Company's five "named executive officers":

Name	Title
David P. Storch	Chairman of the Board and Chief Executive Officer
Timothy J. Romenesko	President and Chief Operating Officer
Richard J. Poulton	Vice President, Chief Financial Officer and Treasurer
Terry D. Stinson	Group Vice President Structures and Systems
Robert J. Regan	Vice President, General Counsel and Secretary

Executive Summary

Goals of Our Executive Compensation Program

The primary goals of our executive compensation program are to:

- Attract and retain talented executives capable of producing outstanding business results for the Company;
- Motivate and reward executives by paying for performance in a manner that takes into account Company, business group and individual performance; and
- Provide for compensation that strikes a proper balance between short-term and long-term compensation, and between cash and stock compensation, with an emphasis on stock compensation to align the interests of executives with the interests of the Company's stockholders.

Business Highlights

- The Company reported record net sales of $2.1 billion for Fiscal 2012, a 14.4% increase over the prior fiscal year's $1.8 billion in sales. Fiscal 2012 net income attributable to AAR was $67.7 million, or $1.65 per diluted share, compared to net income of $69.8 million and diluted earnings per share of $1.73 in the prior fiscal year.
- The Company completed three strategic international acquisitions in Fiscal 2012: *Telair International GmbH*, headquartered in Miesbach, Germany, designs, manufactures and supports cargo loading systems for certain Airbus and Boeing wide-body and narrow-body aircraft; *Nordisk Aviation Products, AS*, headquartered in Holmestrand, Norway, designs and manufactures heavy-duty pallets and lightweight cargo containers for commercial

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airlines; and *Airinmar Holdings Limited*, headquartered in London, England, provides aircraft component repair, outsourcing and warranty claim management services.

The table below summarizes our key operating performance results in Fiscal 2012 compared to Fiscal 2011 (dollars in thousands, except per share data):

	Fiscal 2011 ($)	Fiscal 2012 ($)	Change (%)
Sales	1,805,112	2,064,998	+14.4
Net Income Attributable to AAR	69,826	67,723	-3.0
Diluted Earnings Per Share	1.73	1.65	-4.6
Stockholders' Equity	835,289	866,022	+3.5

For more information about our operating performance in Fiscal 2012, please see "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on July 19, 2012. For more information about our stock price performance in Fiscal 2012, please see "Comparison of Cumulative Five-Year Total Return" in our 2012 Annual Report to Stockholders.

Executive Compensation Highlights

Fiscal 2012. The following summarizes the key features of the Company's Fiscal 2012 executive compensation program:

Base salaries for the named executive officers increased 2% in Fiscal 2012 over Fiscal 2011.

Annual cash incentives for the Company's Chief Executive Officer, David P. Storch, and the three other named executive officers who participated in the corporate Fiscal 2012 short-term incentive plan would have been payable at approximately 11% *above* target based on the Company's performance against designated net income and leverage measures. However, management recommended that the Compensation Committee reduce by approximately 30% the annual cash incentives for these named executive officers. Management's recommendation was principally due to its sensitivity to the Company's share price performance during Fiscal 2012. As a result, annual cash incentives for these named executive officers, as approved by the Compensation Committee, were approximately 22% *below* target and approximately 39% *below* Fiscal 2011 awards. Mr. Storch's annual cash incentive award for Fiscal 2012 was $850,000, as compared to the award amount that would have been payable under the terms of the Fiscal 2012 plan ($1,197,906) and his prior year award ($1,400,900).

Variable performance-based compensation represented the following percentage of each named executive officer's total compensation (as reported in the Summary Compensation Table on page 46): Mr. Storch: 42%; Mr. Romenesko: 42%; Mr. Poulton: 42%; Mr. Stinson: 17%; and Mr. Regan: 42%. Variable performance-based compensation includes annual cash incentive, performance-based restricted stock and stock options, but does not include base salary and time-based restricted stock.

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Long-term stock incentive compensation represented a significant percentage of each named executive officer's total compensation: Mr. Storch: 56%; Mr. Romenesko: 56%; Mr. Poulton: 55%; Mr. Stinson: 38%; and Mr. Regan: 55%. Long-term stock incentive compensation includes performance-based restricted stock, time-based restricted stock, and stock options. The value of this compensation is based on its grant date fair value and thus does not reflect its current value or the actual value that will be recognized by the named executive officers. This stock compensation aligns the executives' interests with those of the Company's stockholders. In addition, the Company lengthened the vesting periods for performance-based stock and stock option awards, as shown below:

Type of Award	Vesting Period for Fiscal 2011 Awards	Vesting Period for Fiscal 2012 Awards
Performance-based restricted stock	100% after three years	33 1/3% per year in the third, fourth, and fifth years
Time-based restricted stock	50% after 4 years 50% after 5 years	Unchanged
Stock options	33 1/3% per year over three years	20% per year over five years

Fiscal 2013. The Compensation Committee acted on management's recommendations and made the following decisions with respect to the Company's Fiscal 2013 executive compensation program:

Base salaries of the named executive officers are frozen in Fiscal 2013 at their Fiscal 2012 levels, subject to review at mid-year; and

Annual cash incentives for the named executive officers will be based on earnings per share and free cash flow, consistent with the Company's emphasis on total stockholder return.

Further, in light of the Company's share price performance during Fiscal 2012, the Compensation Committee, at management's recommendation, reduced the *long-term stock incentive compensation* opportunity of Mr. Storch and the other named executive officers by more than one-half of their Fiscal 2012 levels.

I. Principal Compensation Elements of Our Executive Compensation Program

Our Fiscal 2011 executive compensation program was approved by over 93% of the votes cast at our 2011 annual meeting of stockholders. Based on this showing of stockholder support, the Compensation Committee retained the Company's basic pay-for-performance structure of the Company's executive compensation program in Fiscal 2012: base salary, annual cash incentive award opportunity, and long-term stock incentive compensation consisting of performance-based restricted stock, time-bases restricted stock and stock options.

The table below identifies the principal elements of our Fiscal 2012 executive compensation program, with the ensuing narrative providing a fuller description of each element.

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Compensation Element	Form of Compensation	Performance Criteria
Base salary	Cash	Individual performance/contributions
Annual cash incentive	Cash	Net income Leverage ratio Specific business unit goals
Long-term stock incentive compensation	Stock options	Stock price appreciation
	Time-based restricted stock	Individual performance/contributions
	Performance-based restricted stock	Cumulative net income over three years (subject to stock price triggers)
Retirement benefits	Eligibility to participate in and receive Company contributions to our 401(k) plan (available to all employees) and, for certain officers, a supplemental deferred compensation plan	Not applicable
Perquisites	Various (see below)	Not applicable

A.
Base Salary

The Company provides base salaries as a guaranteed minimum amount of compensation in consideration of day-to-day performance. Base salaries are designed to reward individual performance and contributions consistent with an executive officer's position and responsibilities. The Compensation Committee annually reviews the base salaries of all executive officers, including the Chief Executive Officer and the other named executive officers, and may adjust base salaries, typically at the beginning of a fiscal year, based upon consideration of:

- The executive's current salary;
- The executive's performance and contributions during the past fiscal year;
- The executive's qualifications and responsibilities;
- The executive's tenure with the Company and the position held by the executive;
- The Company-wide merit pool increase in the base salaries for all employees;
- Competitive salary considerations relative to similar positions at other companies competing for talent in the Company's employment market, including the Company's peer group companies; and
- The recommendation of the Chief Executive Officer, in the case of all executive officers other than himself.

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B. *Annual Cash Incentive Compensation*

The Compensation Committee believes that annual incentive opportunities, payable in cash, serve as an appropriate incentive for achievement of the Company's short-term (i.e., one-year) performance goals at either the corporate level or at the business group level. A cash-based incentive provides an opportunity that is consistent with market practice and allows the named executive officers to receive the value of their performance over the measurement period.

Within the first 90 days of each fiscal year, the Company establishes specific performance goals for its executive officers, including the named executive officers, that govern the payment of annual cash incentive awards for that fiscal year. The Company pays an annual cash incentive award to each named executive officer, typically measured as a percentage of the executive officer's base salary, based on the extent to which the Company and the executive officer achieve applicable performance goals. Performance at a target level results in a target annual cash incentive award, and performance above or below target results in payment of an annual cash incentive award at a higher or lower percentage of base salary, respectively. Performance below a minimum threshold results in no annual cash incentive award. For named executive officers at the corporate level, the annual cash incentive in recent years has been based on two performance goals: net income and a leverage ratio (average total recourse net debt to capital). For a named executive officer in charge of a business group, the annual cash incentive is typically based on the performance results of the business group, rather than the Company as a whole.

C. *Long-Term Stock Incentive Compensation*

The Company uses stock compensation to provide long-term stock incentive opportunities for its named executive officers and certain other officers and key employees. The Company believes that the use of stock compensation rewards executives in a manner that aligns their interests with the interests of the Company's stockholders. Given the importance of this alignment, long-term stock-based compensation typically represents the most significant component of total compensation for the Company's executive officers. Long-term stock incentive compensation grants represent *potential* compensation at the time of grant; their value is realized by a named executive officer only if applicable performance and vesting conditions are satisfied.

Stock compensation is provided under the stockholder-approved AAR CORP. Stock Benefit Plan ("Stock Benefit Plan"). Under the Stock Benefit Plan, the Compensation Committee has the discretion to grant stock options, performance-based restricted stock or restricted stock unit awards, employment or time-based restricted stock or restricted stock unit awards, or any combination of the foregoing. The Stock Benefit Plan also provides for the use of stock appreciation units; however, to date, the Compensation Committee has not granted any stock appreciation units.

Generally, when determining restricted stock and stock option grant opportunities, the Compensation Committee considers the executive's position and responsibilities in the Company, performance and contributions during the preceding year, capabilities and potential for future contributions to the Company, the number of restricted stock shares and options previously granted to the executive and, for senior management (including the named executive officers), their stock ownership relative to the Company's stock ownership guidelines and the Chief Executive Officer's recommendation. In addition, the value of stock grants in any year will vary depending on the Board's assessment of the Company's business and share price performance in the prior fiscal year.

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D. ***Retirement Benefits***

The Company's named executive officers participate in three retirement plans: the Retirement Plan, the Retirement Savings Plan and the Supplemental Key Employee Retirement Plan (the "SKERP").

Retirement Plan. Messrs. Storch and Romenesko are the only named executive officers who participate in the tax-qualified Retirement Plan. Benefit accruals under the Retirement Plan ceased on June 1, 2005. At termination of employment, a participant is eligible to receive the amount credited to his account under the Retirement Plan, which consists of (i) an opening balance for those participants who participated in the Retirement Plan as of December 31, 1999 equal to the then present value of the benefit accrued as of such date, (ii) quarterly pay credits (through May 31, 2005) based on the participant's age and service, and (iii) quarterly interest credits until the account is distributed based on the 30-year Treasury securities rate.

Retirement Savings Plan. The Retirement Savings Plan is a tax-qualified 401(k) plan that covers most of the Company's U.S. employees, including the named executive officers. An employee can elect to defer up to 75% of his compensation, up to a maximum of $17,000 in 2012, or $22,500 if age 50 or over. Contributions can be made on a pre-tax or after-tax basis, as elected by the participant. The Company provides a matching contribution equal to 20% of the first 5% of the participant's contributions, up to 1% of compensation; a profit-sharing contribution of up to 4% of compensation based on the participant's deferrals and the performance of the participant's operating unit; and a retirement benefit contribution of up to 4% of compensation based on the participant's age and service.

SKERP. The SKERP is a non-qualified retirement plan that contains a defined benefit portion and a defined contribution portion. Benefit accruals under the defined benefit portion for all employees other than Messrs. Storch and Romenesko ceased as of October 1, 2001 and were distributed to the participants. The benefits accrued under the defined benefit portion as of May 31, 2006 for Messrs. Storch and Romenesko were converted to a lump sum and transferred to the defined contribution portion of the SKERP. The defined contribution portion of the SKERP, in which all of the named executive officers participate, is intended to provide eligible employees with the portion of their elective deferrals and the Company's matching and profit sharing contributions that could not be made under the Retirement Savings Plan due to Internal Revenue Code limitations on the amount of compensation that can be taken into account in determining contributions ($245,000 in 2011 and $250,000 in 2012). The Company also makes annual supplemental contributions equal to 22% of salary and bonus for Mr. Storch, 16% of salary and bonus for Mr. Romenesko, and 5% or 10% of salary and bonus for the other eligible named executive officers, principally to motivate these individuals to grow as business leaders and to improve their performance and thereby improve the Company's performance. These annual supplemental contributions do not vest until the named executive officers meet the definition of "retirement" under the SKERP.

E. ***Perquisites***

The Company provides certain executive officers, including its named executive officers, with a limited number of perquisites, as identified in the footnote to the "Other Compensation" column of the Summary Compensation Table. The Company believes these perquisites are reasonable,

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competitive, and consistent with the Company's overall executive compensation program. The Compensation Committee reviews on an annual basis the types and costs of perquisites provided by the Company to its executive officers.

II. Fiscal 2012 Target and Actual Executive Compensation

Each year management and the Compensation Committee review the Company's existing executive compensation program and the programs of peer group companies and other companies known for compensation "best practices." The Company seeks to confirm that each of its compensation elements, as well as its compensation structure, fits the Company in light of its history, culture, performance, and strategy. Particular attention is given to the share performance of the Company to ensure that there is a proper alignment between executive compensation and share price performance. Based on this review and analysis, the Compensation Committee approved, at its meetings in July and August 2011, the Company's peer group and target total direct compensation, consisting of base salaries, target annual cash bonuses, and target long-term stock incentive compensation for the Company's named executive officers.

A.

The Company's Peer Group

Total compensation opportunities for the Company's key executives, including each named executive officer, are intended to be competitive with those offered by other companies competing for talent in the Company's employment market.

In July 2011, the Compensation Committee re-examined its peer group for executive compensation purposes using the following criteria: company type (publicly traded on a major exchange); location (headquartered in the United States); industry type (using Standard and Poor's GICS codes); annual revenues (one-third to three times the Company's annual revenues); businesses that are similar to the Company's business groups; stock price volatility; and various financial performance measures (including revenue growth, net income growth, earnings per share growth, total return, return on average assets, and market capitalization). As a result of the Company's revenue growth in recent years, the Compensation Committee acted on the recommendation of its independent compensation consultant and the Company's management to revise the Company's peer group for Fiscal 2012 to consist of the following 20 companies, down from 25 peer companies in Fiscal 2011 (new peer group companies added in Fiscal 2012 are marked with an asterisk (*)):

Aircastle Ltd.	Interline Brands, Inc.
Alliant Techsystems Inc.*	Kaman Corporation
Applied Industrial Technologies Inc.*	ManTech International Corporation*
B/E Aerospace, Inc.	Moog Inc.
Barnes Group Inc.*	Rockwell Collins, Inc.
Curtiss-Wright Corporation	Spirit AeroSystems Holdings
Ducommun Incorporated	Teledyne Technologies Incorporated
Esterline Technologies Corporation	TransDigm Group Inc.
HEICO Corp.	Triumph Group, Inc.
Hexcel Corporation	Woodward Governor, Inc.*

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The Compensation Committee, with the assistance of its independent compensation consultant, compiled relevant base salary, annual cash incentive and long-term stock incentive information for the key executives at the companies in the Company's peer group. The Compensation Committee considered this information and, in particular, benchmarked the executive compensation of the peer group companies in setting the Fiscal 2012 base salaries, annual cash incentive compensation and target long-term incentive compensation of the Company's named executive officers, each as described below.

B. ***Target Total Direct Compensation***

The Compensation Committee reviewed and approved Fiscal 2012 "target total direct compensation" for the named executive officers, consisting of three compensation elements: base salary, target annual cash incentive compensation and target long-term stock incentive compensation, as follows:

Base salary: Approved in July 2011; effective for June 1, 2011 through May 31, 2012.

Annual cash incentive compensation: Approved targets in July 2011; actual awards are determined and approved in July 2012 based on the Company's performance from June 1, 2011 through May 31, 2012.

Long-term stock incentive compensation: Approved grants of performance-based restricted stock, stock options and time-based restricted stock in July 2011 as potential compensation to be realized only if certain performance and vesting conditions are satisfied.

The Compensation Committee historically benchmarks target total direct compensation for the Company's named executive officers in the 50^{th} to 75^{th} percentile of total direct compensation levels of comparable positions at its peer group companies. In addition, the Compensation Committee considers the Company's prior year's financial results in setting target total direct compensation for the upcoming year.

For Fiscal 2012, the Compensation Committee set target total direct compensation for the named executive officers at slightly higher amounts than Fiscal 2011, as shown below:

	Target Total Direct Compensation		
Named Executive Officer	**Fiscal 2011 ($)**	**Fiscal 2012 ($)**	**Change (%)**
David P. Storch	4,149,013	4,373,250	5.4
Timothy J. Romenesko	2,078,538	2,190,657	5.4
Richard J. Poulton	1,341,796	1,412,719	5.3
Terry D. Stinson	1,011,410	1,031,393	2.0
Robert J. Regan	1,341,796	1,412,719	5.3

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The table below divides target total direct compensation into its component parts base salary, target annual cash incentive compensation and target long-term incentive compensation and shows each as a dollar amount and as a percentage of target total direct compensation, as set by the Compensation Committee at the beginning of Fiscal 2012 for each named executive officer.

	Target Total Direct Compensation					
	Base Salary		Target Annual Cash Incentive		Target Long-Term Incentive Compensation	
Named Executive Officer	Dollar Amount ($)	% of Total Target Direct Compensation	Dollar Amount ($)	% of Total Target Direct Compensation	Dollar Amount ($)	% of Total Target Direct Compensation
David P. Storch	867,000	19.8%	1,083,750	24.8%	2,422,500	55.4%
Timothy J. Romenesko	477,544	21.8%	542,663	24.8%	1,170,450	53.4%
Richard J. Poulton	374,544	26.5%	340,495	24.1%	697,680	49.4%
Terry D. Stinson	344,893	33.4%	390,000	37.9%	296,500	28.7%
Robert J. Regan	374,544	26.5%	340,495	24.1%	697,680	49.4%

The annual cash incentive opportunity for Mr. Stinson, Group Vice President of Structures and Systems, is a more significant part of his target total direct compensation due to the Company's emphasis on the annual results of its business groups.

C. ***Base Salaries***

The Compensation Committee generally sets the base salaries of the Company's named executive officers at or around the 50th percentile of salary levels of comparable positions at its peer group companies. The Company does not target base salaries at any specific percentage of total compensation when setting base salary; however, given the Company's emphasis on the link between pay and performance, base salaries are a less significant percentage of total direct compensation compared to the Company's variable performance-based compensation, as shown in the above table.

For Fiscal 2012, the Company instituted a Company-wide 2% merit pool increase in Fiscal 2012 base salaries, effective June 1, 2011, for employees (including the named executive officers) whose base salary was $100,000 or more, and a 3% merit increase for employees whose base salary was less than $100,000. The table below shows Fiscal 2012 base salaries compared to Fiscal 2011 base salaries for the named executive officers:

Named Executive Officer	Fiscal 2011 ($)	Fiscal 2012 ($)
David P. Storch	850,000	867,000
Timothy J. Romenesko	468,180	477,544
Richard J. Poulton	367,200	374,544
Terry D. Stinson	338,130	344,893
Robert J. Regan	367,200	374,544

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D. Annual Cash Incentive Compensation Under the Fiscal 2012 Short-Term Incentive Plan

The Fiscal 2012 short-term incentive plan provides certain employees, including the named executive officers, with the opportunity to earn an annual cash incentive award. This plan works in collaboration with the AAR CORP. Section 162(m) Annual Cash Incentive Plan, which sets a ceiling on the annual cash incentive awards payable under the short-term incentive plan to ensure that such awards qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code and are, thus, fully deductible by the Company. The Section 162(m) Annual Cash Incentive Plan uses as its performance goal the Company's net income for a given fiscal year. It establishes a maximum award opportunity for each participant, expressed as a percentage of net income (e.g., the maximum annual award for the Chief Executive Officer is 5% of net income), and then provides that the Compensation Committee has the discretion to reduce these amounts so that the actual awards to be paid to participants will be the awards determined under the Company's Fiscal 2012 short-term incentive plan. In all years since the inception of the Section 162(m) Annual Cash Incentive Plan, including Fiscal 2012, the Compensation Committee has exercised negative discretion to reduce the size of the annual cash incentive awards.

Fiscal 2012 Performance Goals. The Compensation Committee approved, after consideration of peer group information, other market data, and the current state of the business environment in which the Company operates, two performance goals under the Fiscal 2012 short-term incentive plan for corporate officers, including Mr. Storch, Mr. Romenesko, Mr. Poulton, and Mr. Regan: the Company's net income and a leverage ratio. The Compensation Committee set the Fiscal 2012 net income target at $76.8 million (representing 10% growth over Fiscal 2011 actual net income) and the Fiscal 2012 leverage ratio target of 45%. The net income and leverage ratio performance goals were each weighted 50%. The Compensation Committee determined that for purposes of measuring attainment of these performance goals in Fiscal 2012: (i) net income means consolidated net income, excluding special charges or unusual or infrequent items during the fiscal year, and as adjusted for changes in generally accepted accounting principles, and (ii) leverage ratio means an average total recourse net debt to capital ratio. The choice of these two performance goals reflected the strong emphasis placed by the Company on preserving and growing stockholder wealth and maintaining a strong balance sheet.

Mr. Stinson, Group Vice President of the Structures and Systems business group, participates in a separate performance incentive program that ties his annual cash incentive award opportunity to the performance of that business group rather than overall Company performance. The applicable performance goals for Mr. Stinson's Fiscal 2012 annual cash incentive award opportunity were pre-tax income (target of $28.5 million), return on invested capital (target of 19.6%), and free cash flow (target of $27.3 million), each as defined in the performance incentive program. Mr. Stinson had additional incentives based on contract program performance and the pre-tax income performance of the recently acquired Telair and Nordisk companies. These performance goals reflected the Company's emphasis on cash generation, cash preservation, contract execution and acquisition integration.

The Fiscal 2012 annual cash incentive award opportunities at threshold, target and maximum levels, as approved by the Compensation Committee at the beginning of Fiscal 2012, and

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expressed as a percentage of base salary and in dollar amounts for the named executive officers, are set forth in the table below:

	Threshold		Target		Maximum	
Name	Percentage of Base Salary	$	Percentage of Base Salary	$	Percentage of Base Salary	$
David P. Storch	87.5	758,625	125.0	1,083,750	187.5	1,625,625
Timothy J. Romenesko	79.8	381,080	113.6	542,663	171.0	816,600
Richard J. Poulton	63.7	238,585	90.9	340,495	136.5	511,253
Terry D. Stinson	69.6	240,000	113.1	390,000	200.0	689,786
Robert J. Regan	63.7	238,585	90.9	340,495	136.5	511,253

For Messrs. Storch, Romenesko, Poulton, and Regan, an annual cash incentive award required: (i) at the threshold level, attainment of net income of at least $61.44 million (80% of the target of $76.8 million) and an average leverage ratio of at least 50% (versus the target of 45%); (ii) at the target level, attainment of 100% of the performance goal targets (net income of $76.8 million and a leverage ratio of 45%); and (iii) at the maximum level, attainment of 120% of such performance goal targets (net income of at least $92.16 million and a leverage ratio of 40% or less).

Mr. Stinson had a target Fiscal 2012 annual cash incentive award opportunity of $390,000, comprised of: (i) $300,000 based on the pre-tax income performance of the Structures and Systems business group, (ii) $50,000 on the return on invested capital performance of the Structures and Systems business group, and (iii) $40,000 on the free cash flow performance of the Structures and Systems business group. He also had the opportunity to earn 1% of any pre-tax income in excess of target ($28.5 million), up to $40,000 based on the pre-tax income performance of Telair and Nordisk in the Fiscal 2012 third and fourth quarters (plus 1% of any pre-tax income above a certain target), and up to $40,000 on contract program performance. Mr. Stinson's annual cash incentive award opportunity based on return on invested capital and free cash flow were designed to be earned in full or not at all depending upon whether the Structures and Systems business group achieved the designated performance goal targets. As to the pre-tax income performance goal, no annual cash incentive award was payable unless the business group achieved the pre-tax income performance goal target at an 80% level (in which case Mr. Stinson was entitled to a $240,000 annual cash incentive award); achievement of the pre-tax income performance goal target at a 100% level resulted in a target annual cash incentive award of $300,000; and achievement between 80% and 100% resulted in a pro-rata annual cash incentive award between $240,000 and $300,000. Mr. Stinson's annual cash incentive award was capped at 200% of base salary ($689,786).

Fiscal 2012 Actual Results. The Company reported Fiscal 2012 net income of $67.7 million, compared to its net income target of $76.8 million. The Company's Fiscal 2012 leverage ratio was 41.4%, surpassing its leverage ratio target of 45%. The Company's performance against the net income and leverage ratio measures would have resulted in annual cash incentive awards approximately 11% above target for Messrs. Storch, Romenesko, Poulton and Regan under the Fiscal 2012 short-term incentive plan. However, at management's recommendation, the actual annual cash incentive awards paid to these name executive officers were reduced by approximately 30%. The principal reason for management's recommendation and the reduction of the annual cash incentive awards was the decline in the Company's stock price during Fiscal

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2012. The Structures and Systems business group's performance against its performance goals resulted in an annual cash incentive award of $172,716 to Mr. Stinson.

The following table shows, for each named executive officer, the award that would have been payable to each named executive officer under the terms of the Fiscal 2012 short-term incentive plan (other than Mr. Stinson whose actual award equaled his calculated award under his performance incentive program), and the actual award for each named executive officer in Fiscal 2012, as approved by the Compensation Committee at its July 2012 meeting:

Named Executive Officer	Calculated Award ($)*	Actual Award ($)	Change (%)
David P. Storch	1,197,906	850,000	-29
Timothy J. Romenesko	599,824	423,277	-29
Richard J. Poulton	376,361	265,586	-29
Terry D. Stinson	172,716	172,716	
Robert J. Regan	376,361	265,586	-29

* Represents the awards calculated for Messrs. Storch, Romenesko, Poulton, and Regan under the terms of the corporate Fiscal 2012 short-term incentive plan based on the Company's performance against designated net income and leverage measures. Mr. Stinson received the award that was calculated under his performance incentive program.

E. *Stock Incentive Compensation Under the Fiscal 2012 Long-Term Incentive Plan*

The Compensation Committee granted awards of performance-based restricted stock, time-based restricted stock and stock options to the named executive officers and certain other officers and key employees under the Fiscal 2012 long-term incentive plan. For the named executive officers, the Compensation Committee allocated the dollar value of the stock awards as follows: performance-based restricted stock 40%; time-based restricted stock 30%; and stock options 30%.

Performance-Based Restricted Stock. At its meeting on July 11, 2011, the Compensation Committee approved the following grants of performance-based restricted stock to the named executive officers (other than Mr. Stinson) for Fiscal 2012, subject to a three-year cumulative net income performance condition and to vesting, each as described below (dollar value based on the grant date fair value):

Named Executive Officer	Target Performance-Based Number of Shares	Restricted Stock Dollar Value ($)
David P. Storch	32,681	968,992
Timothy J. Romenesko	15,790	468,174
Richard J. Poulton	9,412	279,066
Robert J. Regan	9,412	279,066

Shares of performance-based restricted stock are earned (subject to additional time-based vesting) if the Company achieves cumulative net income of $244.8 million for the three-year

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performance period beginning June 1, 2011 and ending May 31, 2014. This cumulative net income target represented an 8% compounded annual growth in net income for the three-year performance period over actual Fiscal 2011 net income of $69.8 million.

The program includes a stock price acceleration provision (the "First Trigger") under which the performance goals will be deemed to have been met on the 20th consecutive trading day on which the Company's Common Stock trades at an average price equal to or greater than $34.29 per share, which is 33 1/3% above its price of $25.78 on June 1, 2011, the beginning of the performance period. Even if the First Trigger occurs, the award is still subject to time-based vesting that begins at the end of the performance period. Subject to the First Trigger, the program provides that no shares of restricted stock will be earned unless the Company achieves its performance goal target at an 80% level (cumulative net income of $195.85 million), in which case 70% of the target number of shares of restricted stock will be earned (subject to vesting). Achievement of the performance goal target between 80% and 100% will result in a pro-rata number of target shares of restricted stock being earned, and achievement of the performance goal targets at 100% will result in all of the target shares being earned (in each case, subject to vesting). Achievement above 100% will result in the grant of additional shares, with achievement at 120% (cumulative net income of $293.78 million) or above resulting in an additional grant of shares equal to 100% of the initial grant. An additional grant also will be made under a second stock price acceleration provision (the "Second Trigger") where the Company's Common Stock trades for 20 consecutive trading days at an average price equal to or greater than $39.19 per share, which is 152% above its price of $25.78 on June 1, 2011, the beginning of the performance period. If made, this additional grant would be subject to time-based vesting as described below.

If earned, the shares of performance-based restricted stock vest 33 1/3% on each of May 31, 2014, May 31, 2015, and May 31, 2016. This vesting period is two years longer than the vesting period used in Fiscal 2011 when the three-year vesting period ran concurrently with the three-year performance period. The Compensation Committee believes that the use of a meaningful time vesting period encourages executives to build their careers with the Company and contributes to greater stability within the Company's executive leadership. Performance-based restricted stock, once earned and vested, is not subject to any further holding requirement beyond the Company's stock ownership and retention guidelines.

Time-Based Restricted Stock. At its meeting on July 11, 2011, the Compensation Committee approved the following grants of time-based restricted stock awards to the Company's named executive officers for Fiscal 2012, subject to vesting (dollar value based on the grant date fair value):

	Time-Based Restricted Stock	
Named Executive Officer	**Number of Shares**	**Dollar Value ($)**
David P. Storch	24,511	726,751
Timothy J. Romenesko	11,843	351,145
Richard J. Poulton	7,059	209,299
Terry D. Stinson	10,000	296,500
Robert J. Regan	7,059	209,299

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The shares of time-based restricted stock vest 50% on May 31, 2015 and 50% May 31, 2016. Time-based restricted stock, once vested, is not subject to any further holding requirements beyond the Company's stock ownership and retention guidelines.

Stock Options. At its meeting on July 11, 2011, the Compensation Committee approved the following grants of stock options to the Company's named executive officers (other than Mr. Stinson) for Fiscal 2012, subject to vesting (dollar value based on a modified Black-Scholes valuation):

	Stock Options	
Named Executive Officer	**Number**	**Dollar Value ($)**
David P. Storch	49,022	578,460
Timothy J. Romenesko	23,685	279,483
Richard J. Poulton	14,118	166,592
Robert J. Regan	14,118	166,592

The stock options have an exercise price of $29.65 per share (the closing stock price of the Common Stock on the date of grant), vest 20% on each of May 31, 2012, May 31, 2013, May 31, 2014, May 31, 2015, and May 31, 2016, and expire 10 years from the date of grant or earlier upon termination of employment. This five-year vesting period for Fiscal 2012 stock options is two years longer than the three-year vesting period for Fiscal 2011 stock options. Stock options, once vested and exercised, are not subject to any further holding requirements beyond the Company's stock ownership and retention guidelines.

F. Actual Total Direct Compensation

Total direct compensation is the sum of base salary, annual cash incentive compensation and long-term stock incentive compensation. *Actual* total direct compensation differs from *target* total direct compensation (see pages 33-34) by taking into account the actual annual cash incentive award rather than the target annual cash incentive award. As actual annual cash incentive awards were less than target annual cash incentive awards in Fiscal 2012, the *actual* total direct compensation for each named executive officer was less than his *target* total direct compensation in Fiscal 2012. The following table shows target total direct compensation versus actual total direct compensation paid or granted to the named executive officers for Fiscal 2012:

	Fiscal 2012 Total Direct Compensation	
Named Executive Officer	**Target ($)**	**Actual ($)***
David P. Storch	4,373,250	3,991,210
Timothy J. Romenesko	2,190,657	1,999,619
Richard J. Poulton	1,412,719	1,295,098
Terry D. Stinson	1,031,393	814,109
Robert J. Regan	1,412,719	1,295,098

* Does not include the following dollar values of shares of restricted stock granted on July 15, 2011 when the stock price acceleration provisions of the *Fiscal 2011 long-term incentive plan* were

triggered Mr. Storch: $969,002; Mr. Romenesko: $468,172; Mr. Poulton: $279,066; Mr. Stinson: $86,350; and Mr. Regan: $279,066. See Note 3 under the Summary Compensation Table on page 46.

III. Fiscal 2013 Executive Compensation Decisions

For Fiscal 2013, the Compensation Committee acted on management's recommendations and made the following executive compensation decisions:

- *Base salaries* of the named executive officers are frozen for Fiscal 2013 at their Fiscal 2012 levels, subject to review at mid-year; and

- *Annual cash incentives* for the named executive officers will be based on earnings per share and free cash flow performance measures, consistent with the Company's emphasis on total stockholder return.

Further, in light of the Company's share price performance during Fiscal 2012, the Compensation Committee, at management's recommendation, significantly reduced the Fiscal 2013 *long-term stock incentive compensation* opportunity of Mr. Storch and the other named executive officers, as shown below:

	Total Dollar Value of Long-Term Incentive Compensation		
Named Executive Officer	Fiscal 2012 (Actual) ($)	Fiscal 2013 (Target) ($)	Change (%)
David P. Storch	3,243,205	1,548,000	-52
Timothy J. Romenesko	1,566,974	744,000	-53
Richard J. Poulton	934,023	464,400	-50
Terry D. Stinson	382,850	161,875	-58
Robert J. Regan	934,023	464,400	-50

The Compensation Committee, with the assistance of its independent compensation consultant, reviewed the Company's peer group in light of recent business developments, including the Company's strategic acquisitions of Telair and Nordisk. Based on this review, the Compensation Committee approved a new peer group for executive compensation purposes consisting of 17 companies, 13 of which are holdovers from the prior peer group and four of which are additions.

The Compensation Committee also implemented a new incentive compensation recoupment policy to provide for the recoupment or "clawback" of annual cash incentive compensation and long-term stock incentive compensation under certain circumstances involving a restatement of the Company's financial statements in accordance with the Dodd-Frank Act.

IV. Key Executive Compensation Policies and Practices

The following are key factors affecting the executive compensation decisions made by the Compensation Committee for the Company's executives, including its named executive officers:

- **Stockholder Advisory Votes.** Stockholders approved two advisory resolutions relating to executive compensation at the Company's 2011 meeting of stockholders: approximately 93% of the shares cast approved the compensation of the named executive officers in Fiscal 2011, and approximately 89% of the shares cast approved the holding of an advisory

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vote on executive compensation on an annual basis (this latter "say when on pay" vote is required by law to be held every six years thus, the next vote will occur at the 2017 annual meeting of stockholders). Although these stockholder votes on executive compensation are advisory, the Company carefully considers the voting results of advisory resolutions as well any other stockholder feedback in determining its executive compensation program. In this case, the Compensation Committee maintained the same pay-for-performance structure for the Company's executive compensation program in Fiscal 2012 and Fiscal 2013 that was in place in Fiscal 2011.

Role of the Compensation Committee. The Compensation Committee is responsible for structuring and administering executive compensation. The Compensation Committee is comprised of six individuals, each of whom has been determined by the Board of Directors to be (i) an independent director of the Company under applicable SEC and NYSE rules and the Company's Categorical Standards for Determining Director Independence; (ii) a non-employee director for purposes of Rule 16b-3 of the Securities Exchange Act of 1934, as amended; and (iii) an outside director for purposes of Section 162(m) of the Internal Revenue Code.

The Compensation Committee reviews and considers historical compensation data for the Company's executives. This data includes summaries of cash and equity compensation received in past years by each executive. In addition, the Compensation Committee reviews the executives' total annual compensation, including cash and non-cash direct compensation, cumulative benefits and savings under retirement plans and equity compensation programs, perquisites and potential payments on termination of employment, whether on a change in control of the Company or otherwise. It reviews the performance of the Company and the executives during the year, taking into account established goals, leadership qualities, operational performance, business responsibilities, career experience, and long-term potential to enhance stockholder value.

In addition to peer group compensation information and general industry compensation information, the Compensation Committee reviews internal pay comparisons among the Company's executives to ensure that the Company's executive compensation program reflects the executives' positions, responsibilities, and contributions to the Company.

Role of Independent Compensation Consultants. The Compensation Committee has the authority under its charter to retain the services of outside advisors. The Compensation Committee has retained compensation consultants in the past to advise on the design and implementation of the various elements of the executive compensation program and the level of individual executive participation. Aon Hewitt assisted the Compensation Committee in determining the composition of the Company's Fiscal 2012 peer group for executive compensation purposes and the benchmarking of executive and director compensation for Fiscal 2012. It provided advice and information on other executive compensation matters, including executive pay philosophy and design, prevailing market practices, relevant legal and regulatory requirements, and peer-group data.

In January 2012, the Compensation Committee appointed Mercer as its independent compensation consultant. Mercer did not provide any advice with respect to Fiscal 2012 executive compensation. For Fiscal 2013 executive compensation, Mercer assisted with the design of a new peer group, and the setting of target total direct compensation, base salaries, and short-term and long-term incentive compensation awards, for which it received fees of $37,262.

Both Aon Hewitt and Mercer are independent of the Company. Aon Hewitt provided no other services to the Company in Fiscal 2012. Mercer provided consulting services on the Company's domestic and international health and benefit plans in Fiscal 2012, for which it received fees of $572,750. The decision to engage Mercer for these consulting services was made by the Company prior to the Compensation Committee's decision to retain Mercer as a compensation consultant.

Recommendations of the Chief Executive Officer. The Company's Chief Executive Officer, David P. Storch, provides recommendations regarding compensation actions for all of the other named executive officers based upon the compensation parameters established by the Compensation Committee and its compensation consultant. In making these recommendations, the Chief Executive Officer evaluates the performance of the executives during the prior year against pre-established performance goals under the Company's short-term and long-term incentive compensation plans. Some of the performance goals relate to the financial performance of the Company or the executive's business group. Other performance goals are non-quantitative and relate to customer relationships, acquisition integration, diversity development, or similar Company initiatives. The Chief Executive Officer's recommendations reflect his assessment of an individual executive officer's contributions to the performance of the Company. In Fiscal 2012, the Chief Executive Officer took into account the decline in the Company's share price during the year.

The Company's Human Resources Department assists the Chief Executive Officer by collecting and organizing relevant historical and current compensation information, including information received from the Compensation Committee's consultant, as well as peer group compensation information and industry trends. The Company's Vice President and Chief Human Resources Officer participates in all regularly scheduled Compensation Committee meetings.

The Chief Executive Officer and the Compensation Committee actively discuss compensation decisions for the Company's executives. However, the Compensation Committee has the ultimate decision-making authority and responsibility for compensation decisions affecting the Company's executives, including its named executive officers. The Chief Executive Officer does not play any role in any decision affecting his own compensation.

Stock Ownership and Retention Guidelines. Under the Company's stock ownership and retention guidelines, executive officers, including the named executive officers, and directors are expected to own and retain significant amounts of the Company's stock. The Chief Executive Officer is expected to own Company stock (not including stock options) having a value of at least three times his base salary; the President and other executive officers are expected to own stock (not including stock options) having a value of at least 75% of their base salary within five years of becoming an officer; and directors are expected to own at least 10,000 shares of Company stock within four years of becoming a director. Stock values are measured as of each fiscal year-end. All current directors and officers comply with the stock ownership and retention guidelines. Restricted stock and

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stock options, once vested, are not subject to any further holding requirements beyond the Company's stock ownership and retention guidelines.

Employment Agreements. The Company does not have an employment agreement with any executive officer other than Mr. Storch, its Chairman and Chief Executive Officer. See "Compensation Arrangement with the Chief Executive Officer" for a description of the terms of that employment agreement. The Company has severance and change in control agreements with Messrs. Romenesko, Poulton, and Regan, and other executives. See "Potential Payments upon Termination of Employment or a Change in Control of the Company" for a description of the terms of these agreements. In all cases, the rationale for these agreements is to provide an appropriate measure of security and incentive to the executive officers in line with market practice. Effective June 1, 2012, the Company determined that it will no longer provide tax gross-up provisions in any new agreement with an executive of the Company.

Equity Grant Practices. The Compensation Committee meets from time to time to consider and act with respect to equity compensation awards for the Company's executive officers. The Compensation Committee typically makes its equity compensation decisions at its July meeting, but it also may grant equity compensation awards to newly hired or newly promoted employees at other times during the year. In all cases, the grant date is the date on which the Compensation Committee acts to approve the award, unless the Compensation Committee establishes the grant date at a specified future date. Board and Compensation Committee meetings are generally scheduled a year in advance and without regard to anticipated earnings and other major announcements by the Company. The Company does not time the granting of its equity compensation awards to affect the value of its executive compensation.

Risk Management of Compensation Practices, including Incentive Compensation Recoupment and Anti-Hedging Policies. The Compensation Committee considered, with the assistance of its independent compensation consultant, whether the Company's compensation policies and practices in Fiscal 2012 for its employees, including the named executive officers, were reasonably likely to have a material adverse effect on the Company. The Compensation Committee determined that there was no such material adverse effect, instead finding that the design and operation of the Company's executive compensation program were consistent with the Company's risk management strategies for several reasons. First, the executive compensation program is designed to provide a proper balance between cash and equity compensation, fixed and variable compensation, and short-term and long-term compensation. Second, Fiscal 2012 annual cash incentive awards a form of variable cash compensation were based on two different performance metrics: (i) net income tied to the Company's income statement performance; and (ii) a leverage ratio tied to the Company's balance sheet performance. Third, the Compensation Committee retains the discretion to reduce any annual cash incentive award for any reason. In Fiscal 2012, the Compensation Committee exercised this discretion to reduce the annual cash incentive awards for certain named executive officers by approximately 30%. Fourth, the balance built into the short-term incentive plan is also reflected in long-term incentive compensation awards, which in Fiscal 2012 consisted of stock options, time-based restricted stock and performance-based restricted stock. Each of these long-term equity-based incentive awards contains

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multi-year vesting periods, thus promoting employee growth, development and retention. They also are linked to the value of the Company's common stock, thus aligning management's interest with those of the Company's stockholders. Fifth, the Company has stock ownership and retention guidelines, an incentive compensation recoupment policy, and an anti-hedging policy as further protections for the Company. Finally, the Compensation Committee and senior management work together to ensure that the aggregate level of executive compensation fits within the Company's budget.

Deductibility of Executive Compensation. Internal Revenue Code Section 162(m) generally prevents any public company from claiming a deduction for compensation in excess of $1 million for certain executive officers. This deduction limitation, however, does not apply to performance-based compensation that satisfies certain requirements under Section 162(m). The Compensation Committee has determined that it is in the best interests of the Company and its stockholders to structure compensation of executive officers so that compensation will not be subject to the deduction limit to the extent that it can reasonably do so in a manner that provides adequate incentives and allows the Company to attract and retain qualified executives. However, the Compensation Committee has previously, and may in the future, structure compensation arrangements that under certain circumstances may be subject to the deduction limit.

Under the Company's Section 162(m) Annual Cash Incentive Plan, the annual cash bonuses qualified in Fiscal 2012 as performance-based compensation under Section 162(m). Stock options and performance-based restricted stock grants awarded under the Stock Benefit Plan also qualify as performance-based compensation. Base salaries and time-based restricted stock grants do not qualify as performance-based compensation.

As required under the United States tax rules, the Company must obtain stockholder approval every five years of the material terms of the performance goals for qualifying performance-based compensation. The Company received stockholder approval of the performance goals under the AAR CORP. 162(m) Annual Cash Incentive Plan at its 2010 annual meeting of stockholders and the performance goals under the Company's Stock Benefit Plan at its 2011 annual meeting of stockholders.

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Compensation Committee Report on Executive Compensation for Fiscal 2012

The Compensation Committee of the Board of Directors of the Company furnishes the following report to the stockholders of the Company in accordance with applicable SEC rules.

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis set forth above with the Company's management. Based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Respectfully submitted,

Compensation Committee

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

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Summary Compensation Table[1]

The following table sets forth compensation information for the Company's named executive officers for Fiscal 2012, Fiscal 2011 and Fiscal 2010:

Name and Principal Position	Year	Salary ($)[2]	Bonus ($)	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)[5]	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)[6]	All Other Compensation ($)[6,7]	Total ($)
DAVID P. STORCH	2012	867,000	0	2,664,745	578,460	850,000	50,454	826,195	5,836,854
Chairman of the Board and	2011	850,000	0	1,695,759	668,254	1,400,900	72,831	622,830	5,310,574
Chief Executive Officer	2010	799,208	0	2,562,750	1,480,000	895,494	41,691	698,189	6,477,332
TIMOTHY J. ROMENESKO	2012	477,544	0	1,287,491	279,483	423,277	35,958	313,361	2,817,114
President and Chief	2011	468,180	0	819,306	322,872	701,469	32,962	242,640	2,587,429
Operating Officer	2010	454,500	0	1,195,950	740,000	451,882	30,493	212,792	3,085,617
RICHARD J. POULTON	2012	374,544	0	767,431	166,592	265,586		122,278	1,696,431
Vice President, Chief	2011	367,200	0	488,378	192,458	440,137		89,931	1,578,104
Financial Officer and Treasurer	2010	360,000	0	597,975	444,000	267,767		100,852	1,770,594
TERRY D. STINSON	2012	344,893	0	382,850		172,716		181,504	1,081,963
Group Vice President,	2011	338,130	0	86,350	158,800	470,653		260,146	