Use these links to rapidly review the document
TABLE OF CONTENTS

Table of Contents

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

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended May 31, 2019
or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission file number 1-6263

AAR CORP.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2334820** (I.R.S. Employer Identification No.)

One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(630) 227-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	AIR	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ☒	Accelerated filer ☐	Non-Accelerated filer ☐	Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period prior to complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the registrant's voting stock held by nonaffiliates was approximately $1,449 million (based upon the closing price of the Common Stock at November 30, 2018 as reported on the New York Stock Exchange).

On June 28, 2019, there were 34,826,115 shares of Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Company's proxy statement for the Company's 2019 Annual Meeting of Stockholders, to be held September 24, 2019, are incorporated by reference in Part III of this report.

TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

General

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," and "our" unless the context indicates otherwise. AAR was founded in 1951, organized in 1955 and reincorporated in Delaware in 1966. We are a diversified provider of products and services to the worldwide aviation and government and defense markets.

Fiscal 2019 was a year focused on growth and execution of a number of important programs and strategic initiatives. We succeeded in building customer relationships with multiple international commercial and government customers. Our parts supply activities were extremely strong and we also invested to support our growth.

In fiscal 2019, we completed the ramp-up of the INL/A Worldwide Aviation Support Services ("INL/A WASS") contract for the U.S. Department of State ("DoS"). This contract leverages our capabilities in aviation services, including flight operations, supply chain logistics, and other services. We are the prime contractor on this 10-year performance-based contract to globally operate and maintain the DoS fleet of fixed- and rotary-wing aircraft. We have full operational capability at all contract sites, which include Afghanistan, Iraq, Panama, Peru, Costa Rica and Patrick Air Force Base as well as support locations in Brevard County, Florida.

We also completed the ramp-up of the 15-year, U.S. Air Force Landing Gear Performance-Based Logistics One program. Under the program, we are providing total supply chain management including purchasing, distribution, and inventory control to support all landing gear components for the U.S. Air Force's fleet of C-130, KC-135 and E-3 aircraft.

We also entered into an agreement to sell certain contracts and assets of our Contractor-Owned, Contractor-Operated business ("COCO"), which is classified as a discontinued operation. We expect the sale to close before the end of calendar 2019. The exit of this business is consistent with the realignment of our strategy.

Our long-term strategy continues to emphasize investing in the business as well as returning capital to shareholders. Over the past three years, we have returned $74.2 million to shareholders through common stock repurchases of $43.2 million and dividends of $31.0 million. Our cash on hand plus unused capacities on our Revolving Credit Facility and accounts receivable financing program was $465 million at May 31, 2019.

Business Segments

Aviation Services

The Aviation Services segment provides aftermarket support and services for the commercial aviation and government and defense markets and accounted for approximately 95% of our sales in fiscal 2019, 2018, and 2017. In this segment, we also provide inventory management and distribution services, maintenance, repair and overhaul ("MRO"), and engineering services. Business activities in this segment are primarily conducted through AAR Supply Chain, Inc.; AAR Government Services, Inc.; AAR Aircraft & Engine Sales & Leasing, Inc.; AAR Aircraft Services, Inc.; AAR Allen Services, Inc.; AAR Landing Gear LLC; AAR Airlift Group, Inc.; and AAR International, Inc.

We sell and lease a wide variety of new, overhauled and repaired engine and airframe parts and components and aircraft to our commercial aviation and government/defense customers.

We provide customized flight hour component inventory and repair programs, warranty claim management, and outsourcing programs for engine and airframe parts and components in support of our airline and government customers' maintenance activities. The types of services provided under these programs include some or all of the following functions: material planning, sourcing, logistics, information and program management, and parts and component repair and overhaul. We are also an authorized distributor for more than 90 product lines across approximately 25 aviation original equipment manufacturers ("OEM"s).

We provide fleet management and operations of customer-owned aircraft for the DoS under the INL/A WASS contract. We are the prime contractor on this ten-year performance-based contract to globally operate and maintain the DoS fleet of fixed- and rotary-wing aircraft.

We also provide customized performance-based supply chain logistics programs in support of the U.S. Department of Defense ("DoD") and foreign governments. The types of services provided under these programs include some or all of the following functions: material planning, sourcing, logistics, information and program management, airframe maintenance and maintenance planning, and component repair and overhaul.

We provide major airframe inspection, maintenance, repair and overhaul, painting services, line maintenance, airframe modifications, structural repairs, avionic service and installation, exterior and interior refurbishment, and engineering services and support for many types of commercial and military aircraft. We also repair and overhaul various components, landing gears, wheels, and brakes for commercial and military aircraft.

We operate seven airframe maintenance facilities and one landing gear overhaul facility. Our landing gear overhaul facility is in Miami, Florida, where we repair and overhaul landing gear, wheels, brakes, and actuators for different types of commercial and military aircraft. Our U.S. airframe maintenance facilities are in Indianapolis, Indiana; Oklahoma City, Oklahoma; Duluth, Minnesota; Miami, Florida; and Rockford, Illinois and our Canadian airframe maintenance facilities are in Trois Rivieres, Quebec and Windsor, Ontario. During fiscal 2019, we repositioned certain elements of our workforce across our network of airframe maintenance facilities to optimize staffing levels. In addition, we have a joint venture with Indamer Aviation to develop and operate an airframe maintenance facility in India. The facility construction is expected to be completed in fiscal 2020.

The majority of our product sales are made pursuant to standard commercial purchase orders. Government sales are generally made under standard types of government contracts, which can include firm fixed-price contracts, cost plus fixed fee contracts, and time-and-materials contracts. For cost plus fixed fee contracts, we typically receive reimbursement of our costs, to the extent the costs are allowable under contractual and regulatory provisions, in addition to receiving a fixed fee. Some of our contracts call for the performance of specified services or the delivery of specified products under indefinite delivery/indefinite quantity ("ID/IQ") arrangements. Certain inventory supply and management and performance-based logistics program agreements reflect negotiated terms and conditions.

To support activities within the Aviation Services segment, we acquire aviation parts and components from domestic and foreign airlines, independent aviation service companies, aircraft leasing companies, and OEMs. We have ongoing arrangements with OEMs that provide us access to parts, repair manuals, and service bulletins in support of parts manufactured by them. Although the terms of each arrangement vary, they typically are made on standard OEM terms as to duration, price, and delivery. From time to time, we purchase airframes and engines for disassembly into individual parts and components. Airframes and engines may also be leased to airlines on a short-term basis prior to disassembly or sale.

Expeditionary Services

The Expeditionary Services segment primarily consists of businesses that provide products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and non-governmental organizations. The Expeditionary Services segment accounted for approximately 5% of our sales in fiscal 2019, 2018, and 2017. Business activities in this segment are primarily conducted through AAR Manufacturing, Inc. and Brown International Corporation.

We design, manufacture, and repair transportation pallets and a wide variety of containers and shelters used in support of military and humanitarian tactical deployment activities. The containers and shelters are used in numerous mission requirements, including armories, supply and parts storage, refrigeration systems, tactical operation centers, briefing rooms, laundry and kitchen facilities, water treatment, and sleeping quarters. Shelters include both stationary and vehicle-mounted applications.

We also provide engineering, design, and system integration services for specialized command and control systems and design and manufacture advanced composite materials for commercial, business and military aircraft.

Sales in this segment are generally made to customers pursuant to standard commercial purchase orders and contracts. Government sales are generally made under standard types of government contracts, which can include firm fixed-price contracts, cost plus fixed fee contracts, and time-and-materials contracts. Some of our contracts call for the performance of specified services or the delivery of specified products under ID/IQ arrangements, however, the majority of our products and services are procured via definite contracts.

Raw Materials

Although we generated approximately 55% of our fiscal 2019 sales from the sale of products, our businesses are generally engaged in limited manufacturing activities and have minimal exposure to fluctuations in both the availability and pricing of raw materials. We purchase raw materials for our manufacturing operations, including steel, aluminum, extrusions, balsa, and other necessary supplies from several vendors. Where necessary, we have been able to obtain raw materials and other inventory items from numerous sources for each segment at competitive prices, terms, and conditions, and we expect to be able to continue to do so.

Terms of Sale

We generally sell our products and services under standard 30-day payment terms. On occasion, certain customers will negotiate extended payment terms of 60-90 days. Except for customary warranty provisions, customers neither have the right to return products nor do they have the right to extended financing. Our government contracts may extend several years and include one or more base years and one or more option years. The government generally has the right not to exercise options to extend or expand our contracts and may otherwise terminate, cancel, or modify some contracts at its convenience.

Customers

The principal customers for our products and services in the Aviation Services segment are domestic and foreign passenger airlines, domestic and foreign cargo airlines, regional and commuter airlines, business and general aviation operators, OEMs, aircraft leasing companies, aftermarket aviation support companies, the DoD and its contractors, the DoS, and foreign military organizations or governments. In the Expeditionary Services segment, our principal customers include the DoD and its contractors, foreign military organizations or governments, defense organizations, and OEMs.

Sales of aviation products and services to our commercial airline customers are generally affected by such factors as the number, type and average age of aircraft in service, the levels of aircraft utilization (e.g., frequency of schedules, flying hours, and take-off and landing cycles), the number of airline operators, the general economy, and the level of sales of new and used aircraft. Sales to the DoD and other government agencies are subject to a number of factors, including the level of troop deployment worldwide, government funding, competitive bidding, and requirements generated by worldwide geopolitical events.

We primarily market and sell products and services through our own employees. In certain markets outside of the United States, we rely on foreign sales representatives to assist in the sale of our products and services.

Sales to Government and Defense Customers

Sales to global government and defense customers (including sales to branches, agencies, and departments of the U.S. government) were $677.9 million (33.0% of consolidated sales), $428.9 million (24.5% of consolidated sales) and $438.8 million (27.6% of consolidated sales) in fiscal 2019, 2018 and 2017, respectively. Sales to branches, agencies, and departments of the U.S. government and their contractors were $546.2 million (26.6% of consolidated sales), $304.3 million (17.4% of consolidated sales) and $321.5 million (20.2% of consolidated sales) in fiscal 2019, 2018, and 2017, respectively.

Sales to government and defense customers are reported in each of our reportable segments (See Note 13 of Notes to Consolidated Financial Statements). Since such sales are subject to competitive bidding and government funding, no assurance can be given that such sales will continue at levels previously experienced. The majority of our U.S. government sales are for products and services supporting the DoD logistics and mobility strategy and supporting DoS flight operations. Thus, our government contracts have changed, and may continue to change, with fluctuations in defense and other governmental agency spending and requirements. Our government contracts are also often subject to termination for convenience by the customer; in the event of such a termination, we are contractually entitled to recover all allowable costs incurred by us through the date of termination.

Government Regulation and Certificates

The Federal Aviation Administration ("FAA") regulates the manufacture, repair, and operation of all aircraft and aircraft parts operated in the United States. Similar rules and regulatory authorities exist in other countries. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by these regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. The FAA requires that various maintenance routines be performed on aircraft engines, certain engine parts, and airframes at regular intervals based on take off and landing cycles or flight time. Our businesses, which sell defense products and services directly to the U.S. government or through its contractors, can be subject to various laws and regulations governing pricing and other factors.

We have 13 FAA certificated repair stations in the United States, Canada, and Europe. Of the 13 certificated FAA repair stations, seven are also European Aviation Safety Agency ("EASA") and four are also Transport Canada Civil Aviation ("TCCA") certificated repair stations. Such certificates, which are ongoing in duration, are required for us to perform authorized maintenance, repair, and overhaul services for our customers and are subject to revocation by the government for non-compliance with applicable regulations. Of the 13 FAA certificated repair stations, 12 are in the Aviation Services segment and one is held by our COCO business, which is classified as a discontinued operation as it is currently held for sale. The EASA and TCCA certificated repair stations are in the Aviation Services segment. Our COCO business also holds a FAR Part 135 certificate to operate aircraft for our expeditionary airlift services. We are also Commercial Airlift Review Board certified with the DoD. We believe that we possess all licenses and certifications that are material to the conduct of our business.

Competition

Competition in each of our markets is based on quality, ability to provide a broad range of products and services, speed of delivery, and price. Competitors in our Aviation Services segment include OEMs, the service divisions of large commercial airlines, and other independent suppliers of parts, repair, and overhaul services to the commercial and defense markets. Our Expeditionary Services segment competes with domestic and foreign contracting companies and a number of divisions of large corporations and other large and small companies. Although certain of our competitors have substantially greater financial and other resources than we do, we believe that we have maintained a satisfactory competitive position through our responsiveness to customer needs, our attention to quality, and our unique combination of market expertise and technical and financial capabilities.

Backlog

Backlog represents the amount of revenue that we expect to derive from unshipped orders or signed contracts. At May 31, 2019, backlog was approximately $1.5 billion and we expect that approximately 40% of this backlog will be recognized as revenue over the next 12 months, with the majority of the remaining balance recognized as revenue over the next three years.

Employees

At May 31, 2019, we employed approximately 5,650 employees worldwide, of which approximately 200 employees are subject to a collective bargaining agreement. We also retain approximately 900 contract workers, the majority of whom are located at our airframe maintenance facilities.

Available Information

For additional information concerning our business segments, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business Segment Information" in Note 13 of Notes to Consolidated Financial Statements under Item 8, "Financial Statements and Supplementary Data."

Our internet address is www.aarcorp.com. We make available free of charge through our web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. Information contained on our web site is not a part of this report.

ITEM 1A. RISK FACTORS

The following is a description of the principal risks inherent in our business.

We are affected by factors that adversely impact the commercial aviation industry.

As a provider of products and services to the commercial aviation industry, we are greatly affected by overall economic conditions of that industry. The commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, high fuel and oil prices, lack of capital, and weak economic conditions. As a result of these and other events, from time to time certain of our customers have filed for bankruptcy protection or ceased operation. The impact of instability in the global financial markets may lead airlines to reduce domestic or international capacity. In addition, certain of our airline customers have in the past been impacted by tight credit markets, which limited their ability to buy parts, services, engines, and aircraft.

A reduction in the operating fleet of aircraft both in the U.S. and abroad will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. Further, tight credit conditions negatively impact the amount of liquidity available to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in additional airline bankruptcies, and in such circumstances we may not be able to fully collect outstanding accounts receivable. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact our financial condition or results of operations.

Our business, financial condition, results of operations, and growth rates may be adversely affected by these and other events that impact the aviation industry, including the following:

- deterioration in the financial condition of our existing and potential customers;
- reductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support;
- retirement of older generation aircraft, resulting in lower prices for spare parts and services for those aircraft;
- reductions in demand for used aircraft and engines;
- increased in-house maintenance by airlines;
- lack of parts in the marketplace;
- acts of terrorism;
- future outbreaks of infectious diseases; and
- acts of God.

Our U.S. government contracts may not continue at present sales levels, which may have a material adverse effect on our financial condition and results of operations.

Our sales to branches, agencies and departments of the U.S. government and their contractors were $546.2 million (26.6% of consolidated sales) in fiscal 2019 (See Note 13 of Notes to Consolidated Financial Statements). The majority of our U.S. government sales is for products and services supporting DoD logistics and mobility strategy and DoS flight operations and are, therefore, subject to changes in defense and other governmental agency funding and spending. Our contracts with the U.S. government and their contractors are typically agreements to provide products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government customer. Sales to agencies of the U.S. government and their contractors are subject to a number of factors, including the level of troop deployment worldwide, competitive bidding, U.S. government funding, requirements generated by world events, and budgetary constraints.

U.S. government programs are subject to annual congressional budget authorization and appropriation processes. In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation, including the statutory limit on the amount of permissible federal debt (the "debt ceiling"). These issues could negatively affect the timely collection of our U.S. government invoices.

Future congressional appropriation and authorization of defense spending and the application of sequestration remain marked by significant debate and an uncertain schedule. The federal debt limit continues to be actively debated as plans for long-term national fiscal policy are discussed. The outcome of these debates could have a significant impact on defense spending broadly and programs we support in particular.

If there are funding delays and constraints, we may be required to continue to perform for some period of time on certain of our U.S. government contracts even if the U.S. government is unable to make timely payments. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions could result in reductions, cancellations, and/or delays of existing contracts or programs which could adversely affect our results of operations and financial condition.

If we fail to comply with government procurement laws and regulations, we could lose business and be liable for various penalties or sanctions.

We must comply with laws and regulations relating to the formation, administration, and performance of government contracts. In the U.S., these laws and regulations include the Federal Acquisition Regulations, Defense Federal Acquisition Regulations, the Truth in Negotiations Act, Cost Accounting Standards, and laws, regulations, and orders restricting the use and dissemination of classified information under the U.S. export control laws and the export of certain products and technical information and safeguarding of contractor information systems.

In addition, we are subject to U.S. government inquiries and investigations, including periodic audits of costs that we determine are reimbursable under government contracts. U.S. government agencies routinely audit government contractors to review performance under contracts, cost structure and compliance with applicable laws, regulations, and standards, as well as the adequacy of and compliance with internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. Any costs found to be misclassified or inaccurately allocated to a specific contract are not reimbursable, and to the extent already reimbursed, must be refunded. Also, any inadequacies in our systems and policies could result in payments being withheld, penalties and reduced future business.

U.S. government rules allow contracting officers to impose contractual withholdings at no less than certain minimum levels if a contracting officer determines that one or more of a contractor's business systems have one or more significant deficiencies. If a contracting officer were to impose such a withholding on us or even one of our prime contractors, it would increase the risk that we would not be paid in full or paid timely. If future audit adjustments exceed our estimates, our profitability could be adversely affected.

If a government inquiry or investigation uncovers improper or illegal activities, we could be subject to civil or criminal penalties or administrative sanctions, including contract termination, fines, forfeiture of fees, suspension of payment and suspension or debarment from doing business with government agencies, any of which could materially adversely affect our reputation, business, financial condition and results of operations.

We use estimates when accounting for long-term contracts and face risks of cost overruns and losses on fixed-price contracts.

We sell certain of our products and services to our commercial, government, and defense customers under firm contracts providing for fixed unit prices, regardless of costs incurred by us. The cost of producing products or providing services may be adversely affected by increases in the cost of labor, materials, fuel, overhead, and other unknown variants, including manufacturing and other operational inefficiencies and differences between assumptions used by us to price a contract and actual results. Increased costs may result in cost overruns and losses on such contracts, which could adversely affect our results of operations and financial condition.

We recognize revenue on our long-term contracts primarily over time as there is continuous transfer of control to the customer over the duration of the contract as the services are delivered, which generally requires estimates of total costs at completion, fees earned on the contract, or both. This estimation process is complex and involves significant judgment related to assumptions on flight hours, component repair costs, labor hours and rates, and contract penalties and incentives. Adjustments to estimates are often required as work progresses, experience is gained and additional information becomes known, even though the scope of the work required under the contract may not change. Any adjustment as a result of a change in estimate is recognized as events become known. Changes in the underlying assumptions, circumstances or estimates could result in adjustments that may adversely affect our future financial results.

If our subcontractors or suppliers fail to perform their contractual obligations, our contract profitability and our ability to win new contracts may be adversely affected.

We rely on subcontractors to perform a portion of the services we agree to provide our customers, and our suppliers provide necessary inventory and component parts. A failure by one or more of our subcontractors or suppliers to satisfactorily provide on a timely basis the agreed-upon services or supplies may affect our ability to perform our contractual obligations. Deficiencies in the performance of our subcontractors and/or suppliers could result in liquidated damages or our customer terminating our contract for default. A termination for default could expose us to liability and adversely affect our financial performance and our ability to win new contract awards.

We are subject to significant government regulation and may need to incur significant expenses to comply with new or more stringent governmental regulation.

The aviation industry is highly regulated by the FAA in the United States and equivalent regulatory agencies in other countries. Before we sell any of our products that are to be installed in an aircraft, such as engines, engine parts and components, and airframe and accessory parts and components, they must meet certain standards of airworthiness established by the FAA or the equivalent regulatory agencies in certain other countries. We operate repair stations that are licensed by the FAA and the equivalent regulatory agencies in certain other countries, and hold certificates to operate aircraft. Specific regulations vary from country to country; although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. New and more stringent governmental regulations may be adopted in the future that, if enacted, may have an adverse impact on us.

If any of our material licenses, certificates, authorizations, or approvals were revoked or suspended by the FAA or equivalent regulatory agencies in other countries, our results of operations and financial condition may be adversely affected.

Success at our airframe maintenance facilities is dependent upon continued outsourcing by the airlines.

We currently perform airframe maintenance, repair, and overhaul activities at seven leased locations. Revenues at these facilities fluctuate based on demand for maintenance which, in turn, is driven by the number of aircraft operating and the extent of outsourcing of maintenance activities by airlines. In addition, certain airlines operate certain new fleet types and/or newer generation aircraft and we may not have contractual arrangements to service these aircraft nor technicians trained and certified to perform the required airframe maintenance, repair, and overhaul activities. If either the number of aircraft operating or the level of outsourcing of maintenance activities declines, we may not be able to execute our operational and financial plans at our maintenance, repair, and overhaul facilities, which could adversely affect our results of operations and financial condition.

Our operations would be adversely affected by a shortage of skilled personnel or work stoppages.

We are dependent on an educated and highly skilled workforce because of the complex nature of many of our products and services. Furthermore, we have a collective bargaining agreement covering approximately 200 employees. Our ability to operate successfully and meet our customers' demands could be jeopardized if we are unable to attract and retain a sufficient number of skilled personnel, including qualified licensed mechanics, to conduct our business, or if we experience a significant or prolonged work stoppage. These and similar events may adversely affect our results of operations and financial condition.

We operate in highly competitive markets, and competitive pressures may adversely affect us.

The markets for our products and services to our commercial, government, and defense customers are highly competitive, and we face competition from a number of sources, both domestic and international. Our competitors include aircraft manufacturers, aircraft component and parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, other aircraft spare parts distributors and redistributors. Some of our competitors have substantially greater financial and other resources than we have and others may price their products and services below our selling prices. These competitive markets also create pressure on our ability to hire and retain qualified technicians and other skilled labor needs. We believe that our ability to compete depends on superior customer service and support, on-time delivery, sufficient inventory availability, competitive pricing, and effective quality assurance programs.

Our government customers, including the DoD and DoS, may turn to commercial contractors, rather than traditional defense contractors, for certain work, or may utilize set asides such as small business, women-owned, or minority-owned contractors or determine to source work internally rather than use us. We are also impacted by bid protests from unsuccessful bidders on new program awards and task orders. Bid protests could result in significant expense for us, contract modifications, or the award decision being overturned and loss of the contract award. Even where a bid protest does not result in the loss of an award, the resolution can extend the time until the contract activity can begin, and delay earnings. These competitive pressures, with potential impacts on both our commercial and government business, could adversely affect our results of operations and financial condition.

We are exposed to risks associated with operating internationally.

We conduct our business in a number of foreign countries, some of which are politically unstable or subject to military or civil conflicts. Consequently, we are subject to a variety of risks that are specific to international operations, including the following:

- military conflicts, civil strife, and political risks;
- export regulations that could erode profit margins or restrict exports;
- compliance with the U.S. Foreign Corrupt Practices Act, United Kingdom ("UK") Anti-bribery Act, and other anti-bribery and anti-corruption laws;
- the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;

- contract award and funding delays;
- potential restrictions on transfers of funds;
- import and export duties and value added taxes;
- foreign exchange risk;
- transportation delays and interruptions;
- uncertainties arising from foreign local business practices and cultural considerations; and
- changes in U.S. policies on trade relations and trade policy, including implementation of or changes in trade sanctions, tariffs, and embargoes.

In addition, the UK held a referendum in 2016 in which voters approved an exit from the European Union ("EU") referred to as Brexit. There continues to be substantial uncertainty regarding the economic impact of the UK's potential exit from the EU. Potential adverse consequences of Brexit include global market uncertainty, volatility in currency exchange rates, greater restrictions on imports and exports between the UK and other countries and increased regulatory complexities.

While we have adopted and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business internationally, such measures may not be adequate, and the regions in which we operate might not continue to be stable enough to allow us to operate profitably or at all.

Acquisitions expose us to risks, including the risk that we may be unable to effectively integrate acquired businesses.

We have completed multiple acquisitions over the past few years and we have discussions with third parties regarding acquisitions on a regular basis. Acquisitions involve risks, including difficulties in integrating the operations and personnel, the effects of amortization of any acquired intangible assets and the potential impairment of goodwill, and the potential loss of key employees of the acquired business. In addition, acquisitions often require substantial management resources and have the potential to divert our attention from our existing business. For any businesses we may acquire in the future, we may not be able to execute our operational, financial, or integration plans for the acquired businesses, which could adversely affect our results of operations and financial condition.

Market values for our aviation products fluctuate and we may be unable to recover our costs incurred on engines, rotable components and other aircraft parts.

We make a number of assumptions when determining the recoverability of rotable components, engines, and other assets which are on lease, available for lease, or supporting our long-term programs. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for these assets or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the recoverability of our aircraft, engines, and other assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition.

We may need to reduce the carrying value of our assets.

We own and distribute a significant amount of engines, aircraft parts and components, as well as own manufacturing facilities and joint venture investments. The removal of aircraft from service or recurring losses in certain operations could require us to evaluate the recoverability of the carrying value of those assets and record an impairment charge through earnings to reduce the carrying value. During the third quarter of fiscal 2019 and second quarter of fiscal 2018, we recognized impairment charges of $74.1 million and $54.2 million, respectively, related to assets included in our COCO business which is classified as a discontinued operation. In addition, if aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline.

We make a number of assumptions when determining the recoverability of our assets including historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Differences between actual results and the assumptions utilized by us when determining the recoverability of our assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition.

We have recorded goodwill and other intangible assets related to acquisitions. If we are unable to achieve the projected levels of operating results, it may be necessary to record an impairment charge to reduce the carrying value of goodwill and related intangible assets. During the third quarter of fiscal 2018, we recognized a goodwill impairment charge of $9.8 million related to our COCO business. Similarly, if we were to lose a key customer or if a regulator were to terminate any of our repair certificates at our airframe maintenance or landing gear facilities, we might be required to record an impairment charge if we were unable to operate.

We are dependent upon continued availability of financing to manage our business and to execute our business strategy, and additional financing may not be available on terms acceptable to us.

Our ability to manage our business and to execute our business strategy is dependent, in part, on the continued availability of debt and equity capital. Access to the debt and equity capital markets may be limited by various factors, including the condition of overall credit markets, general economic factors, state of the aviation industry, our financial performance, and credit ratings. Debt and equity capital may not continue to be available to us on favorable terms, or at all. Our inability to obtain financing on favorable terms could adversely affect our results of operations and financial condition.

LIBOR, the London interbank offered rate, is the basic rate of interest used in lending between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. Interest rates under our Revolving Credit Facility are based partly on the LIBOR rate. LIBOR is currently expected to phase out by the end of 2021. It is unclear if at that time LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. If the method for calculation of LIBOR changes, if LIBOR is no longer available or if lenders have increased costs due to changes in LIBOR, we may suffer from potential increases in interest rates on our borrowings. Further, we may need to renegotiate our credit facilities or any other borrowings that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established.

Our existing debt includes restrictive and financial covenants.

Certain financing arrangements, including our Revolving Credit Facility and our accounts receivable financing program, require us to comply with various restrictive covenants and some contain financial covenants that require us to comply with specified financial ratios and tests. Our failure to meet these covenants could result in default under these loan and debt agreements and may result in a cross-default under other debt agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under our debt agreements could be declared immediately due and payable. Our failure to comply with these covenants could adversely affect our results of operations and financial condition.

Our industry is susceptible to product and other liability claims, and claims not adequately covered by insurance may adversely affect our financial condition.

Our business exposes us to possible claims for property damage and bodily injury or death which may result if an engine, engine part or component, airframe part or accessory, or any other aviation product that we have sold, manufactured, or repaired fails, or if an aircraft we operated, serviced, or in which our products are installed, has an accident. We carry substantial liability insurance in amounts that we believe are adequate for our risk exposure and commensurate with industry norms. However, claims may arise in the future, and our insurance coverage may not be adequate to protect us in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage in the future at an acceptable cost. Any liability claim not covered by adequate insurance could adversely affect our results of operations and financial condition.

Our business could be negatively affected by cyber or other security threats or other disruptions.

Our business depends heavily on information technology and computerized systems to communicate and operate effectively. The Company's systems and technologies, or those of third parties on which we rely, could fail or become unreliable due to equipment failures, software viruses, cyber threats, ransomware attacks, terrorist acts, natural disasters, power failures or other causes. These threats arise in some cases as a result of our role as a defense contractor.

Cyber security threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to our sensitive information, business e-mail compromises, ransomware attacks, and other electronic security breaches, including at our customers, suppliers, subcontractors, and joint venture partners, that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data.

The procedures and controls we utilize to monitor and mitigate these threats may not be sufficient to prevent security threats from materializing. If any of these events were to materialize, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified and could have a material adverse effect on our reputation, operating results, and financial condition.

Moreover, expenditures incurred in implementing and maintaining cyber security and other procedures and controls could adversely affect our results of operations and financial condition.

We must comply with extensive environmental requirements, and any exposure to environmental liabilities may adversely affect us.

Federal, state, and local requirements relating to the discharge and emission of substances into the environment, the disposal of hazardous wastes, the remediation and abatement of contaminants, and other activities affecting the environment have had and may continue to have an impact on our operations. Management cannot assess the possible effect of compliance with future environmental requirements or of future environmental claims for which we may not have adequate indemnification or insurance coverage. If we were required to pay the expenses related to any future environmental claims for which neither indemnification nor insurance coverage were available, these expenses could have an adverse impact on our results of operations and financial condition.

Future environmental regulatory developments in the United States and abroad concerning environmental issues, such as climate change, could adversely affect our operations and increase operating costs and, through their impact on our customers, reduce demand for our products and services. Actions may be taken in the future by the U.S. government, state governments within the United States, foreign governments, or the International Civil Aviation Organization to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to us and our customers are difficult to predict, but the impact to us and the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits.

We may need to make significant capital expenditures to keep pace with technological developments in our industry.

The industries in which we participate are constantly undergoing development and change, and it is likely that new products, equipment, and methods of repair and overhaul services will be introduced in the future. We may need to make significant expenditures to purchase new equipment and to train our employees to keep pace with any new technological developments. These expenditures could adversely affect our results of operations and financial condition.

We identified material weaknesses in our internal controls which, if not remediated appropriately or timely, could affect the reliability of our financial reporting and result in loss of investor confidence and adversely impact our stock price.

During the fourth quarter of fiscal 2019, we identified material weaknesses in internal control over financial reporting. Refer to Part II, Item 9A for additional information. We have been implementing and will continue to implement measures designed to ensure that the control deficiencies contributing to the material weaknesses are remediated; however, we cannot provide assurance that these measures will be successful. If we are unable to remediate the material weaknesses or are unable to otherwise maintain effective internal control over financial reporting, our ability to report financial information timely and accurately could be adversely affected. As a result, we could lose investor confidence and become subject to litigation or investigations, which could adversely affect our business, operations, and financial condition and our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. PROPERTIES

In the Aviation Services segment, we conduct parts supply activities from our headquarters in Wood Dale, Illinois, which we own. In addition to warehouse space, this facility includes executive, sales and administrative offices. Our principal maintenance, repair, overhaul, engineering and other service activities for this segment are conducted at U.S. facilities leased by us in Indianapolis, Indiana; Oklahoma City, Oklahoma; Miami, Florida; Medley, Florida; Duluth, Minnesota; and Rockford, Illinois and at Canadian facilities leased by us in Trois Rivieres, Quebec and Windsor, Ontario.

We also lease facilities in Garden City, New York; Melbourne, Florida; Jacksonville, Florida; Brussels, Belgium; London, England; and Crawley, England, and own a building near Schiphol International Airport in the Netherlands to support activities in the Aviation Services segment.

Our principal activities in the Expeditionary Services segment are conducted at facilities we lease in Huntsville, Alabama and Sacramento, California and own in Cadillac, Michigan; Clearwater, Florida; and Goldsboro, North Carolina.

We also operate sales offices that support all our activities and are leased in London, England; Crawley, England; Paris, France; Rio de Janeiro, Brazil; Tokyo, Japan; Shanghai, China; Singapore, Republic of Singapore; and Dubai, UAE.

We believe that our owned and leased facilities are suitable and adequate for our operational requirements.

ITEM 3. LEGAL PROCEEDINGS

Department of Justice Investigation

The U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney's Office for the Southern District of Illinois, is conducting an investigation of AAR Airlift Group, Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., under the federal civil False Claims Act ("FCA"). The investigation relates to Airlift's performance of several contracts awarded by the U.S. Transportation Command concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift. That lawsuit remains under seal. Airlift is cooperating with the DoJ investigation.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, we self-reported these matters to the DoJ, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company will fully cooperate in any review by these agencies, although we are unable at this time to predict what action, if any, they may take.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

Supplemental Item:

EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning each of our executive officers is set forth below:

Name	Age	Present Position with the Company
John M. Holmes	42	Chief Executive Officer and President, Director
Sean M. Gillen	33	Vice President and Chief Financial Officer
Robert J. Regan	61	Vice President, General Counsel and Secretary
Chris Jessup	41	Vice President, Chief Commercial Officer
Eric S. Pachapa	46	Vice President, Controller and Chief Accounting Officer

Mr. Holmes is Chief Executive Officer and President, having served in that capacity since June 2018. From June 2017 to May 2018, Mr. Holmes served as President and Chief Operating Officer. From February 2015 to June 2017, Mr. Holmes served as Chief Operating Officer—Aviation Services. Prior to that, Mr. Holmes served as Group Vice President, Aviation Services—Inventory Management and Distribution from 2012 to 2015, General Manager and Division President of our Allen Asset Management business from 2003 to 2012, and in various other positions since joining the Company in September 2001. Mr. Holmes has been a director of the Company since 2017.

Mr. Gillen is Vice President and Chief Financial Officer, having served in that capacity since January 2019. Prior to joining AAR, Mr. Gillen was Vice President and Treasurer of USG Corporation since 2017. Prior to USG, Mr. Gillen spent nine years in investment banking with Goldman Sachs, most recently as a Vice President in their Global Industrials Group.

Mr. Regan is Vice President, General Counsel and Secretary, having served in that capacity since June 2009. From 2008 to June 2009, Mr. Regan served as Vice President and General Counsel and, prior to that, Associate General Counsel since joining AAR in February 2008. Prior to joining AAR, he was a partner at the law firm of Schiff Hardin LLP since 1989. As previously announced, Mr. Regan will retire from the Company on December 31, 2019.

Mr. Jessup is Vice President, Chief Commercial Officer, having served in that capacity since June 2017. Mr. Jessup previously served as Chief Commercial Officer for the Company's Aviation Services segment since February 2015, and prior to that, he served in various capacities within the Company's Maintenance, Repair and Overhaul business. Prior to joining the Company in 2008, Mr. Jessup was Vice President, Sales and Marketing at Avborne Heavy Maintenance, Inc. in Miami, Florida.

Mr. Pachapa is Vice President, Controller and Chief Accounting Officer, having served in that capacity since July 2016. Mr. Pachapa previously served as Controller since October 2015 and Senior Director of Accounting and Reporting since April 2014. Prior to joining the Company, Mr. Pachapa was with Glanbia plc from 2011 to 2014, and with Ernst & Young LLP from 1996 to 2011.

Each executive officer is elected annually by the Board of Directors. Executive officers continue to hold office until their successors are duly elected or until their death, resignation, termination or reassignment.

PART II

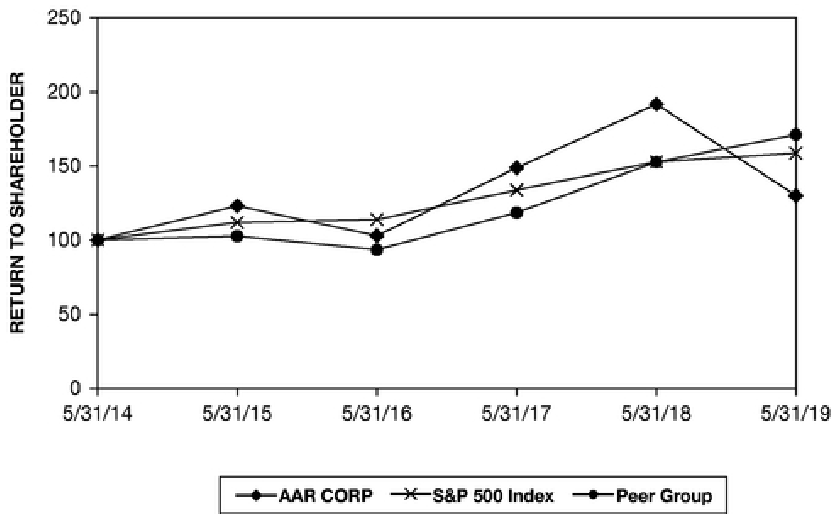
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the New York Stock Exchange and the Chicago Stock Exchange under the symbol "AIR." On June 28, 2019, there were approximately 900 holders of common stock, including participants in security position listings.

Stockholder Return Performance Graph

The following graph compares the total return on a cumulative basis of $100 invested, and reinvestment of dividends in our common stock on May 31, 2014 to the Standard and Poor's ("S&P") 500 Index and the Proxy Peer Group:

Comparison of Cumulative Five Year Total Return



The S&P 500 Index is comprised of domestic industry leaders in four major sectors: Industrial, Financial, Utility, and Transportation, and serves as a broad indicator of the performance of the U.S. equity market. The Company's Fiscal 2019 Proxy Peer Group companies are listed as follows:

Aerojet Rocketdyne Holdings, Inc.
Barnes Group Inc.
CACI International Inc
Crane Co.
Cubic Corporation
Curtiss-Wright Corporation
Engility Holdings, Inc.[a]
Esterline Technologies Corporation
Heico Corporation
Hexcel Corporation
Kaman Corporation
KLX Inc.
Moog Inc.
Science Applications International Corporation
Teledyne Technologies Incorporated
Triumph Group, Inc.
Wesco Aircraft Holdings, Inc.

a New peer group company added for fiscal 2019 due to its business and financial comparability to the Company.

Three companies were removed from the prior year's peer group: Rockwell Collins was acquired and Transdigm Group, Inc. and Woodward, Inc. were judged no longer to be suitable comparator companies.

The Company annually revisits the composition of the peer group to ensure that the Company's performance is measured against those of comparably-sized and situated companies. The mix of the Company's commercial and government/defense markets presents a challenge in constructing a peer group, given that many government/defense contractors have substantially greater resources than the Company.

Issuer Purchases of Equity Securities

The following table provides information about purchases of shares of our common stock that we made during the quarter ended May 31, 2019:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs[1]
3/1/2019 - 3/31/2019	194,281	$ 32.84	194,281	
4/1/2019 - 4/30/2019	96,238	32.40	96,238	
5/1/2019 - 5/31/2019	—	—	—	
Total	290,519	$ 32.69	290,519	$ 226,630,799

1 On July 10, 2017, our Board of Directors authorized a new stock repurchase program providing for the repurchase of up to $250 million of our common stock, with no expiration date.

ITEM 6. SELECTED FINANCIAL DATA
(In millions, except per share amounts)

	For the Year Ended May 31,				
	2019	2018	2017	2016	2015
RESULTS OF OPERATIONS					
Sales[1]	$ 2,051.8	$ 1,748.3	$ 1,590.8	$ 1,525.4	$ 1,448.0
Gross profit[2]	329.5	294.6	263.4	233.1	152.8
Operating income (loss)[2]	98.3	86.0	82.3	75.5	(31.2)
Loss on extinguishment of debt[3]	—	—	—	(0.4)	(44.9)
Interest expense	9.5	8.0	5.3	6.4	27.2
Income (Loss) from continuing operations	84.1	73.7	52.0	45.5	(67.4)
Income (Loss) from discontinued operations[4]	(76.6)	(58.1)	4.5	2.2	77.6
Net income	7.5	15.6	56.5	47.7	10.2
Share data:					
Earnings per share—basic:					
Earnings (Loss) from continuing operations	$ 2.42	$ 2.14	$ 1.53	$ 1.30	$ (1.73)
Earnings (Loss) from discontinued operations[4]	(2.22)	(1.70)	0.13	0.07	1.99
Earnings per share—basic	$ 0.20	$ 0.44	$ 1.66	$ 1.37	$ 0.26
Earnings per share—diluted:					
Earnings (Loss) from continuing operations	$ 2.40	$ 2.11	$ 1.51	$ 1.30	$ (1.73)
Earnings (Loss) from discontinued operations[4]	(2.19)	(1.70)	0.13	0.07	1.97
Earnings per share—diluted	$ 0.21	$ 0.41	$ 1.64	$ 1.37	$ 0.24
Cash dividends declared per share	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30
Weighted average common shares outstanding—basic	34.5	34.2	33.9	34.4	39.1
Weighted average common shares outstanding—diluted	34.9	34.6	34.3	34.6	39.4

	May 31,				
	2019	2018	2017	2016	2015
FINANCIAL POSITION					
Cash and cash equivalents	$ 21.3	$ 31.1	$ 10.3	$ 31.2	$ 54.7
Working capital	595.0	609.4	553.4	540.3	456.9
Total assets	1,517.2	1,524.7	1,504.1	1,456.0	1,454.1
Total debt	142.9	178.9	156.2	145.3	154.0
Equity	905.9	936.3	914.2	865.8	845.1
Number of shares outstanding at end of year	34.8	34.7	34.4	34.5	35.4
Book value per share of common stock	$ 26.03	$ 26.98	$ 26.58	$ 25.10	$ 23.87

Notes:

1 At the beginning of fiscal 2019, we adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASC 606") using a modified retrospective method and as a result, the comparative information for prior years has not been restated and is reported under accounting standards in effect for those years. See Note 1 of Notes to Consolidated Financial Statements for additional information.

2 In fiscal 2015, we recognized $61.5 million in impairment charges and other losses related to product lines and inventories identified as underperforming or not part of our strategy going forward. These

actions included aircraft in our aircraft lease portfolio and inventory in our supply chain and MRO operations. We also recognized impairment charges of $25.6 million related to our composite manufacturing operations.

3 In fiscal 2015, we redeemed our $325 million 7.25% Senior Notes due 2022 for $370.6 million. We recognized a loss on extinguishment of debt of $44.9 million comprised of a make-whole premium of $45.6 million and unamortized deferred financing costs of $6.2 million, partially offset by an unamortized net premium of $6.9 million.

4 In fiscal 2015, we sold our Telair Cargo Group for $725 million resulting in a $198.6 million pre-tax gain. We also recognized impairment charges of $31.9 million in fiscal 2015 to reduce the carrying value of our metal machining business's net assets to their expected value at the time of sale.

In fiscal 2016, we received contingent consideration from the sale of Telair Cargo Group and recognized a pre-tax gain of $27.7 million.

We recognized pre-tax asset impairment charges related to our Contractor-Owned, Contractor-Operated ("COCO") business of $64.0 million and $74.1 million in fiscal 2018 and 2019, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in millions)

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations contain certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the beliefs of management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated, depending on a variety of factors, including those factors discussed under Item 1A, "Risk Factors." Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

General Overview

We report our activities in two business segments: *Aviation Services* comprised of supply chain and maintenance, repair and overhaul ("MRO") activities and *Expeditionary Services* comprised of manufacturing activities.

In the first quarter of fiscal 2019, we re-aligned the composition of our operating segments to leverage the full breadth of our operational expertise in Aviation Services. Our government-owned, contractor-operated operations (which includes the INL/A WASS program) were previously included in our Expeditionary Services segment and are now reported within our Aviation Services segment for all periods presented.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force including engineering, design, and system integration services for specialized command and control systems. This segment also designs and manufactures advanced composite materials for commercial, business and military aircraft. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services.

At the beginning of fiscal 2019, we adopted Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASC 606") using a modified retrospective method and as a result, the comparative information has not been restated and is reported under accounting standards in effect for those years. See Note 1 of Notes to Consolidated Financial Statements for additional information.

Fiscal 2019 was a year focused on growth and execution of a number of important programs and strategic initiatives. We succeeded in building customer relationships with multiple international commercial and government customers. Our parts supply activities were extremely strong and we also invested to support our growth.

In fiscal 2019, we completed the ramp-up of the INL/A WASS contract for the DoS. This contract leverages our capabilities in aviation services, including flight operations, supply chain logistics, and other services. We are the prime contractor on this 10-year performance-based contract to globally operate and maintain the DoS fleet of fixed- and rotary-wing aircraft. We have full operational capability at all contract sites, which include Afghanistan, Iraq, Panama, Peru, Costa Rica and Patrick Air Force Base as well as support locations in Brevard County, Florida.

We also completed the ramp-up of the 15-year, U.S. Air Force Landing Gear Performance-Based Logistics One program. Under the program, we are providing total supply chain management including purchasing, distribution and inventory control to support all landing gear components for the U.S. Air Force's fleet of C-130, KC-135 and E-3 aircraft.

We also entered into an agreement to sell certain contracts and assets of our COCO business, which is classified as a discontinued operation. We expect the sale to close before the end of calendar 2019 and our exit of this business is consistent with the realignment of our strategy.

Our long-term strategy continues to emphasize investing in the business as well as returning capital to shareholders. Over the past three years, we have returned $74.2 million to shareholders through common stock repurchases of $43.2 million and dividends of $31.0 million.

Business Trends and Outlook for Fiscal 2020

Consolidated sales for fiscal 2019 increased $303.5 million or 17.4% over the prior year primarily due to an increase in sales of $284.8 million or 17.4% in our Aviation Services segment. This increase was driven by strong growth in our aviation supply chain activities including the INL/A WASS program, which achieved full operational capability in June 2018.

For fiscal 2020, we expect to see continued strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term aftermarket growth trends are favorable.

We remain in a strong financial position to further execute on our strategy in fiscal 2020. Both our segments are executing on our many contract wins across the commercial and government markets. Our cash on hand plus unused capacities on our Revolving Credit Facility and accounts receivable financing program was $465 million at May 31, 2019. We expect to invest opportunistically in support of our businesses and customers. We continue to have the flexibility in our balance sheet to invest in our growth.

Results of Operations—Fiscal 2019 Compared with Fiscal 2018

Sales and gross profit for our two business segments for the two years ended May 31, 2019 and 2018 were as follows:

	For the Year Ended May 31,		
	2019	2018	% Change
Sales:			
Aviation Services			
Commercial	$ 1,342.3	$ 1,281.9	4.7%
Government and defense	578.3	353.9	63.4%
	$ 1,920.6	$ 1,635.8	17.4%
Expeditionary Services			
Commercial	$ 31.6	$ 37.5	(15.7)%
Government and defense	99.6	75.0	32.8%
	$ 131.2	$ 112.5	16.6%

	For the Year Ended May 31,		
	2019	2018	% Change
Gross Profit:			
Aviation Services			
Commercial	$ 195.4	$ 203.8	(4.1)%
Government and defense	117.9	71.5	64.9%
	$ 313.3	$ 275.3	13.8%
Expeditionary Services			
Commercial	$ 3.0	$ 8.3	(63.9)%
Government and defense	13.2	11.0	20.0%
	$ 16.2	$ 19.3	(16.1)%

Aviation Services Segment

Sales in the Aviation Services segment increased $284.8 million or 17.4% over the prior year primarily due to a $224.4 million or 63.4% increase in sales to government and defense customers. The increase in sales to government and defense customers was primarily attributable to the INL/A WASS program, which achieved full operational capability in June 2018.

During fiscal 2019, sales in this segment to commercial customers increased $60.4 million or 4.7% over the prior year. The increase was primarily due to increased demand in our supply chain activities.

Changes in estimates and assumptions related to our programs accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In fiscal 2019, we recognized favorable and unfavorable cumulative catch-up adjustments of $8.0 million and $2.1 million, respectively, compared to favorable and unfavorable cumulative catch-up adjustments of $11.6 million and $8.0 million, respectively, in fiscal 2018. When considering these adjustments on a net basis, we recognized favorable cumulative catch-up adjustments of $5.9 million and $3.6 million for fiscal 2019 and 2018, respectively. These adjustments primarily relate to our long-term programs where we provide component inventory management and/or repair services.

Cost of sales in Aviation Services increased $246.8 million or 18.1% over the prior year which was in line with the sales increase discussed above. Gross profit in the Aviation Services segment increased

$38.0 million or 13.8% over the prior year. Gross profit on sales to government and defense customers increased $46.4 million or 64.9% over the prior year primarily driven by the INL/A WASS program. The gross profit margin increased to 20.4% from 20.2% in the prior year primarily due to as a result of the mix of products and services sold.

Gross profit in this segment on sales to commercial customers decreased $8.4 million or 4.1% from the prior year primarily driven by labor shortages in our MRO activities as we were not able to secure an adequate supply of labor to meet current demand from our customers. The gross profit margin on sales to commercial customers was 14.6% compared to 15.9% in the prior year with the decreased margin largely attributable to labor challenges at our airframe maintenance hangars.

Expeditionary Services Segment

Sales in the Expeditionary Services segment increased $18.7 million or 16.6% over the prior year primarily due to stronger demand for our mobility products. Gross profit in the Expeditionary Services segment decreased $3.1 million or 16.1% from the prior year and gross profit margin decreased to 12.3% from 17.2% both primarily as a result of the mix of products sold with lower sales volumes from our commercial customers.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $7.3 million over the prior year. As a percent of sales, selling, general and administrative expenses decreased to 10.5% from 11.9% in the prior year reflecting improved leverage of our existing cost structure to support the sales growth.

Interest Expense

Interest expense increased $1.5 million in fiscal 2019 as a result of higher interest rates on our Revolving Credit Facility.

Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act") which significantly revised the U.S. corporate income tax system. The Tax Reform Act, among other things, reduced the corporate federal income tax rate to 21% from 35%, changed bonus depreciation regulations and limited deductions for executive compensation. The income tax rate reduction in the Tax Reform Act was effective January 1, 2018, which resulted in a blended federal statutory tax rate of 29.2% in fiscal 2018 and the fiscal 2019 federal statutory tax rate of 21.0%.

In fiscal 2018, we re-measured our deferred tax assets and liabilities based on the tax rate at which they are expected to reverse in the future, which was either at a federal rate of 29.2% for reversals expected in fiscal 2018 or 21% for reversals in fiscal 2019 and subsequent years. During fiscal 2018, we recognized an income tax benefit of $14.1 million for the re-measurement impact from applying the provisions of the Tax Reform Act.

Our fiscal 2019 effective income tax rate for continuing operations was 5.5% compared to 4.5% in the prior year. In addition to the Tax Reform Act impacts discussed above, we also recognized tax benefits of $5.1 million and $2.1 million in fiscal 2019 and 2018, respectively, related to the reversal of certain state valuation allowances based on the recoverability of the net operating losses and other state deferred tax assets. The effective income tax rate for fiscal 2019 also includes a benefit of $4.7 million related to the recognition of previously unrecognized uncertain tax positions and a tax benefit of $1.8 million related to tax provision to federal income tax return filing differences.

Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our COCO business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business were reported as discontinued operations for all periods presented.

Loss from discontinued operations was $76.6 million in fiscal 2019 compared to a loss of $58.1 million in the prior year. The increase of $18.5 million was primarily due to higher pre-tax impairment charges of $74.1 million in fiscal 2019 as compared to $64.0 million in fiscal 2018.

Results of Operations—Fiscal 2018 Compared with Fiscal 2017

Sales and gross profit for our two business segments for the two years ended May 31, 2018 and 2017 were as follows:

	For the Year Ended May 31,		
	2018	2017	% Change
Sales:			
Aviation Services			
Commercial	$ 1,281.9	$ 1,114.9	15.0%
Government and defense	353.9	370.5	(4.5)%
	$ 1,635.8	$ 1,485.4	10.1%
Expeditionary Services			
Commercial	$ 37.5	$ 37.1	1.1%
Government and defense	75.0	68.3	9.8%
	$ 112.5	$ 105.4	6.7%

	For the Year Ended May 31,		
	2018	2017	% Change
Gross Profit:			
Aviation Services			
Commercial	$ 203.8	$ 183.1	11.3%
Government and defense	71.5	62.9	13.7%
	$ 275.3	$ 246.0	11.9%
Expeditionary Services			
Commercial	$ 8.3	$ 8.2	1.2%
Government and defense	11.0	9.2	19.6%
	$ 19.3	$ 17.4	10.9%

Aviation Services Segment

Sales in the Aviation Services segment increased $150.4 million or 10.1% over the prior year due to a $167.0 million or 15.0% increase in sales to commercial customers. The increase in sales to commercial customers was primarily attributable to higher volumes in aviation supply chain activities driven by new contract awards.

During fiscal 2018, sales in this segment to government and defense customers decreased $16.6 million or 4.5% from the prior year. The decrease was primarily due to the wind-down of our KC-10 program.

Changes in estimates and assumptions related to our programs accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In fiscal 2018, we recognized favorable and unfavorable cumulative catch-up adjustments of $11.6 million and $8.0 million, respectively, compared to favorable and unfavorable cumulative catch-up adjustments of $9.2 million and $0.7 million, respectively, in fiscal 2017. When considering these adjustments on a net basis, we recognized favorable cumulative catch-up adjustments of $3.6 million and $8.5 million for fiscal 2018 and 2017, respectively. These adjustments primarily relate to our long-term programs where we provide component inventory management and/or repair services.

Cost of sales in Aviation Services increased $121.1 million or 9.8% over the prior year which was in line with the sales increase discussed above. Gross profit in the Aviation Services segment increased $29.3 million or 11.9% over the prior year. Gross profit on sales to commercial customers increased $20.7 million or 11.3% over the prior year primarily driven by the higher volumes in aviation supply chain activities. The gross profit margin on sales to commercial customers was 15.9% compared to 16.4% in the prior year and was largely attributable to labor challenges at our airframe maintenance hangars.

Gross profit in this segment on sales to government and defense customers increased $8.6 million or 13.7% from the prior year primarily due to improved profitability on new contract awards including the start of our services on the INL/A WASS program on November 1, 2017. The gross profit margin increased to 20.2% from 17.0% primarily due to these new contract awards.

Expeditionary Services Segment

Sales in the Expeditionary Services segment increased $7.1 million or 6.7% over the prior year primarily due to stronger demand for our mobility products. Gross profit in the Expeditionary Services segment increased $1.9 million over the prior year primarily due to these higher volumes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $29.1 million in fiscal 2018 or 16.3% from the prior year primarily attributable to supporting our sales growth, including increased personnel-related costs and business development activities.

Interest Expense

Interest expense increased $2.7 million in fiscal 2018 over the prior year primarily as a result of higher borrowings and higher interest rates on our Revolving Credit Facility. We entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the "Credit Agreement") on October 18, 2017. The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two MRO facilities in Canada from Premier Aviation.

Income Taxes

The income tax rate reduction in the Tax Reform Act resulted in a blended federal statutory tax rate for the Company of 29.2% in fiscal 2018 compared to 35.0% in fiscal 2017. Due to the reduction in our tax rate in fiscal 2018 and in future years, we re-measured our deferred tax assets and liabilities based on the tax rate at which they are expected to reverse in the future which resulted in an income tax benefit of $14.1 million in fiscal 2018.

Effective June 1, 2017, we adopted Accounting Standards Update ("ASU") 2016-09 which requires excess tax benefits or deficiencies for restricted shares and stock options to be recognized as income tax expense or benefit in the period shares vest or options are exercised rather than within equity. We recognized $2.9 million of excess tax benefits as an income tax benefit during fiscal 2018.

Our fiscal 2018 effective income tax rate for continuing operations was 4.5% compared to 32.6% in the prior year. In addition to the tax benefits discussed above, we also recognized a tax benefit in fiscal 2018 of $2.1 million related to the reversal of certain state valuation allowances based on the recoverability of the net operating losses and other state deferred tax assets. The effective income tax rate for fiscal 2017 includes a benefit of $2.2 million related to recognition of previously unrecognized uncertain tax positions.

Discontinued Operations

Loss from discontinued operations was $58.1 million in fiscal 2018 compared to income of $4.5 million in the prior year. The decrease of $62.6 million was primarily due to goodwill and other asset impairment pre-tax charges of $65.2 million in fiscal 2018 and the completion of certain long-term customer contracts in the second quarter of fiscal 2018.

Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. In addition to operations, our current capital resources include an unsecured Revolving Credit Facility and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital.

At May 31, 2019, our liquidity and capital resources included cash of $21.3 million and working capital of $595.0 million.

We maintain a Revolving Credit Facility with various financial institutions, as lenders and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment amount of $500 million and matures November 1, 2021. The Company, under certain circumstances, has the ability to request an increase to the revolving credit commitment by an aggregate amount of up to $250 million, not to exceed $750 million in total.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 100 to 200 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 100 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at May 31, 2019 were $120.0 million and there were approximately $20.1 million of letters of credit outstanding, which reduced the availability of the Revolving Credit Facility to $359.9 million. There are no other terms or covenants limiting the availability of the Revolving Credit Facility.

As of May 31, 2019, we also had other financing arrangements that did not limit our availability on the Revolving Credit Facility including outstanding letters of credit of $11.6 million and foreign lines of credit of $9.5 million.

On October 18, 2017, we entered into the Credit Agreement with the Canadian Imperial Bank of Commerce, as lender. The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two maintenance, repair, and overhaul facilities in Canada from Premier Aviation. The term loan is due in full at the expiration of the Credit Agreement on November 1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan.

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million. The term of the Purchase Agreement runs through February 22, 2020, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

As of May 31, 2019 and 2018, we had sold $66.4 million and $61.2 million, respectively, of receivables to the Purchaser for which we had not yet collected payment from the customer via our role as servicer for the Purchaser's receivables. We have collected cash of $19.8 million and $10.5 million as of May 31, 2019 and 2018, respectively, which has been collected on behalf of the Purchaser and not yet remitted to the Purchaser. This cash collected was classified as Restricted cash on our Consolidated Balance Sheets.

At May 31, 2019, we complied with all financial and other covenants under each of our financing arrangements.

Cash Flows—Fiscal 2019 Compared with Fiscal 2018

Cash Flows from Operating Activities

Net cash provided from operating activities—continuing operations was $60.5 million in fiscal 2019 compared to $55.8 million in fiscal 2018. The increase of $4.7 million was primarily attributable to increased cash receipts on new government programs largely offset by increased investments in inventory and rotable assets to support sales growth.

Cash Flows from Investing Activities

Net cash used in investing activities—continuing operations was $18.5 million in fiscal 2019 compared to $38.6 million in fiscal 2018. In fiscal 2018, we acquired the outstanding shares of two MRO facilities in Canada owned by Premier Aviation for approximately $24.8 million which included $22.9 million paid at closing.

Cash Flows from Financing Activities

Net cash used in financing activities—continuing operations was $47.3 million in fiscal 2019 compared to cash provided by financing activities of $11.7 million in fiscal 2018. The additional cash used of $59.0 million was primarily attributable to increased debt service in fiscal 2019 which included the retirement of our industrial revenue bonds for $25 million. In addition, fiscal 2018 included the proceeds from a new term loan of $24.8 million to finance the acquisition of the two Canadian MRO facilities previously discussed.

Cash Flows—Fiscal 2018 Compared with Fiscal 2017

Cash Flows from Operating Activities

Net cash provided from operating activities—continuing operations was $55.8 million in fiscal 2018 compared to a use of cash of $13.5 million in fiscal 2017. The increase of $69.3 million was primarily attributable to the new Purchase Agreement entered into during the third quarter of fiscal 2018 for the sale of certain accounts receivable. During fiscal 2018, we sold $239.6 million of receivables to the Purchaser and collected $178.4 million on behalf of the Purchaser.

Cash Flows from Investing Activities

Net cash used in investing activities—continuing operations was $38.6 million in fiscal 2018 compared to $33.9 million in fiscal 2017. In fiscal 2018, we acquired the outstanding shares of two MRO facilities in Canada owned by Premier Aviation for approximately $24.8 million which included $22.9 million paid at closing. During fiscal 2017, we acquired the trading business of ACLAS Global Limited ("ACLAS") for $12.0 million paid at closing with $3.0 million in deferred consideration payable over the next three years.

Cash Flows from Financing Activities

Net cash provided from financing activities—continuing operations was $11.7 million in fiscal 2018 compared to cash used of $10.4 million in fiscal 2017. The additional cash provided of $22.1 million was primarily attributable to proceeds from a new term loan of $24.8 million to finance the acquisition of the two Canadian MRO facilities previously discussed.

Contractual Obligations and Off-Balance Sheet Arrangements

A summary of contractual cash obligations and off-balance sheet arrangements as of May 31, 2019 is as follows:

	Payments Due by Period						
	Total	Due in Fiscal 2020	Due in Fiscal 2021	Due in Fiscal 2022	Due in Fiscal 2023	Due in Fiscal 2024	After Fiscal 2025
On Balance Sheet:							
Bank borrowings	$ 120.0	$ —	$ —	$ 120.0	$ —	$ —	$ —
Interest[1]	12.3	5.1	5.1	2.1	—	—	—
Off Balance Sheet:							
Facilities and equipment operating leases	121.5	21.6	19.3	16.5	13.2	11.0	39.9
Purchase obligations[2]	384.6	322.3	53.8	7.8	0.6	0.1	—
Pension contribution[3]	1.6	1.6	—	—	—	—	—

Notes:

1 Interest associated with variable rate debt was determined using the interest rate in effect on May 31, 2019.

2 Purchase obligations arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts, and components, as well as equipment to support the operations of our business.

3 We anticipate contributing approximately $1.6 million to our pension plans during fiscal 2020 compared to contributions of $2.6 million in fiscal 2019.

4 The above table excludes any tax liability payments, including any payments related to unrecognized tax benefits.

We routinely issue letters of credit and performance bonds in the ordinary course of business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May 31, 2019 was $31.7 million.

Critical Accounting Policies and Significant Estimates

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. Management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the Consolidated

Financial Statements. The most significant estimates made by management include those related to assumptions used in assessing goodwill impairment, adjustments to reduce the value of inventories and certain rotable assets, revenue recognition, allowance for doubtful accounts, and assumptions used in determining pension plan obligations. Accordingly, actual results could differ materially from those estimates. The following is a summary of the accounting policies considered critical by management.

Goodwill

Under accounting standards for goodwill and other intangible assets, goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May 31, or more frequently if circumstances indicate that impairment is possible.

The accounting standards for goodwill allow for either a qualitative or quantitative approach for the annual impairment test. Under the qualitative approach, factors such as macroeconomic conditions, industry and market conditions and company-specific events or circumstances are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. When the quantitative approach is utilized, we compare the fair value of each reporting unit with the carrying value of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying value of the reporting unit, we would be required to recognize an impairment loss for the excess carrying value of the reporting unit's assets.

In fiscal 2018, we performed an interim goodwill impairment test over our former Airlift reporting unit as a result of a decision to exit our COCO business. The COCO business was reclassified to discontinued operations and goodwill was allocated to the COCO business based on its relative fair value to the reporting unit. The fair value of the reporting unit was determined based on a combination of the expected net proceeds upon sale and a discounted cash flow analysis. As the fair value of the COCO business was below its carrying value, a goodwill impairment charge of $9.8 million was recorded in the third quarter of fiscal 2018.

As of May 31, 2019, we had three reporting units, which included two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and one comprised of our Expeditionary Services segment, which were evaluated for impairment Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*.

For our annual impairment test as of May 31, 2019, we utilized the qualitative assessment approach for all reporting units. Under this approach, we considered the overall industry and market conditions related to the aerospace and government/defense markets as well as conditions in the global capital markets. We also considered the long-term forecasts for each reporting unit, which incorporated specific opportunities and risks, working capital requirements, and capital expenditure needs.

Upon completion of the annual qualitative analysis as of May 31, 2019 for our reporting units, we concluded it was more likely than not that the fair value of each reporting unit exceeded its carrying values, and thus no impairment charge was recorded.

Inventories

Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification, average cost or first-in, first-out methods. Write-downs are made for excess and obsolete inventories and inventories that have been impaired as a result of industry conditions. We have utilized certain assumptions when determining the market value of inventories, such as inventory quantities and aging, historical sales of inventory, current and expected future aviation usage trends, replacement values, expected future demand, and historical scrap recovery rates. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of impairment charges in future periods.

Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as whether the good or service being provided is significantly integrated with other promises in the contract, whether the service provided significantly modifies or customizes another good or service or whether the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocates the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

We have elected to use certain practical expedients permitted under ASC 606. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales in our Consolidated Statements of Income, and are not considered a performance obligation to our customers. Our reported sales on our Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of unbilled receivables or costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. In determining the required allowance, we consider factors such as general and industry-specific economic conditions, customer credit history, and our customers' current and expected future financial performance. The majority of our customers are recurring customers with an established payment history. Certain customers are required to undergo an extensive credit check prior to delivery of products or services.

We perform regular evaluations of customer payment experience, current financial condition, and risk analysis. We may require collateral in the form of security interests in assets, letters of credit, and/or obligation guarantees from financial institutions for transactions executed on other than normal trade terms. We also maintain trade credit insurance for certain customers to provide coverage, up to a certain limit, in the event of insolvency of some customers.

In fiscal 2019, we recognized a provision for doubtful accounts of $12.4 million related to the bankruptcy of a European airline customer. The provision consisted of impairment of non-current contract assets of $7.6 million, allowance for doubtful accounts of $3.3 million, and other liabilities of $1.5 million.

In addition, we currently have past due accounts receivable owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia, Peru, and Poland. Our past due accounts receivable owed by these customers was $12.4 million as of May 31, 2019 which was net of allowance for doubtful accounts of $8.2 million.

Impairment of Long-Lived Assets

We are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. When applying accounting standards addressing impairment of long-lived assets, we have utilized certain assumptions to estimate future undiscounted cash flows, including current and future sales volumes or lease rates, expected changes to cost structures, lease terms, residual values, market conditions, and trends impacting future demand. Differences between actual results and the assumptions utilized by us when determining undiscounted cash flows could result in future impairments of long-lived assets. During the third quarter of fiscal 2019 and second quarter of fiscal 2018, we recognized pre-tax impairment charges of $74.1 million and $54.2 million, respectively, related to assets included in our COCO business, which is classified as a discontinued operation.

We maintain a significant inventory of rotable parts and equipment to service customer aircraft and components. Portions of that inventory are used parts that are often exchanged with parts removed from aircraft or components, and are reworked to a useable condition. We may have to recognize an impairment of our rotable parts and equipment if we discontinue using or servicing certain aircraft models or if an older aircraft model is phased-out in the industry.

Pension Plans

The projected benefit obligation for our benefit plans exceeds our plan assets by $19.3 million as of May 31, 2019. Our projected benefit obligation exceeds our plan assets for both our U.S. plans and for our Netherlands plan with the U.S. benefit plans underfunded by $9.2 million and the Netherlands plan underfunded by $10.1 million.

The liabilities and net periodic cost of our pension plans are determined utilizing several actuarial assumptions, the most significant of which are the discount rate and the expected long-term rate of return on plan assets.

AAR uses discount rates to measure our benefit obligation and net periodic benefit cost for our pension plans. We used a broad population of Aa-rated corporate bonds as of May 31, 2019 to determine the discount rate assumption. All bonds were denominated in U.S. Dollars, with a minimum outstanding of $50.0 million. This population of bonds was narrowed from a broader universe of over 500 Moody's Aa-rated, non-callable (or callable with make-whole provisions) bonds by eliminating the top 10^{th} percentile and the bottom 40^{th} percentile to adjust for any pricing anomalies and to represent the bonds we would most likely select if we were to actually annuitize our pension plan liabilities. This portfolio of bonds was used to generate a yield curve and associated spot rate curve to discount the projected benefit payments for the domestic plans. The discount rate is the single level rate that produces the same result as the spot rate curve.

We establish the long-term asset return assumption based on a review of historical compound average asset returns, both company-specific and relating to the broad market, as well as analysis of current market and economic information and future expectations. The current asset return assumption is supported by historical market experience for both our actual and target asset allocation. In calculating the net pension cost, the expected return on assets is applied to a calculated value on plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. The difference between this expected return and the actual return on plan assets is a component of the total net unrecognized gain or loss and is subject to amortization in the future.

New Accounting Pronouncements Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends ASC Topic 718, *Compensation—Stock Compensation*. This ASU requires excess tax benefits or deficiencies for share-based payments to be recorded in the period shares vest as income tax expense or benefit, rather than within equity. Effective with the adoption of this ASU, cash flows related to excess tax benefits are now included in operating activities and are no longer classified as a financing activity. We adopted this ASU on June 1, 2017 and recognized excess tax benefits of $2.7 million and $2.9 million as an income tax benefit in fiscal 2019 and 2018, respectively. We have also presented the excess tax benefits within operating activities in the Consolidated Statements of Cash Flows for fiscal 2019 and 2018. As permitted, we adopted the statement of cash flow presentation guidance on a prospective basis with no adjustments to fiscal 2017.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires an employer to report the service cost component of net periodic pension benefit cost in the same line item as other compensation costs for those related employees. Other components of net pension cost, including interest, expected return on plan assets, and actuarial gains and losses and settlement charges are to be presented outside of operating income. We adopted this ASU on June 1, 2018, which resulted in $1.0 million of pension income included in Other expense, net in the Consolidated Statement of Income for fiscal 2019. The Consolidated Statements of Income for fiscal years 2018 and 2017 were not restated as the non-service cost components of pension expense were not material to those fiscal years.

In May 2014, the FASB issued ASC 606, which provides guidance for revenue recognition. ASC 606 superseded the revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance.

We adopted ASC 606 on June 1, 2018 using the modified retrospective method. Under that approach, prior periods were not restated and continue to be reported under the accounting standards in effect for those periods. We elected to use the practical expedient allowing for the application of ASC 606 only to contracts that were not completed as of June 1, 2018. We recognized the cumulative effect of initially applying ASC 606 as a decrease of $20.4 million to the opening balance of retained earnings as of June 1, 2018.

The adoption of ASC 606 impacted us in three primary areas. First, we have certain contracts in which revenue is recognized using the percentage of completion method over the expected term of the contract. Under ASC 606, the contract term used for revenue recognition purposes was shortened to exclude any unexercised customer option years or incorporate customer rights to terminate the contract without significant penalty as we do not have any enforceable rights or obligations prior to the exercise of the underlying option. The impact of this change as of June 1, 2018 resulted in the elimination of certain deferred costs and the establishment of accrued liabilities reflecting our estimated obligations under the contracts. For this change, we recognized a decrease of $22.1 million to the opening balance of retained earnings as of June 1, 2018.

Second, we have contracts under which we perform repair services on customer-owned assets whereby the customer simultaneously receives the benefits of the repair. These contracts also transitioned to an over time revenue recognition model as of June 1, 2018 compared to our prior policy of recognizing revenue at the time of shipment. The impact of this change as of June 1, 2018 resulted in the elimination of certain inventory and accounts receivable amounts and the establishment of a contract asset reflecting the over time revenue recognition treatment. For this change, we recognized an increase of $1.3 million to the opening balance of retained earnings as of June 1, 2018.

Third, we have certain contracts under which we manufacture products with no alternative use as the customer owns the underlying intellectual property and we have an enforceable right to payment from the customer. As a result, we now recognize revenue for these contracts over time as opposed to at the time of shipment, which was our policy prior to June 1, 2018. The impact of this change as of June 1, 2018 resulted in the elimination of certain inventory amounts and the establishment of a contract asset reflecting the over time revenue recognition treatment. For this change, we recognized an increase of $0.4 million to the opening balance of retained earnings as of June 1, 2018.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize a right-of-use asset and lease liability on the balance sheet for most lease arrangements, including those classified as operating leases under the current accounting guidance. In addition, this ASU will require new qualitative and quantitative disclosures about our leasing activities. This new standard will be effective for us beginning June 1, 2019 and is required to be adopted using a modified retrospective approach. The new standard provides us an option to recognize the cumulative effect adjustment on retained earnings as of June 1, 2019 or as of the beginning of the earliest period presented.

We have reviewed our lease portfolio and are finalizing implementation of the necessary processes and systems to comply with the requirements of this new ASU. This included the selection and implementation of a third-party software solution to facilitate the accounting and reporting requirements of the new ASU.

We will adopt this ASU in the first quarter of fiscal 2020 and apply it prospectively. We expect to elect the package of practical expedients, which permits us not to reassess under the new ASU our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we will implement accounting policy elections to not separate lease and non-lease components for both lessee and lessor relationships and not capitalize any leases with terms of less than twelve months on our Consolidated Balance Sheet.

We expect to recognize operating lease liabilities with corresponding right-of-use assets of approximately the same amount based on the present value of the remaining lease payments over the lease term. We do not anticipate that adoption of the ASU will have a significant impact on our results of operations or cash flows.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Reform Act. We continue to evaluate the impact of this ASU on our consolidated financial statements and expect to adopt this ASU in the first quarter of fiscal 2020.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This ASU requires a change in the measurement approach for credit losses on financial assets measured on an amortized cost basis from an incurred loss method to an expected loss method, thereby eliminating the requirement that a credit loss be considered probable to impact the valuation of a financial asset measured on an amortized cost basis. This ASU also requires the measurement of expected credit losses to be based on relevant information about past events, including historical experience, current conditions, and a reasonable and supportable forecast of the collectability of the related financial asset. We continue to evaluate the impact of this ASU on our consolidated financial statements and expect to adopt this ASU on June 1, 2020.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements for a discussion on accounts receivable exposure.

We are exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates. A 10 percent increase in the average interest rate affecting our financial instruments, including the average outstanding balance of our debt obligations would not have had a significant impact on our pre-tax income during fiscal 2019.

Revenues and expenses of our foreign operations are translated at average exchange rates during the year, and balance sheet accounts are translated at year-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations during fiscal 2019.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AAR CORP.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of AAR CORP. and subsidiaries (the Company) as of May 31, 2019 and 2018, the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended May 31, 2019 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended May 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of May 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July 18, 2019 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue from contracts with customers effective June 1, 2018 due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and its subsequent amendments.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1985.

Chicago, Illinois
July 18, 2019

AAR CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended May 31,		
	2019	2018	2017
	(In millions, except per share data)		
Sales:			
Sales from products	$ 1,124.3	$ 1,040.7	$ 944.8
Sales from services	927.5	707.6	646.0
	2,051.8	1,748.3	1,590.8
Costs and operating expenses:			
Cost of products	915.0	840.5	787.5
Cost of services	807.3	613.2	539.9
Provision for doubtful accounts	15.8	0.5	2.1
Selling, general and administrative	215.4	208.1	179.0
	1,953.5	1,662.3	1,508.5
Operating income	98.3	86.0	82.3
Other expense, net	(0.8)	(0.9)	—
Interest expense	(9.5)	(8.0)	(5.3)
Interest income	1.0	0.1	0.1
Income from continuing operations before provision for income taxes	89.0	77.2	77.1
Provision for income taxes	4.9	3.5	25.1
Income from continuing operations	84.1	73.7	52.0
Income (Loss) from discontinued operations, net of tax	(76.6)	(58.1)	4.5
Net income	$ 7.5	$ 15.6	$ 56.5
Earnings per share—basic:			
Earnings from continuing operations	$ 2.42	$ 2.14	$ 1.53
Earnings (Loss) from discontinued operations	(2.22)	(1.70)	0.13
Earnings per share—basic	$ 0.20	$ 0.44	$ 1.66
Earnings per share—diluted:			
Earnings from continuing operations	$ 2.40	$ 2.11	$ 1.51
Earnings (Loss) from discontinued operations	(2.19)	(1.70)	0.13
Earnings per share—diluted	$ 0.21	$ 0.41	$ 1.64
Cash dividends declared per common share	$ 0.30	$ 0.30	$ 0.30

The accompanying notes to consolidated financial statements
are an integral part of these statements.

AAR CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	For the Year Ended May 31,		
	2019	2018	2017
		(In millions)	
Net income	$ 7.5	$ 15.6	$ 56.5
Other comprehensive income (loss), net of tax:			
Currency translation adjustments, net of tax	(2.4)	2.0	(0.6)
Unrecognized pension and post retirement costs, net of tax expense (benefit) of $(1.7) in 2019, $2.4 in 2018, and $2.8 in 2017	(6.5)	5.9	5.1
Total other comprehensive income (loss), net of tax	(8.9)	7.9	4.5
Comprehensive income (loss)	$ (1.4)	$ 23.5	$ 61.0

The accompanying notes to consolidated financial statements are an integral part of these statements.

AAR CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	May 31, 2019	May 31, 2018
	(In millions, except share data)	
Current assets:		
Cash and cash equivalents	$ 21.3	$ 31.1
Restricted cash	19.8	10.5
Accounts receivable, net	197.8	202.0
Contract assets	59.2	—
Inventories	523.7	460.7
Rotable assets and equipment on or available for short-term lease	65.3	87.2
Assets of discontinued operations	29.2	125.0
Other current assets	36.2	26.2
Total current assets	952.5	942.7
Property, plant and equipment, at cost:		
Land	4.5	4.5
Buildings and improvements	111.9	107.4
Equipment and furniture and fixtures	248.2	235.7
	364.6	347.6
Accumulated depreciation	(231.8)	(214.4)
	132.8	133.2
Other assets:		
Goodwill	116.2	118.7
Intangible assets, net	22.2	27.8
Rotable assets supporting long-term programs	216.0	183.4
Other non-current assets	77.5	118.9
	431.9	448.8
	$ 1,517.2	$ 1,524.7

The accompanying notes to consolidated financial statements
are an integral part of these statements.

AAR CORP. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND EQUITY

	May 31, 2019	May 31, 2018
	(In millions, except share data)	
Current liabilities:		
Accounts payable	187.8	170.0
Accrued liabilities	140.5	138.3
Liabilities of discontinued operations	29.2	25.0
Total current liabilities	357.5	333.3
Long-term debt	141.7	177.2
Deferred revenue on long-term contracts	83.8	35.8
Deferred tax liabilities	—	15.7
Other liabilities	28.3	26.4
	253.8	255.1
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	479.4	470.5
Retained earnings	709.8	733.2
Treasury stock, 10,512,974 and 10,585,165 shares at cost, respectively	(287.7)	(280.7)
Accumulated other comprehensive loss	(40.9)	(32.0)
Total equity	905.9	936.3
	$ 1,517.2	$ 1,524.7

The accompanying notes to consolidated financial statements
are an integral part of these statements.

AAR CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE THREE YEARS ENDED MAY 31, 2018

(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2016	$ 44.9	$ 451.3	$ 681.6	$ (267.6)	$ (44.4)	$ 865.8
Net income	—	—	56.5	—	—	56.5
Cash dividends	—	—	(10.2)	—	—	(10.2)
Stock option activity	—	3.1	—	8.9	—	12.0
Restricted stock activity	0.3	6.4	—	(1.3)	—	5.4
Repurchase of shares	—	—	—	(19.8)	—	(19.8)
Other comprehensive income, net of tax	—	—	—	—	4.5	4.5
Balance, May 31, 2017	$ 45.2	$ 460.8	$ 727.9	$ (279.8)	$ (39.9)	$ 914.2
Net income	—	—	15.6	—	—	15.6
Cash dividends	—	—	(10.3)	—	—	(10.3)
Stock option activity	—	0.9	—	11.2	—	12.1
Restricted stock activity	0.1	8.8	—	1.0	—	9.9
Repurchase of shares	—	—	—	(13.1)	—	(13.1)
Other comprehensive income, net of tax	—	—	—	—	7.9	7.9
Balance, May 31, 2018	$ 45.3	$ 470.5	$ 733.2	$ (280.7)	$ (32.0)	$ 936.3
Cumulative effect adjustment upon adoption of ASC 606 on June 1, 2018	—	—	(20.4)	—	—	(20.4)
Net income	—	—	7.5	—	—	7.5
Cash dividends	—	—	(10.5)	—	—	(10.5)
Stock option activity	—	3.5	—	4.1	—	7.6
Restricted stock activity	—	5.4	—	(0.8)	—	4.6
Repurchase of shares	—	—	—	(10.3)	—	(10.3)
Other comprehensive loss, net of tax	—	—	—	—	(8.9)	(8.9)
Balance, May 31, 2019	$ 45.3	$ 479.4	$ 709.8	$ (287.7)	$ (40.9)	$ 905.9

The accompanying notes to consolidated financial statements
are an integral part of these statements.

AAR CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	For the Year Ended May 31, 2019	2018	2017
Cash flows provided from operating activities:			
Net income	$ 7.5	$ 15.6	$ 56.5
Less: Income (Loss) from discontinued operations	(76.6)	(58.1)	4.5
Income from continuing operations	84.1	73.7	52.0
Adjustments to reconcile income to net cash provided from operating activities:			
Depreciation and intangible amortization	42.8	40.5	35.7
Amortization of stock-based compensation	13.5	15.3	11.0
Provision for doubtful accounts	15.8	0.5	2.1
Deferred tax provision (benefit)	(5.0)	(12.9)	12.5
Gain on sale of product line	—	—	(2.6)
Changes in certain assets and liabilities, net of acquisitions:			
Accounts receivable	(34.4)	35.4	(16.8)
Contract assets	(9.7)	—	—
Inventories	(80.9)	(25.8)	(23.3)
Rotable spares and equipment on or available for short-term lease	21.5	(16.6)	(3.1)
Rotable assets supporting long-term programs	(49.2)	(38.5)	(82.5)
Accounts payable	17.5	1.8	19.6
Accrued and other liabilities	22.9	8.0	6.5
Other	21.6	(25.6)	(24.6)
Net cash provided from (used in) operating activities—continuing operations	60.5	55.8	(13.5)
Net cash provided from operating activities—discontinued operations	6.9	8.5	35.3
Net cash provided from operating activities	67.4	64.3	21.8
Cash flows used in investing activities:			
Property, plant and equipment expenditures	(17.4)	(22.0)	(25.2)
Proceeds from asset disposals	1.8	8.6	6.5
Payments for acquisitions	(2.3)	(22.9)	(12.5)
Other	(0.6)	(2.3)	(2.7)
Net cash used in investing activities—continuing operations	(18.5)	(38.6)	(33.9)
Net cash provided from (used in) investing activities—discontinued operations	(0.5)	(4.3)	3.8
Net cash used in investing activities	(19.0)	(42.9)	(30.1)
Cash flows provided by (used in) financing activities:			
Short-term borrowings (repayments), net	(10.0)	(1.0)	21.0
Proceeds (Repayments) on long-term borrowings	(25.0)	24.8	(10.0)
Cash dividends	(10.5)	(10.3)	(10.2)
Purchase of treasury stock	(10.3)	(13.1)	(19.8)
Stock option exercises	8.5	11.6	8.5
Other	—	(0.3)	0.1
Net cash provided from (used in) financing activities—continuing operations	(47.3)	11.7	(10.4)
Net cash used in financing activities—discontinued operations	(1.4)	(1.7)	(1.7)
Net cash provided from (used in) financing activities	(48.7)	10.0	(12.1)
Effect of exchange rate changes on cash	(0.2)	(0.1)	(0.5)
Increase (Decrease) in cash and cash equivalents	(0.5)	31.3	(20.9)
Cash, cash equivalents, and restricted cash at beginning of year	41.6	10.3	31.2
Cash, cash equivalents, and restricted cash at end of year	$ 41.1	$ 41.6	$ 10.3

The accompanying notes to consolidated financial statements
are an integral part of these statements.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies

Description of Business

AAR CORP. is a diversified provider of services and products to the worldwide commercial aviation and government and defense markets. Services and products include: aviation supply chain and parts support programs; customer fleet management and operations; maintenance, repair and overhaul of airframes, landing gear, and certain other airframe components; design and manufacture of specialized pallets, shelters, and containers; aircraft modifications and aircraft and engine sales and leasing. We serve commercial, government and defense aircraft fleet operators, original equipment manufacturers, and independent service providers around the world, and various other domestic and foreign military customers.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries after elimination of intercompany accounts and transactions.

New Accounting Pronouncements Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends ASC Topic 718, *Compensation—Stock Compensation*. This ASU requires excess tax benefits or deficiencies for share-based payments to be recorded in the period shares vest as income tax expense or benefit, rather than within equity. Effective with the adoption of this ASU, cash flows related to excess tax benefits are now included in operating activities and are no longer classified as a financing activity. We adopted this ASU on June 1, 2017 and recognized excess tax benefits of $2.7 million and $2.9 million as an income tax benefit in fiscal 2019 and 2018, respectively. We have also presented the excess tax benefits within operating activities in the Consolidated Statements of Cash Flows for fiscal 2019 and 2018. As permitted, we adopted the statement of cash flow presentation guidance on a prospective basis with no adjustments to fiscal 2017.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU requires an employer to report the service cost component of net periodic pension benefit cost in the same line item as other compensation costs for those related employees. Other components of net pension cost, including interest, expected return on plan assets, and actuarial gains and losses and settlement charges are to be presented outside of operating income. We adopted this ASU on June 1, 2018, which resulted in $1.0 million of pension income included in Other expense, net in the Consolidated Statement of Income for fiscal 2019. The Consolidated Statements of Income for fiscal years 2018 and 2017 were not restated as the non-service cost components of pension expense were not material to those fiscal years.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), which provides guidance for revenue recognition. ASC 606 superseded the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, *Revenue Recognition*, and most industry-specific guidance.

We adopted ASC 606 on June 1, 2018 using the modified retrospective method. Under that approach, prior periods were not restated and continue to be reported under the accounting standards in effect for

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

those periods. We elected to use the practical expedient allowing for the application of ASC 606 only to contracts that were not completed as of June 1, 2018. We recognized the cumulative effect of initially applying ASC 606 as a decrease of $20.4 million to the opening balance of retained earnings as of June 1, 2018.

The impact of the adoption of ASC 606 on our Consolidated Balance Sheet was as follows:

	As of May 31, 2018	ASC 606 Adjustments	As of June 1, 2018
Accounts receivable, net	$ 202.0	$ (31.4)	$ 170.6
Inventories	460.7	(17.3)	443.4
Contract assets—current	—	49.6	49.6
Other current assets	26.2	(0.9)	25.3
Other non-current assets	118.9	(19.0)	99.9
Accrued liabilities	138.3	9.1	147.4
Deferred tax liabilities	15.7	(6.6)	9.1
Deferred revenue on long-term contracts	35.8	(1.1)	34.7
Retained earnings	733.2	(20.4)	712.8

The adoption of ASC 606 impacted us in three primary areas. First, we have certain contracts in which revenue is recognized using the percentage of completion method over the expected term of the contract. Under ASC 606, the contract term used for revenue recognition purposes was shortened to exclude any unexercised customer option years or incorporate customer rights to terminate the contract without significant penalty as we do not have any enforceable rights or obligations prior to the exercise of the underlying option. The impact of this change as of June 1, 2018 resulted in the elimination of certain deferred costs and the establishment of accrued liabilities reflecting our estimated obligations under the contracts. For this change, we recognized a decrease of $22.1 million to the opening balance of retained earnings as of June 1, 2018.

Second, we have contracts under which we perform repair services on customer-owned assets whereby the customer simultaneously receives the benefits of the repair. These contracts also transitioned to an over time revenue recognition model as of June 1, 2018 compared to our prior policy of recognizing revenue at the time of shipment. The impact of this change as of June 1, 2018 resulted in the elimination of certain inventory and accounts receivable amounts and the establishment of a contract asset reflecting the over time revenue recognition treatment. For this change, we recognized an increase of $1.3 million to the opening balance of retained earnings as of June 1, 2018.

Third, we have certain contracts under which we manufacture products with no alternative use as the customer owns the underlying intellectual property and we have an enforceable right to payment from the customer. As a result, we now recognize revenue for these contracts over time as opposed to at the time of shipment, which was our policy prior to June 1, 2018. The impact of this change as of June 1, 2018 resulted in the elimination of certain inventory amounts and the establishment of a contract asset reflecting the over time revenue recognition treatment. For this change, we recognized an increase of $0.4 million to the opening balance of retained earnings as of June 1, 2018.

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

The impact of the ASC 606 adoption on our Consolidated Financial Statements as of May 31, 2019 and for the fiscal year ended May 31, 2019 were as follows:

	As of May 31, 2019		
	As Reported	ASC 606 Adjustments	Balances Excluding ASC 606
Accounts receivable, net	$ 197.8	$ 38.5	$ 236.3
Contract assets—current	59.2	(59.2)	—
Inventories	523.7	22.2	545.9
Other current assets	36.2	(0.4)	35.8
Other non-current assets	77.5	25.3	102.8
Accrued liabilities	140.5	(5.9)	134.5
Deferred tax liabilities	—	6.6	6.6
Deferred revenue on long-term contracts	83.8	5.2	89.0
Retained earnings	709.8	20.5	730.3

	Fiscal Year Ended May 31, 2019		
	As Reported	ASC 606 Adjustments	Balances Excluding ASC 606
Sales	$ 2,051.8	$ (5.0)	$ 2,046.8
Cost of sales	1,722.3	(5.1)	1,717.2
Operating income	98.3	0.1	98.4
Provision for income taxes	4.9	—	4.9
Income from continuing operations	84.1	0.1	84.2

	Fiscal Year Ended May 31, 2019		
	As Reported	ASC 606 Adjustments	Balances Excluding ASC 606
Cash flows provided from operating activities:			
Net income	$ 7.5	$ 0.1	$ 7.6
Income from continuing operations	84.1	0.1	84.2
Accounts receivable	(34.4)	(7.1)	(41.5)
Contract assets	(9.7)	9.7	—
Inventories	(80.9)	(4.9)	(85.8)
Accrued and other liabilities	22.9	3.2	26.1
Other	21.6	(1.0)	20.6

Revenue Recognition for Fiscal 2019

Revenue is measured based on consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

1. Summary of Significant Accounting Policies (Continued)

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as whether the good or service being provided is significantly integrated with other promises in the contract, whether the service provided significantly modifies or customizes another good or service or whether the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point, the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation. We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management and/or repair services. For the fiscal year ended May 31, 2019, we recognized favorable and unfavorable cumulative catch-up adjustments of $8.0 million and $2.1 million, respectively.

1. Summary of Significant Accounting Policies (Continued)

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

Lease revenues are recognized as earned. Income from monthly or quarterly rental payments is recorded in the pertinent period according to the lease agreement. However, for leases that provide variable rents, we recognize lease income on a straight-line basis. In addition to a monthly lease rate, some engine leases require an additional rental amount based on the number of hours the engine is used in a particular month. Lease income associated with these contingent rentals is recorded in the period in which actual usage is reported to us by the lessee, which is normally the month following the actual usage.

We have elected to use certain practical expedients permitted under ASC 606. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales in our Consolidated Statement of Income, and are not considered a performance obligation to our customers. Our reported sales on our Consolidated Statement of Income are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Revenue Recognition for Fiscal 2018 and 2017

Sales and related cost of sales for product sales are generally recognized upon shipment of the product to the customer. Our standard terms and conditions provide that title passes to the customer when the product is shipped to the customer. Sales of certain defense products are recognized upon customer acceptance, which includes transfer of title. Sales from services and the related cost of services are generally recognized when customer-owned material is shipped back to the customer. We have adopted this accounting policy because at the time the customer-owned material is shipped back to the customer, all services related to that material are complete as our service agreements generally do not require us to provide services at customer sites. Furthermore, serviced units are typically shipped to the customer immediately upon completion of the related services. Sales and related cost of sales for certain large airframe maintenance contracts and performance-based logistics programs are recognized by the percentage of completion method, based on the relationship of costs incurred to date to the estimated total costs. Net favorable cumulative catch-up adjustments recognized during fiscal 2018 and 2017 were $3.6 million and $8.5 million, respectively, resulting from changes to the estimated profitability of these contracts.

Lease revenues are recognized as earned. Income from monthly or quarterly rental payments is recorded in the pertinent period according to the lease agreement. However, for leases that provide variable rents, we recognize lease income on a straight-line basis. In addition to a monthly lease rate, some engine leases require an additional rental amount based on the number of hours the engine is used in a particular month. Lease income associated with these contingent rentals is recorded in the period in which actual usage is reported to us by the lessee, which is normally the month following the actual usage.

Certain supply chain management programs we provide to our customers contain multiple elements or deliverables, such as program and warehouse management, parts distribution, and maintenance and

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

repair services. We recognize revenue for each element or deliverable that can be identified as a separate unit of accounting at the time of delivery based upon the relative fair value of the products and services.

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. Contract assets consist of unbilled receivables or costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Net contract assets and liabilities are as follows:

	May 31, 2019	June 1, 2018	Change
Contract assets—current	$ 59.2	$ 49.6	$ 9.6
Contract assets—non-current	17.0	12.9	4.1
Deferred revenue—current	(12.6)	(9.4)	(3.2)
Deferred revenue on long-term contracts	(83.8)	(34.7)	(49.1)
Net contract assets (liabilities)	$ (20.2)	$ 18.4	$ (38.6)

Contract assets—non-current is reported within Other non-current assets, and Contract liabilities—current is reported within Accrued Liabilities on our Consolidated Balance Sheet. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers. For the fiscal year ended May 31, 2019, we recognized as revenue the entire opening balance of our contract liabilities as the timing between customer payment and our performance of the services is a short period of time and generally no longer than three months.

Remaining Performance Obligations

As of May 31, 2019, we had approximately $1.5 billion of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity contracts. We expect that approximately 40% of this backlog will be recognized as revenue over the next 12 months, with the majority of the remaining balance recognized over the next three years. The amount of remaining performance obligations that is expected to be recognized as revenue beyond 12 months primarily relates to our long-term programs where we provide component inventory management and/or repair services.

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history and specific risks identified among uncollected accounts. In determining the required allowance, we consider factors such as general and industry-specific economic conditions, customer credit history, and our customers' current and expected future financial performance. The majority of our customers are recurring customers with an established payment history. Certain customers are required to undergo an extensive credit check prior to delivery of products or services.

We perform regular evaluations of customer payment experience, current financial condition, and risk analysis. We may require collateral in the form of security interests in assets, letters of credit, and/or obligation guarantees from financial institutions for transactions executed on other than normal trade terms. We also maintain trade credit insurance for certain customers to provide coverage, up to a certain limit, in the event of insolvency of some customers.

In fiscal 2019, we recognized a provision for doubtful accounts of $12.4 million related to the bankruptcy of a European airline customer. The provision consisted of impairment of non-current contract assets of $7.6 million, allowance for doubtful accounts of $3.3 million, and other liabilities of $1.5 million.

The change in our allowance for doubtful accounts was as follows:

	May 31,		
	2019	2018	2017
Balance, beginning of year	$ 7.5	$ 4.9	$ 3.3
Provision charged to operations	15.8	0.5	2.1
Recoveries, deductions for accounts written off and other reclassifications	(7.3)	2.1	(0.5)
Balance, end of year	$ 16.0	$ 7.5	$ 4.9

Goodwill and Other Intangible Assets

In accordance with ASC 350, *Intangibles—Goodwill and Other*, goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May 31, or more frequently if circumstances indicate that impairment is possible.

As of May 31, 2019, we had three reporting units, which included two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and one comprised of our Expeditionary Services segment. We utilized the qualitative assessment approach for all reporting units and concluded it was more likely than not that the fair value of each reporting unit exceeded its carrying value at May 31, 2019, and thus no impairment charge was recorded.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Changes in the carrying amount of goodwill by segment for fiscal 2019 and 2018 are as follows:

	Aviation Services	Expeditionary Services	Total
Balance as of May 31, 2017	$ 86.3	$ 19.3	$ 105.6
Acquisition	12.5	—	12.5
Foreign currency translation adjustments	0.6	—	0.6
Balance as of May 31, 2018	99.4	19.3	118.7
Finalization of purchase price allocation	(1.0)	—	(1.0)
Foreign currency translation adjustments	(1.5)	—	(1.5)
Balance as of May 31, 2019	$ 96.9	$ 19.3	$ 116.2

Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets, other than goodwill, are comprised of the following:

	May 31, 2019		
	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Customer relationships	$ 25.5	$ (15.6)	$ 9.9
Lease agreements	22.5	(14.0)	8.5
Other	3.4	(0.7)	2.7
	51.4	(30.3)	21.1
Unamortized intangible assets:			
Trademarks	1.1	—	1.1
	$ 52.5	$ (30.3)	$ 22.2

	May 31, 2018		
	Gross	Accumulated Amortization	Net
Amortizable intangible assets:			
Customer relationships	$ 26.3	$ (13.9)	$ 12.4
Lease agreements	22.5	(12.6)	9.9
Other	11.2	(6.8)	4.4
	60.0	(33.3)	26.7
Unamortized intangible assets:			
Trademarks	1.1	—	1.1
	$ 61.1	$ (33.3)	$ 27.8

Customer relationships are being amortized over 5-20 years and lease agreements are being amortized over 5-18 years. Amortization expense recorded during fiscal 2019, 2018 and 2017 was $3.9 million, $4.7 million, and $4.2 million, respectively. The estimated aggregate amount of amortization expense for

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

intangible assets in each of the next five fiscal years is $3.7 million in 2020, $3.7 million in 2021, $2.8 million in 2022, $2.3 million in 2023 and $2.1 million in 2024.

Foreign Currency

Our foreign subsidiaries utilize the local currency as their functional currency. All balance sheet accounts of foreign subsidiaries transacting business in currencies other than the U.S. dollar are translated at year-end exchange rates. Revenues and expenses are translated at average exchange rates during the year. Translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss until such subsidiaries are liquidated.

Cash

Cash and cash equivalents consist of highly liquid instruments which have original maturities of three months or less when purchased. Restricted cash represents cash on hand required to be set aside by a contractual agreement related to receivable securitization arrangements. Generally, the restrictions related to the receivable securitization arrangements lapse at the time we remit the customer payments collected by us as servicer of previously sold customer receivables to the purchaser.

Financial Instruments and Concentrations of Market or Credit Risk

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. The composition of our accounts receivable is as follows:

	May 31, 2019	May 31, 2018
U.S. Government contracts:		
Trade receivables	$ 28.7	$ 31.9
Unbilled receivables	31.7	13.4
	60.4	45.3
All other customers:		
Trade receivables	92.5	96.2
Unbilled receivables	44.9	60.5
	137.4	156.7
	$ 197.8	$ 202.0

In addition, we currently have past due accounts receivable owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia, Peru, and Poland. Our past due accounts receivable owed by these customers was $12.4 million as of May 31, 2019 which was net of allowance for doubtful accounts of $8.2 million.

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts and trade notes payable approximate fair value because of the short-term maturity of these instruments. The carrying value of long-term debt bearing a variable interest rate approximates fair value.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Inventories

Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification, average cost, or first-in, first-out methods. From time-to-time, we purchase aircraft and engines for disassembly to individual parts and components. Costs are assigned to these individual parts and components utilizing list prices from original equipment manufacturers and recent sales history.

The following is a summary of inventories:

	May 31, 2019	May 31, 2018
Aircraft and engine parts, components and finished goods	$ 467.9	$ 383.5
Raw materials and parts	41.8	45.1
Work-in-process	14.0	32.1
	$ 523.7	$ 460.7

Rotable Assets and Equipment under Leases

The cost of the asset under lease is the original purchase price plus overhaul costs. Depreciation is computed using the straight-line method over the estimated service life of the equipment. The balance sheet classification of equipment under lease is generally based on lease term, with fixed-term leases less than twelve months generally classified as short-term and all others generally classified as long-term.

Equipment on short-term lease includes aircraft engines and parts on or available for lease to satisfy customers' immediate short-term requirements. The leases are renewable with fixed terms, which generally vary from one to twelve months.

Future rent due to us under non-cancelable leases during each of the next five fiscal years is $29.4 million in 2020, $28.7 million in 2021, $28.2 million in 2022, $28.0 million in 2023, and $28.0 million in 2024.

Rotable Assets Supporting Long-Term Programs

Rotable assets supporting long-term programs consist of rotable component parts used to support long-term supply chain programs. The assets are being depreciated on a straight-line basis over their estimated useful lives.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment

We record property, plant and equipment at cost. Depreciation is computed on the straight-line method over useful lives of 10-40 years for buildings and improvements and 3-10 years for equipment, furniture and fixtures, and capitalized software. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the applicable lease.

Repair and maintenance expenditures are expensed as incurred. Upon sale or disposal, cost and accumulated depreciation are removed from the accounts, and related gains and losses are included in results of operations.

In accordance with ASC 360, *Property, Plant and Equipment*, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future undiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values.

Investments

Investments where we have the ability to exercise significant influence, but do not control the entity, are accounted for under the equity method of accounting. Significant influence generally exists if we have a 20% to 50% ownership interest in the investee. Our share of the net earnings or loss of our investees is included in operating income in our Consolidated Statements of Income since the activities of the investees are closely aligned with our operations. Equity investments in entities over which we do not have the ability to exercise significant influence and whose securities do not have a readily determinable fair value are carried at cost.

We evaluate our investments for impairment whenever events or changes in circumstances indicate that the carrying amounts of such investments may be impaired. If a decline in the value of an investment is determined to be other than temporary, a loss is recorded in earnings in the current period.

Our investments are classified in Other non-current assets on our Consolidated Balance Sheets. Distributions from joint ventures are classified as operating or investing activities in the Consolidated Statements of Cash Flows based upon an evaluation of the specific facts and circumstances of each distribution.

Income Taxes

We are subject to income taxes in the U.S., state, and several foreign jurisdictions. In the ordinary course of business, there can be transactions and calculations where the ultimate tax determination is uncertain. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns in accordance with applicable accounting guidance for accounting for income taxes, using currently enacted tax rates in effect for the year in which the differences are expected to reverse.

We record a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

1. Summary of Significant Accounting Policies (Continued)

Both positive and negative evidence are considered in forming our judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. Valuation allowances are reassessed whenever there are changes in circumstances that may cause a change in judgment.

The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition of tax positions taken or expected to be taken in a tax return. Where necessary, we record a liability for the difference between the benefit recognized for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made.

Supplemental Information on Cash Flows

Supplemental information on cash flows is as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Interest paid	$ 8.8	$ 7.2	$ 4.4
Income taxes paid	7.0	17.0	12.7
Income tax refunds and interest received	6.4	0.1	1.3

During fiscal 2019, treasury stock increased $7.0 million reflecting the repurchase of common shares of $10.3 million, restricted stock activity of $0.8 million partially offset by the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $4.1 million.

During fiscal 2018, treasury stock increased $0.9 million reflecting the repurchase of common shares of $13.1 million, restricted stock activity of $1.0 million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $11.2 million.

During fiscal 2017, treasury stock increased $12.2 million reflecting the repurchase of common shares of $19.8 million, restricted stock grants of $1.3 million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $8.9 million.

Use of Estimates

We have made estimates and utilized certain assumptions relating to the reporting of assets and liabilities and the disclosures of contingent liabilities to prepare these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates.

New Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize a right-of-use asset and lease liability on the balance sheet for most lease arrangements, including those classified as operating leases under the current accounting guidance. In addition, this ASU will require new qualitative and quantitative

1. Summary of Significant Accounting Policies (Continued)

disclosures about our leasing activities. This new standard will be effective for us beginning June 1, 2019 and is required to be adopted using a modified retrospective approach. The new standard provides us an option to recognize the cumulative effect adjustment on retained earnings as of June 1, 2019 or as of the beginning of the earliest period presented.

We have reviewed our lease portfolio and are finalizing implementation of the necessary processes and systems to comply with the requirements of this new ASU. This included the selection and implementation of a third-party software solution to facilitate the accounting and reporting requirements of the new ASU.

We will adopt this ASU in the first quarter of fiscal 2020 and apply it prospectively. We expect to elect the package of practical expedients, which permits us not to reassess under the new ASU our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we will implement accounting policy elections to not separate lease and non-lease components for both lessee and lessor relationships and not capitalize any leases with terms of less than twelve months on our Consolidated Balance Sheet.

We expect to recognize operating lease liabilities with corresponding right-of-use assets of approximately the same amount based on the present value of the remaining lease payments over the lease term. We do not anticipate that adoption of the ASU will have a significant impact on our results of operations or cash flows.

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act (the "Tax Reform Act"). We continue to evaluate the impact of this ASU on our consolidated financial statements and expect to adopt this ASU in the first quarter of fiscal 2020.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. This ASU requires a change in the measurement approach for credit losses on financial assets measured on an amortized cost basis from an incurred loss method to an expected loss method, thereby eliminating the requirement that a credit loss be considered probable to impact the valuation of a financial asset measured on an amortized cost basis. This ASU also requires the measurement of expected credit losses to be based on relevant information about past events, including historical experience, current conditions, and a reasonable and supportable forecast of the collectability of the related financial asset. We continue to evaluate the impact of this ASU on our consolidated financial statements and expect to adopt this ASU on June 1, 2020.

(Dollars in millions, except per share amounts)

2. Discontinued Operations

Our Contractor-Owned, Contractor-Operated ("COCO") business completed certain contracts in the second quarter of fiscal 2018. As the aircraft supporting these contracts were not placed on new contracts, combined with the continued decline in operational tempo within the U.S. Department of Defense ("DoD") and an excess supply of aircraft assets in the market, we determined there was an impairment triggering event and tested the recoverability of our COCO assets. As a result, we recognized impairment and other charges of $54.2 million in the second quarter of fiscal 2018. The fair value of the aircraft and related assets was based on available market data for similar assets.

During the third quarter of fiscal 2018, we decided to pursue the sale of our COCO business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Goodwill was allocated to this business based on its relative fair value to the reporting unit. The fair value of the reporting unit was determined based on a combination of the expected net proceeds upon sale and a discounted cash flow analysis. As the fair value of the COCO business was below its carrying value, a goodwill impairment charge of $9.8 million, representing the estimated loss on disposal, was recorded in the third quarter of fiscal 2018.

On March 15, 2019, we signed an agreement to sell certain contracts and assets of our COCO business. We expect the sale to close before the end of calendar 2019. In conjunction with this agreement and other expected asset sales, we recognized an impairment charge in discontinued operations of $74.1 million during the third quarter of fiscal 2019 reflecting the expected net proceeds to be received upon the completion of the sale transactions.

Discontinued operations also includes the results of our former metal machining operation, which was shutdown in the first quarter of fiscal 2017.

No amounts for general corporate overhead or interest expense were allocated to discontinued operations during the periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Consolidated Financial Statements relate to our continuing operations.

Operating results for discontinued operations were comprised of the following:

	For the Year Ended May 31,		
	2019	2018	2017
Sales	$ 95.8	$ 96.3	$ 176.9
Cost of sales	(106.1)	(101.4)	(165.1)
Asset impairments	(74.1)	(65.2)	—
Selling, general and administrative expenses	(12.1)	(11.8)	(16.1)
Operating loss from discontinued operations	(96.5)	(82.1)	(4.3)
Provision for income taxes (benefit)	(19.9)	(24.0)	(8.8)
Income (Loss) from discontinued operations	$ (76.6)	$ (58.1)	$ 4.5

During the fourth quarter of fiscal 2017, we recognized an income tax benefit in discontinued operations of $6.7 million for an effective settlement of a previously reserved tax position.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

2. Discontinued Operations (Continued)

The carrying amounts of the major classes of assets and liabilities for our discontinued operations are as follows:

	May 31, 2019	May 31, 2018
Accounts receivable, net	$ 16.2	$ 14.7
Inventory, rotable assets, and equipment	7.5	106.1
Other assets	5.5	4.2
Assets of discontinued operations	$ 29.2	$ 125.0
Liabilities of discontinued operations	$ 29.2	$ 25.0

3. Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million. The term of the Purchase Agreement runs through February 22, 2020; however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Consolidated Balance Sheet.

During fiscal 2019 and 2018, we sold $744.2 million and $239.6 million, respectively, of receivables under the Purchase Agreement and remitted $729.7 million and $167.9 million, respectively, to the Purchaser on their behalf. As of May 31, 2019 and May 31, 2018, we had collected cash of $19.8 million and $10.5 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other expense, net on our Consolidated Statements of Income. During fiscal 2019 and 2018, we incurred discounts on the sale of our receivables and other fees of $2.2 million and $0.9 million, respectively.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

4. Financing Arrangements

Debt Outstanding

A summary of the carrying amount of our debt is as follows:

	May 31, 2019	May 31, 2018
Revolving Credit Facility expiring November 1, 2021 with interest payable monthly	$ 120.0	$ 130.0
Term loan due November 1, 2021 with interest payable monthly	22.9	23.9
Industrial revenue bond (secured by property, plant and equipment) due August 1, 2018 with interest payable monthly	—	25.0
Capital lease obligations	—	—
Total debt	142.9	178.9
Current maturities of debt	—	—
Debt issuance costs, net	(1.2)	(1.7)
Long-term debt	$ 141.7	$ 177.2

At May 31, 2019, our variable rate and fixed rate debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

The industrial revenue bond was paid on August 1, 2018 using our Revolving Credit Facility.

On October 18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the "Credit Agreement"). The Credit Agreement provided a Canadian $31 million term loan with the proceeds used to fund the acquisition of two maintenance, repair, and overhaul ("MRO") facilities in Canada from Premier Aviation. The term loan is due in full at the expiration of the Credit Agreement on November 1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment amount of $500 million. The Company, under certain circumstances, has the ability to request an increase to the revolving credit commitment by an aggregate amount of up to $250 million, not to exceed $750 million in total.

On November 1, 2016, we entered into an amendment to our Revolving Credit Facility which extended the maturity of the Revolving Credit Facility to November 1, 2021, eliminated the condition of no material adverse change for credit extensions and modified certain other provisions.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 100 to 200 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 100 basis points based on certain financial measurements if a Base Rate loan.

(Dollars in millions, except per share amounts)

4. Financing Arrangements (Continued)

The industrial revenue bond that matured on August 1, 2018 was classified as a long-term liability due to our intent and ability to refinance this bond on a long-term basis using our Revolving Credit Facility.

Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At May 31, 2019, we were in compliance with the financial and other covenants in our financing agreements.

Borrowing activity under the Revolving Credit Facility during fiscal 2019, 2018 and 2017 is as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Maximum amount borrowed	$ 287.0	$ 275.0	$ 217.0
Average daily borrowings	207.8	214.1	175.5
Average interest rate during the year	3.41%	2.52%	1.77%

We also have $9.5 million available under foreign lines of credit.

5. Stock-Based Compensation

We have granted stock-based awards under the AAR CORP. 2013 Stock Plan (the "2013 Stock Plan") and the AAR CORP. Stock Benefit Plan ("Stock Benefit Plan") each of which has been approved by our stockholders. No further awards will be made under the Stock Benefit Plan. Under the 2013 Stock Plan, we are authorized to issue stock options to employees and non-employee directors that allow the grant recipients to purchase shares of common stock at a price not less than the fair market value of the common stock on the date of grant. Generally, stock options awarded expire ten years from the date of grant and are exercisable in three annual increments commencing one year after the date of grant. In addition to stock options, the 2013 Stock Plan also provides for the grant of time-based restricted stock awards and performance-based restricted stock awards. The number of performance-based awards earned, subject to vesting, is based on achievement of certain Company-wide or segment financial goals or stock price targets. The 2013 Stock Plan also provides for the grant of stock appreciation units and restricted stock units; however, to date, no such awards have been granted.

Restricted stock grants (whether time-based or performance-based) are designed, among other things, to align employee interests with the interests of stockholders and to encourage the recipient to build a career with us. Restricted stock typically vests over periods of one to five years from date of grant. Restricted stock grants may be performance-based with vesting to occur over periods of three to five years. All restricted stock that has been granted and, if performance-based, earned according to performance criteria carries full dividend and voting rights, regardless of whether it has vested.

Substantially all stock options and restricted stock are subject to forfeiture prior to vesting if the employee's employment terminates for any reason other than death, disability or retirement. Since inception, a total of 11,149,000 shares have been granted under the Stock Benefit Plan. We have granted a

5. Stock-Based Compensation (Continued)

total of 3,089,000 shares under the 2013 Stock Plan. All future stock awards will be made under the 2013 Stock Plan. There were 1,556,114 shares available for grant under the 2013 Stock Plan as of May 31, 2019.

Stock Options

During fiscal 2019, 2018, and 2017, we granted stock options with respect to 300,240 shares, 463,140 shares and 687,000 shares, respectively. The weighted average fair value per share of stock options granted during fiscal 2019, 2018 and 2017 was $13.60, $9.29 and $6.50, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions:

	Stock Options Granted In Fiscal Year		
	2019	2018	2017
Risk-free interest rate	2.7%	1.8%	1.0%
Expected volatility of common stock	30.8%	31.7%	36.8%
Dividend yield	0.6%	0.9%	1.3%
Expected option term in years	4.5	4.3	4.0

The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on historical volatility of our common stock, and the expected option term represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The dividend yield represents our anticipated cash dividends at the grant date over the expected option term.

A summary of stock option activity for the three years ended May 31, 2019 consisted of the following (shares in thousands):

	2019		2018		2017	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	2,082	$ 26.72	2,334	$ 23.02	2,096	$ 22.17
Granted	300	$ 47.84	463	$ 35.33	687	$ 24.10
Exercised	(571)	$ 25.56	(704)	$ 20.04	(396)	$ 20.07
Cancelled	(34)	$ 42.02	(11)	$ 29.50	(53)	$ 25.42
Outstanding at end of year	1,777	$ 30.37	2,082	$ 26.72	2,334	$ 23.02
Options exercisable at end of year	981	$ 25.28	883	$ 23.81	910	$ 21.97

The total fair value of stock options that vested during fiscal 2019, 2018, and 2017 was $5.6 million, $4.9 million, and $3.5 million, respectively. The total intrinsic value of stock options exercised during fiscal 2019, 2018, and 2017 was $12.2 million, $14.2 million, and $4.7 million, respectively. The aggregate intrinsic value of options outstanding was $6.7 million and $37.4 million as of May 31, 2019 and 2018, respectively. The tax benefit realized from stock options exercised during fiscal 2019, 2018, and 2017 was $2.7 million,

5. Stock-Based Compensation (Continued)

$2.9 million, and $1.2 million, respectively. Expense recognized in selling, general and administrative expenses for stock options during fiscal 2019, 2018, and 2017 was $4.1 million, $5.1 million, and $4.6 million, respectively. As of May 31, 2019, we had $4.2 million of unrecognized compensation expense related to stock options that will be amortized over an average period of 1.3 years.

Restricted Stock

We provide executives and other key employees an opportunity to be awarded performance-based and time-based restricted stock. The performance-based awards are contingent upon the achievement of certain objectives, which generally include cumulative net income, average return on capital, and relative total shareholder return over a three-year performance period. During fiscal 2019, 2018, and 2017, we granted 43,680, 108,440, and 212,583 of performance-based restricted shares, respectively. Time-based restricted shares of 46,470, 24,425, and 39,100 were granted to executives and key employees during fiscal 2019, 2018, and 2017, respectively. We also award time-based restricted stock to our non-employee directors as part of their annual compensation. Time-based restricted shares of 29,128, 55,000, and 50,625 were granted to members of the Board of Directors during fiscal 2019, 2018, and 2017, respectively.

The fair value of restricted shares is the market value of our common stock on the date of grant. Expense recognized in selling, general and administrative expenses for all restricted share programs during fiscal 2019, 2018, and 2017 was $9.4 million, $10.2 million, and $6.4 million, respectively.

Restricted share activity during the fiscal 2019 was as follows (shares in thousands):

	Number of Shares	Weighted Average Fair Value on Grant Date
Nonvested at May 31, 2018	684	$ 27.89
Granted	168	$ 40.83
Vested	(303)	$ 28.08
Forfeited	(17)	$ 40.67
Nonvested at May 31, 2019	532	$ 31.70

As of May 31, 2019 we had $7.1 million of unearned compensation related to restricted shares that will be amortized to expense over a weighted average period of 1.1 years.

6. Income Taxes

On December 22, 2017, the Tax Reform Act was enacted which significantly revised the U.S. corporate income tax system. The Tax Reform Act, among other things, reduced the corporate federal income tax rate to 21% from 35%, changed bonus depreciation regulations and limited deductions for executive compensation. The income tax rate reduction in the Tax Reform Act was effective January 1, 2018 which resulted in a blended federal statutory tax rate of 29.2% in fiscal 2018.

In fiscal 2018, we re-measured our deferred tax assets and liabilities based on the tax rate at which they are expected to reverse in the future, which was either at a federal rate of 29.2% for reversals expected in fiscal 2018 or 21% for reversals in fiscal 2019 and subsequent years. During fiscal 2018, we

(Dollars in millions, except per share amounts)

6. Income Taxes (Continued)

recognized an income tax benefit of $14.1 million for the re-measurement impact from applying the provisions of the Tax Reform Act.

The provision for income tax on income from continuing operations includes the following components:

	For the Year Ended May 31, 2019	2018	2017
Current:			
Federal	$ 4.8	$ 14.6	$ 9.3
State	0.1	0.1	0.2
Foreign	5.0	1.7	3.1
	9.9	16.4	12.6
Deferred	(5.0)	(12.9)	12.5
	$ 4.9	$ 3.5	$ 25.1

The provision for income taxes on pre-tax income differs from the amount computed by applying the U.S. federal statutory income tax rate of 21.0% for fiscal 2019, 29.2% for fiscal 2018 and 35.0% for fiscal 2017 to income from continuing operations before provision for income taxes due to the following:

	For the Year Ended May 31, 2019	2018	2017
Provision for income tax at the federal statutory rate	$ 18.7	$ 22.5	$ 27.0
Deferred tax re-measurement from the Tax Reform Act	—	(14.1)	—
Excess tax benefits from stock-based compensation	(2.7)	(2.9)	—
State net operating losses	(0.3)	1.3	5.7
Change in valuation allowance for state deferred tax assets	(6.9)	(3.4)	(5.7)
Effective settlement of prior tax positions	(4.7)	—	(2.2)
Other	0.8	0.1	0.3
Provision for income tax	$ 4.9	$ 3.5	$ 25.1

Income before provision for income taxes includes the following components:

	For the Year Ended May 31, 2019	2018	2017
Domestic	$ 68.9	$ 58.7	$ 57.7
Foreign	20.1	18.5	19.4
	$ 89.0	$ 77.2	$ 77.1

(Dollars in millions, except per share amounts)

6. Income Taxes (Continued)

Deferred tax liabilities and assets result primarily from the differences in the timing of the recognition of transactions for financial reporting and income tax purposes. Our deferred tax liabilities and assets consist of the following components:

	May 31, 2019	May 31, 2018
Deferred tax assets:		
Employee benefits	$ 9.4	$ 9.7
State net operating losses	9.0	8.6
Deferred revenue	7.7	1.1
Inventory costs	4.9	15.9
Postretirement benefits	3.7	2.2
Other	4.8	4.2
Total deferred tax assets	39.5	41.7
Valuation allowance	(0.1)	(7.0)
Total deferred tax assets net of valuation allowance	39.4	34.7
Deferred tax liabilities:		
Tangible and intangible assets	(36.1)	(50.2)
Other	(0.2)	(0.2)
Total deferred tax liabilities	(36.3)	(50.4)
Net deferred tax assets (liabilities)	$ 3.1	$ (15.7)

As of May 31, 2019, we have determined that the realization of our deferred tax assets is more likely than not and that a valuation allowance is not required except for certain state deferred tax assets, including net operating losses. The change in the valuation allowance was primarily the result of the expected utilization of a portion of these state net operating losses. Our net operating losses have carry forward periods that range from 5 to 20 years. Our history of operating earnings, our expectations for continued future earnings, the nature of certain of our deferred tax assets and the scheduled reversal of deferred tax liabilities, primarily related to depreciation, support the recoverability of the majority of the deferred tax assets. Our net deferred tax assets are included in Other non-current assets on our Consolidated Balance Sheet at May 31, 2019.

Income tax receivable was $1.1 million and $1.0 million at May 31, 2019 and 2018, respectively, and was included in Other current assets on the Consolidated Balance Sheet.

(Dollars in millions, except per share amounts)

6. Income Taxes (Continued)

A reconciliation of the beginning and ending amounts of unrecognized tax benefits was as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Balance, beginning of year	$ 4.4	$ 4.4	$ 12.9
Additions for tax positions of prior years	—	—	0.4
Effective settlement of prior tax position	(4.4)	—	(8.9)
Balance, end of year	$ —	$ 4.4	$ 4.4

The reserve for unrecognized tax benefits decreased primarily as a result of effective settlement of tax positions for prior tax years, which occurred upon the settlement of IRS examinations. Income tax expense in fiscal 2019 included a benefit of $4.4 million for these effective settlements. Income tax expense in fiscal 2017 included a benefit of $2.2 million and discontinued operations included a benefit of $6.7 million for these effective settlements.

Fiscal years 2016 and subsequent are open for examination. Various states and foreign jurisdictions also remain open subject to their applicable statute of limitations.

7. Earnings Per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options, shares issuable upon vesting of restricted stock awards and shares to be issued upon conversion of convertible debt.

In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

7. Earnings Per Share (Continued)

The following tables provide a reconciliation of the computations of basic and diluted earnings per share information for each of the years in the three-year period ended May 31, 2019 (shares in millions).

	For the Year Ended May 31, 2019	2018	2017
Basic and Diluted EPS:			
Income from continuing operations	$ 84.1	$ 73.7	$ 52.0
Less income attributable to participating shares	(0.4)	(0.6)	(0.5)
Income from continuing operations attributable to common shareholders	83.7	73.1	51.5
Income (Loss) from discontinued operations attributable to common shareholders	(76.6)	(58.1)	4.5
Net income attributable to common shareholders for earnings per share	$ 7.1	$ 15.0	$ 56.0
Weighted average common shares outstanding—basic	34.5	34.2	33.9
Additional shares from assumed exercise of stock options	0.4	0.4	0.4
Weighted average common shares outstanding—diluted	34.9	34.6	34.3
Earnings per share—basic:			
Earnings from continuing operations	$ 2.42	$ 2.14	$ 1.53
Earnings (Loss) from discontinued operations	(2.22)	(1.70)	0.13
Earnings per share—basic	$ 0.20	$ 0.44	$ 1.66
Earnings per share—diluted:			
Earnings from continuing operations	$ 2.40	$ 2.11	$ 1.51
Earnings (Loss) from discontinued operations	(2.19)	(1.70)	0.13
Earnings per share—diluted	$ 0.21	$ 0.41	$ 1.64

At May 31, 2019 and 2017, respectively, outstanding options to purchase 273,400 and 11,200 shares of common stock were not included in the computation of diluted earnings per share, because the exercise price of these options was greater than the average market price of the common shares for the year then ended. At May 31, 2018, the average market price of our common shares was in excess of the exercise prices of all of our outstanding options.

8. Employee Benefit Plans

Defined Benefit Plans

Prior to January 1, 2000, the pension plan for domestic salaried and non-union hourly employees had a benefit formula based primarily on years of service and compensation. Effective January 1, 2000, we converted our defined benefit plan for substantially all domestic salaried and certain hourly employees to a cash balance pension plan. Under the cash balance pension plan, the retirement benefit is expressed as a dollar amount in an account that grows with annual pay-based credits and interest on the account balance. The interest crediting rate under our cash balance plan is determined quarterly and is equal to 100% of the average 30-year treasury rate for the second month preceding the applicable quarter published by the

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

Internal Revenue Service. The average interest crediting rate under our cash balance plan for the fiscal year ended May 31, 2019 was 4.46%. Effective June 1, 2005, the existing cash balance plan was frozen and the annual pay-based credits were discontinued. Also effective June 1, 2005, the defined contribution plan was modified to include increased employer contributions and an enhanced profit sharing formula. Defined pension benefits for certain union hourly employees are based primarily on a fixed amount per year of service and the plan was frozen in fiscal 2018.

We also have a defined benefit pension plan covering certain employees in the Netherlands. Benefit formulas are based generally on years of service and compensation.

We also have a benefit plan which provides benefits to certain retired outside directors. In fiscal 2001, we froze the plan for any new members of the Board of Directors and no current directors participate in this plan.

The change to our projected benefit obligation and the fair value of our plan assets for our pension plans was as follows:

	May 31, 2019	May 31, 2018
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 146.5	$ 145.4
Service cost	2.3	2.4
Interest cost	4.3	4.3
Participant contributions	0.4	0.4
Net actuarial loss (gain)	6.5	(2.3)
Benefits and administrative payments	(6.9)	(6.5)
Settlements	(0.6)	—
Plan change	—	0.7
Foreign currency translation adjustment	(3.3)	2.1
Projected benefit obligation at end of year	$ 149.2	$ 146.5
Change in the fair value of plan assets:		
Fair value of plan assets at beginning of year	$ 134.5	$ 118.8
Actual return on plan assets	2.8	11.6
Employer contributions	2.6	8.4
Participant contributions	0.4	0.4
Benefits and administrative payments, including settlements	(7.5)	(6.5)
Foreign currency translation adjustment	(2.9)	1.8
Fair value of plan assets at end of year	$ 129.9	$ 134.5
Funded status at end of year	$ (19.3)	$ (12.0)

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

Amounts recognized in the Consolidated Balance Sheets consisted of the following:

	May 31, 2019	May 31, 2018
Other non-current assets	$ —	$ 0.5
Accrued liabilities	(0.4)	(1.2)
Other liabilities	(18.9)	(11.3)
Funded status at end of year	$ (19.3)	$ (12.0)

Amounts recognized in accumulated other comprehensive loss at May 31, 2019 and 2018, respectively, consisted of the following:

	May 31, 2019	May 31, 2018
Actuarial loss	$ 58.7	$ 50.5
Prior service credit	—	(0.1)
Total	$ 58.7	$ 50.4

For all of our pension plans, both the projected benefit obligation and the accumulated benefit obligation are in excess of the individual plans' assets. The accumulated benefit obligation for all pension plans was $142.4 million and $140.2 million at May 31, 2019 and 2018, respectively.

Net Periodic Benefit Cost

Pension expense charged to the Consolidated Statements of Income includes the following components:

	For the Year Ended May 31,		
	2019	2018	2017
Service cost	$ 2.3	$ 2.4	$ 2.5
Interest cost	4.3	4.3	4.2
Expected return on plan assets	(7.1)	(7.3)	(6.5)
Curtailment	—	0.3	—
Settlements	0.1	—	—
Amortization of prior service credit	(0.1)	—	—
Recognized net actuarial loss	1.8	2.3	2.4
	$ 1.3	$ 2.0	$ 2.6

The estimated amount of net actuarial loss to be amortized from accumulated other comprehensive loss into expense during fiscal 2020 is $2.0 million.

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

Assumptions

The assumptions used in accounting for our plans are estimates of factors including, among other things, the amount and timing of future benefit payments. The following table presents the key weighted-average assumptions used in the measurement of our projected benefit obligations:

	May 31, 2019	May 31, 2018
Discount rate:		
Domestic plans	3.67%	4.05%
International plan	1.50	1.90
Rate of compensation increase:		
Domestic plans	n/a	n/a
International plans	3.00%	3.00%

A summary of the weighted-average assumptions used to determine net periodic pension expense is as follows:

	For the Year Ended May 31, 2019	2018	2017
Discount rate:			
Domestic plans	4.05%	3.82%	3.83%
International plan	1.90	2.00	1.90
Expected long-term rate on plan assets:			
Domestic plans	7.25%	7.25%	7.25%
International plan	3.60	4.00	4.00

The discount rate was determined by projecting the expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation.

Plan Assets

The following table sets forth the actual asset allocation and target allocations for our U.S. pension plans:

	May 31, 2019	May 31, 2018	Target Asset Allocation
Equity securities	59%	59%	45 - 75%
Fixed income securities	22	22	15 - 45%
Other	19	19	0 - 25%
	100%	100%	

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

The assets of U.S pension plans are invested in compliance with the Employee Retirement Income Security Act of 1974. The investment goals are to provide a total return that, over the long term, optimizes the long-term return on plan assets at an acceptable risk, and to maintain a broad diversification across asset classes and among investment managers. We believe that there are no significant concentrations of risk within our plan assets as of May 31, 2019. The use of derivatives for the purpose of speculation are not permitted. The assets of the U.S. pension plans are invested primarily in equity and fixed income mutual funds, individual common stocks, and fund-of-funds hedge funds. The assets of the non-domestic plan are invested in funds-of-funds where each fund holds a portfolio of equity and fixed income mutual funds.

To develop our expected long-term rate of return assumption on domestic plans, we use long-term historical return information for our targeted asset mix and current market conditions. The expected return for each asset class is weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption. While consideration is given to recent performance, the assumption represents a long-term, prospective rate of return.

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May 31, 2019:

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Equity securities:				
U.S. mutual funds	$ 31.1	$ —	$ —	$ 31.1
International mutual funds	8.4	—	—	8.4
Fixed income:				
Government securities and corporate bond mutual funds	9.0	5.9	—	14.9
Funds-of-funds	—	53.0	7.9	60.9
Hedge funds	—	—	4.2	4.2
Insurance annuities	—	—	9.9	9.9
Cash and cash equivalents	0.5	—	—	0.5
Total investments	$ 49.0	$ 58.9	$ 22.0	$ 129.9

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May 31, 2018:

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Equity securities:				
U.S. mutual funds	$ 32.8	$ —	$ —	$ 32.8
International mutual funds	10.4	—	—	10.4
Fixed income:				
Government securities and corporate bond mutual funds	15.7	—	—	15.7
Funds-of-funds	—	53.6	7.7	61.3
Hedge funds	—	—	4.4	4.4
Insurance annuities	—		7.8	7.8
Cash and cash equivalents	2.1	—	—	2.1
Total investments	$ 61.0	$ 53.6	$ 19.9	$ 134.5

1 Quoted prices in active markets for identical assets that we have the ability to access as of the reporting date.

2 Inputs other than quoted prices included within Level 1 that are directly observable for the asset or indirectly observable through corroboration with observable market data.

3 Unobservable inputs, such as internally developed pricing models or third party valuations for the asset due to little or no market activity for the asset.

The following table presents the reconciliation of Level 3 pension assets measured at fair value for the fiscal years ended May 31, 2019 and 2018:

	Hedge Funds	Fund-of-funds	Insurance Annuities	Total
Balance as of May 31, 2017	$ 6.8	$ 7.3	$ —	$ 14.1
Purchases	—	—	7.8	7.8
Sales	(3.0)	—	—	(3.0)
Return on plan assets related to assets still held at May 31, 2018	0.6	0.4	—	1.0
Balance as of May 31, 2018	4.4	7.7	7.8	19.9
Purchases	—	—	2.1	2.1
Return on plan assets related to assets still held at May 31, 2019	(0.2)	0.2	—	—
Balance as of May 31, 2019	$ 4.2	$ 7.9	$ 9.9	$ 22.0

Valuation Techniques Used to Determine Fair Value

Cash equivalents are investments with maturities of three months or less when purchased. The fair values are based on observable market prices and categorized as Level 1.

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

With respect to individually held equity securities, including investments in U.S. and international securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, which we are able to independently corroborate. Equity securities held individually are primarily traded on exchanges that contain only actively traded securities, due to the volume trading requirements imposed by these exchanges. Equity securities are valued based on quoted prices in active markets and categorized as Level 1.

Equity and fixed income mutual funds are maintained by investment companies that hold certain investments in accordance with a stated set of fund objectives, which are consistent with our overall investment strategy. The values of some of these funds are publicly quoted. For equity and fixed income mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level 1. As certain of our funds-of-funds investments are also derived from quoted prices in active markets, we have categorized certain funds-of-funds investments as Level 2.

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair value of hedge funds is determined using net asset value or its equivalent subject to certain restrictions, such as a lock-up period. As we may be limited in our ability to redeem the investments at the measurement date or within a reasonable period of time, the hedge fund investments are categorized as Level 3. Our other Level 3 investments require the utilization of unobservable inputs resulting in Level 3 treatment in the fair value hierarchy.

Future Benefit Payments and Funding

The following table summarizes our estimated future pension payments by fiscal year:

	Fiscal Year					
	2020	2021	2022	2023	2024	2025 to 2029
Estimated future pension payments	$ 6.8	$ 5.5	$ 6.0	$ 6.3	$ 5.9	$ 35.7

Our contribution policy for the domestic plans is to contribute annually, at a minimum, an amount which is deductible for federal income tax purposes and that is sufficient to meet actuarially computed pension benefits. For our Netherlands pension plan, our policy is to fund at least the minimum amount required by the local laws and regulations. We anticipate contributing approximately $1.6 million to our pension plans during fiscal 2020.

Postretirement Benefits Other Than Pensions

We provide health and life insurance benefits for certain eligible retirees. The postretirement plan is unfunded and in fiscal 1995, we completed termination of postretirement health and life insurance benefits attributable to future services of collective bargaining and other domestic employees. The unfunded projected benefit obligation for this plan was $0.4 million and $0.4 million as of May 31, 2019 and 2018, respectively. We have omitted substantially all of the required disclosures related to this plan because the plan is not material to our consolidated financial position or results of operations.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

8. Employee Benefit Plans (Continued)

Defined Contribution Plan

The defined contribution plan is a profit sharing plan that is intended to qualify as a 401(k) plan under the Internal Revenue Code. Under the plan, employees may contribute up to 75% of their pretax compensation, subject to applicable regulatory limits. We may make matching contributions up to 5% of compensation as well as discretionary profit sharing contributions. Our contributions vest on a pro-rata basis during the first three years of employment. We also provide profit sharing benefits for certain executives and key employees to supplement the benefits provided by the defined contribution plan. Expense charged to the Consolidated Statements of Income for our matching contributions, including profit sharing contributions, was $11.4 million in fiscal 2019, $9.2 million in fiscal 2018 and $11.6 million in fiscal 2017 for these plans.

9. Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for each of the years in the three-year period ended May 31, 2019 were as follows (all amounts are net of tax):

	Currency Translation Adjustments	Pension Plans	Total
Balance as of June 1, 2016	$ (1.1)	$ (43.3)	$ (44.4)
Other comprehensive loss before reclassifications	(0.6)	3.5	2.9
Amounts reclassified from AOCL	—	1.6	1.6
Total other comprehensive loss	(0.6)	5.1	4.5
Balance as of May 31, 2017	(1.7)	(38.2)	(39.9)
Other comprehensive income (loss) before reclassifications	2.0	4.2	6.2
Amounts reclassified from AOCL	—	1.7	1.7
Total other comprehensive income (loss)	2.0	5.9	7.9
Balance as of May 31, 2018	0.3	(32.3)	(32.0)
Other comprehensive income before reclassifications	(2.4)	(8.0)	(10.4)
Amounts reclassified from AOCL	—	1.5	1.5
Total other comprehensive income	(2.4)	(6.5)	(8.9)
Balance as of May 31, 2019	$ (2.1)	$ (38.8)	$ (40.9)

10. Commitments and Contingencies

On October 3, 2003, we entered into a sale-leaseback transaction whereby we sold and leased back a facility located in Garden City, New York. The lease is classified as an operating lease. Net proceeds from the sale of the facility were $14.0 million and the cost and related accumulated depreciation of the facility of $9.5 million and $4.6 million, respectively, were removed from the Consolidated Balance Sheet at the time of sale. The gain realized on the sale of $9.1 million has been deferred and is being amortized over the 20-year lease term. As of May 31, 2019 and 2018, the unamortized balance of the deferred gain was

(Dollars in millions, except per share amounts)

10. Commitments and Contingencies (Continued)

approximately $2.0 million and $2.5 million, respectively, and is included in Other liabilities on the Consolidated Balance Sheets.

In addition to the leases described above, we lease other facilities and equipment under agreements that are classified as operating leases. With the exception of a land lease for one of our airframe maintenance facilities which expires in 2108, our operating leases expire at various dates through 2034. Future minimum payments under all operating leases at May 31, 2019 are as follows:

2020	$ 21.6
2021	19.3
2022	16.5
2023	13.2
2024	11.0
2025 and thereafter	39.9

Rental expense for facilities and equipment during fiscal years 2019, 2018, and 2017 was $25.9 million, $23.5 million, and $22.9 million, respectively.

We enter into purchase obligations, which arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts and components, as well as equipment to support the operations of our business. The aggregate amount of purchase obligations due in each of the next five fiscal years is $322.3 million in 2020, $53.8 million in 2021, $7.8 million in 2022, $0.6 in 2023 and $0.1 million in 2024.

We routinely issue letters of credit and performance bonds in the ordinary course of our business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May 31, 2019 was approximately $31.7 million which includes $11.6 million related to a guarantee of 40% of the outstanding debt of our Indian joint venture. We have recognized a current liability of $4.8 million based on the fair value of our guarantee obligation.

We are involved in various claims and legal actions, including environmental matters, arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial condition or results of operations.

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

11. Other Non-current Assets

At May 31, 2019 and 2018, other non-current assets consisted of the following:

	May 31, 2019	May 31, 2018
Contract assets	$ 17.0	$ 39.0
Cash surrender value of life insurance	15.6	16.8
Assets under deferred compensation plan	10.4	35.7
Investments in joint ventures	12.3	7.6
License fees	7.2	10.6
Other	15.0	9.2
	$ 77.5	$ 118.9

Investments in Joint Ventures

During fiscal 2018, we sold interests in two aircraft joint ventures, which were accounted for under the equity method of accounting. We received cash proceeds of $7.3 million and recognized a gain on the sale of $0.4 million.

Under the terms of servicing agreements with certain of our aircraft joint ventures, we provide administrative services and technical advisory services, including aircraft evaluations, oversight and logistical support of the maintenance process and records management. We also provide evaluation and inspection services prior to the purchase of an aircraft and remarketing services with respect to the divestiture of aircraft by the joint ventures. During fiscal 2019, 2018, and 2017, we were paid $0.4 million, $0.4 million, and $1.2 million, respectively, for such services.

Our investments in joint ventures includes $6.3 million for our 40% ownership interest in our Indian joint venture with Indamer Aviation to develop and operate an airframe maintenance facility in India. The investment balance includes $4.8 million related to the guarantee liability recognized in conjunction with our guarantee of 40% of the Indian joint venture's debt. The Indian joint venture is accounted for using the equity method. In addition, each of the partners in the Indian joint venture have a loan to the joint venture proportionate to their equity ownership. We have a loan to the joint venture of $2.8 million as of May 31, 2019.

12. Acquisitions

On September 19, 2017, we acquired the outstanding shares of two MRO facilities in Canada owned by Premier Aviation for approximately $24.8 million. The purchase price includes $22.9 million paid at

(Dollars in millions, except per share amounts)

12. Acquisitions (Continued)

closing with the remaining deferred consideration paid in September 2018. This business is included in our Aviation Services segment. The fair value of assets acquired and liabilities assumed is as follows:

Current assets	$ 4.4
Property and equipment	15.1
Intangible assets, including goodwill	14.6
Accounts payable and accrued liabilities	(9.3)
	$ 24.8

On April 10, 2017, we acquired the trading business of ACLAS Global Limited ("ACLAS"). In conjunction with the acquisition, we entered into a multi-year component support and repair contract covering approximately 100 of ACLAS' aircraft. The purchase price of the acquisition was $12.0 million paid at closing with $3.0 million in deferred consideration payable over the next three years. This business operates as part of our Aviation Services segment. The fair value of assets acquired is as follows:

Inventory	$ 5.0
Equipment on or available for long-term lease	6.2
Intangible assets	3.8
Assets acquired	$ 15.0

13. Business Segment Information

Segment Reporting

Consistent with how our chief operating decision making officer (Chief Executive Officer) evaluates performance and the way we are organized internally, we report our activities in two segments: *Aviation Services* comprised of supply chain and MRO activities and *Expeditionary Services* comprised of manufacturing activities.

In the first quarter of fiscal 2019, we re-aligned the composition of our operating segments to leverage the full breadth of our operational expertise in Aviation Services. Our government-owned, contractor-operated operations (which include the INL/A Worldwide Aviation Support Services ("INL/A WASS") program) were previously included in our Expeditionary Services segment and are now reported within our Aviation Services segment for all periods presented.

The Aviation Services segment consists of aftermarket support and services offerings that provide spare parts and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, customer fleet management and operations, and aircraft component repair management services. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead.

(Dollars in millions, except per share amounts)

13. Business Segment Information (Continued)

The Expeditionary Services segment consists of primarily manufacturing operations with sales derived from the design and manufacture of pallets, shelters, and containers used to support the U.S. military's requirements for a mobile and agile force including engineering, design, and system integration services for specialized command and control systems. This segment also designs and manufactures advanced composite materials for commercial, business and military aircraft. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

The accounting policies for the segments are the same as those described in Note 1. Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services.

Selected financial information for each segment is as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Net sales:			
Aviation Services	$ 1,920.6	$ 1,635.8	$ 1,485.4
Expeditionary Services	131.2	112.5	105.4
	$ 2,051.8	$ 1,748.3	$ 1,590.8

	For the Year Ended May 31,		
	2019	2018	2017
Gross profit:			
Aviation Services	$ 313.3	$ 275.3	$ 246.0
Expeditionary Services	16.2	19.3	17.4
	$ 329.5	$ 294.6	$ 263.4

	May 31,	
	2019	2018
Total assets:		
Aviation Services	$ 1,346.8	$ 1,241.2
Expeditionary Services	94.7	94.8
Corporate and discontinued operations	75.7	188.7
	$ 1,517.2	$ 1,524.7

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

13. Business Segment Information (Continued)

	For the Year Ended May 31, 2019	2018	2017
Capital expenditures:			
Aviation Services	$ 15.1	$ 18.9	$ 15.0
Expeditionary Services	1.4	1.8	2.0
Corporate	0.9	1.3	8.2
Total continuing operations	17.4	22.0	25.2
Discontinued operations	0.5	5.0	8.4
	$ 17.9	$ 27.0	$ 33.6

	For the Year Ended May 31, 2019	2018	2017
Depreciation and amortization:[1]			
Aviation Services	$ 37.5	$ 34.6	$ 30.8
Expeditionary Services	4.1	4.6	5.0
Corporate	14.7	16.6	10.9
Total continuing operations	56.3	55.8	46.7
Discontinued operations	—	7.3	17.2
	$ 56.3	$ 63.1	$ 63.9

1 Includes amortization of stock-based compensation.

The following table reconciles segment gross profit to income from continuing operations before provision for income taxes.

	For the Year Ended May 31, 2019	2018	2017
Segment gross profit	$ 329.5	$ 294.6	$ 263.4
Provision for doubtful accounts	(15.8)	(0.5)	(2.1)
Selling, general and administrative	(215.4)	(208.1)	(179.0)
Other expenses	(0.8)	(0.9)	—
Interest expense	(9.5)	(8.0)	(5.3)
Interest income	1.0	0.1	0.1
Income from continuing operations before provision for income taxes	$ 89.0	$ 77.2	$ 77.1

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

13. Business Segment Information (Continued)

The U.S. Department of Defense, U.S. Department of State, other U.S. government agencies and their contractors are our only customers representing 10% or more of total sales in any of the last three fiscal years. Sales by segment for these customers are as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Aviation Services	$ 455.9	$ 241.3	$ 260.2
Expeditionary Services	90.3	63.0	61.3
	$ 546.2	$ 304.3	$ 321.5
Percentage of total sales	26.6%	17.4%	20.2%

Sales across the major customer markets for each of our operating segments for the fiscal years ended May 31, 2019, 2018 and 2017 were as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Aviation Services:			
Commercial	$ 1,342.3	$ 1,281.9	$ 1,114.9
Government and defense	578.3	353.9	370.5
	$ 1,920.6	$ 1,635.8	$ 1,485.4
Expeditionary Services:			
Commercial	$ 31.6	$ 37.5	$ 37.1
Government and defense	99.6	75.0	68.3
	$ 131.2	$ 112.5	$ 105.4

Sales by type of product/service was as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Aviation supply chain	$ 1,395.2	$ 1,082.9	$ 998.7
Maintenance, repair and overhaul services	525.4	552.9	486.7
Mobility products	131.2	112.5	105.4
	$ 2,051.8	$ 1,748.3	$ 1,590.8

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

13. Business Segment Information (Continued)

Geographic Data

Sales by geographic region for the fiscal years ended May 31, 2019, 2018 and 2017 were as follows:

	For the Year Ended May 31,		
	2019	2018	2017
Aviation Services:			
North America	$ 1,426.8	$ 1,131.4	$ 1,077.4
Europe/Africa	323.4	325.9	272.4
Other	170.4	178.5	135.6
	$ 1,920.6	$ 1,635.8	$ 1,485.4
Expeditionary Services:			
North America	$ 124.1	$ 105.3	$ 101.0
Europe/Africa	5.8	6.9	4.3
Other	1.3	0.3	0.1
	$ 131.2	$ 112.5	$ 105.4

	May 31,	
	2019	2018
Long-lived assets:		
United States	$ 345.4	$ 393.1
Europe	108.7	103.3
Other	110.6	85.6
	$ 564.7	$ 582.0

Sales to unaffiliated customers in foreign countries (including sales through foreign sales offices of domestic subsidiaries) were approximately $661.8 million (32.3% of total sales), $694.0 million (39.7% of total sales) and $595.4 million (37.4% of total sales) in fiscal 2019, 2018 and 2017, respectively.

14. Legal Proceedings

We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business except for the following:

Department of Justice Investigation

The U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney's Office for the Southern District of Illinois, is conducting an investigation of AAR Airlift Group, Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., under the federal civil False Claims Act ("FCA"). The investigation relates to Airlift's performance of several contracts awarded by the U.S. Transportation Command concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was

(Dollars in millions, except per share amounts)

14. Legal Proceedings (Continued)

precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift. That lawsuit remains under seal. Airlift is cooperating with the DoJ investigation.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, we self-reported these matters to the DoJ, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company will fully cooperate in any review by these agencies, although we are unable at this time to predict what action, if any, they may take.

15. Selected Quarterly Data (Unaudited)

The unaudited selected quarterly data for fiscal years ended May 31, 2019 and 2018 is as follows:

Fiscal 2019

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales[1]	$ 466.3	$ 493.3	$ 529.5	$ 562.7	$ 2,051.8
Operating income	22.4	16.8	29.8	29.3	98.3
Income from continuing operations	18.9	11.2	27.4	26.6	84.1
Loss from discontinued operations[2]	(3.8)	(4.2)	(64.8)	(3.8)	(76.6)
Net income (loss)	15.1	7.0	(37.4)	22.8	7.5
Earnings (Loss) per share—basic:[3]					
Continuing operations	0.54	0.32	0.79	0.77	2.42
Discontinued operations	(0.11)	(0.12)	(1.87)	(0.11)	(2.22)
Earnings per share—basic	0.43	0.20	(1.08)	0.66	0.20
Earnings (Loss) per share—diluted:[3]					
Continuing operations	0.54	0.32	0.78	0.76	2.40
Discontinued operations	(0.11)	(0.12)	(1.86)	(0.11)	(2.19)
Earnings per share—diluted	0.43	0.20	(1.08)	0.65	0.21

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share amounts)

15. Selected Quarterly Data (Unaudited) (Continued)

Fiscal 2018

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Sales[1]	$ 397.9	$ 420.6	$ 456.3	$ 473.5	$ 1,748.3
Operating income	17.1	21.8	24.3	22.8	86.0
Income from continuing operations	11.0	13.3	31.3	18.1	73.7
Loss from discontinued operations[4]	(0.4)	(35.8)	(15.8)	(6.1)	(58.1)
Net income	10.6	(22.5)	15.5	12.0	15.6
Earnings (Loss) per share—basic:[3]					
Continuing operations	0.32	0.39	0.91	0.53	2.14
Discontinued operations	(0.01)	(1.05)	(0.46)	(0.18)	(1.70)
Earnings per share—basic	0.31	(0.66)	0.45	0.35	0.44
Earnings (Loss) per share—diluted:[3]					
Continuing operations	0.32	0.38	0.90	0.52	2.11
Discontinued operations	(0.01)	(1.05)	(0.46)	(0.18)	(1.70)
Earnings per share—diluted	0.31	(0.67)	0.44	0.34	0.41

1 At the beginning of fiscal 2019, we adopted ASC 606 using a modified retrospective method and as a result, the comparative information has not been restated and is reported under accounting standards in effect for those years. See Note 1 for additional information.

2 On March 15, 2019, we signed an agreement to sell certain contracts and assets of our COCO business. In conjunction with this agreement and other expected asset sales, we recognized an impairment charge in discontinued operations of $74.1 million during the third quarter of fiscal 2019 reflecting the expected net proceeds to be received upon the completion of the sale transactions.

3 The earnings-per-share computation for the year is a separate, annual calculation. Accordingly, the sum of the quarterly earnings-per-share amounts does not necessarily equal the earnings per share for the year.

4 Loss from discontinued operations in fiscal 2018 includes pre-tax aircraft and other asset impairment charges of $54.2 million in the second quarter and a goodwill impairment charge of $9.8 million in the third quarter.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act"), as of May 31, 2019. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of May 31, 2019 due to material weaknesses related to (a) our controls over the existence of inventories included in our inventory cycle counting, (b) information technology general controls ("ITGCs"), and (c) controls over vendor payment information, as discussed below.

We have concluded the material weakness related to our controls over inventory also existed as of May 31, 2018 after re-evaluating these controls in light of a Public Company Accounting Oversight Board inspection of our independent registered public accounting firm's audit of the year then ended. Notwithstanding the identified material weaknesses, management has concluded that the Consolidated Financial Statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. generally accepted accounting principles (U.S. GAAP).

Management Report on Internal Control Over Financial Reporting

Management of AAR CORP. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Act. The Company's internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems which are determined to be effective provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer and oversight of the Board of Directors, assessed the effectiveness of our internal control over financial reporting as of May 31, 2019 based on the criteria for effective internal control over financial reporting described in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment, management concluded that our internal control over financial reporting was not effective as of May 31, 2019 because of the effects of the material weaknesses described below.

Controls over Inventory Cycle Counts

Management did not design, implement and operate an effective control to verify the existence of inventories subject to the Company's cycle counting program. Specifically, a control was not effectively designed, implemented and operated to verify that all inventories that should be subject to the cycle count program were included and counted regularly. This control deficiency also existed in prior periods.

Information Technology and Safeguarding Controls

Management did not maintain effective information technology general controls ("ITGCs") over IT applications, networks, operating systems and databases ("IT systems") that are relevant to the preparation of our financial statements. Specifically, the Company did not appropriately design, implement and operate (a) controls to restrict and monitor system access to appropriate Company personnel resulting in end-user and privileged access to IT systems that was not approved and, in some cases, not revoked on a timely basis in accordance with the Company's policies and (b) controls over changes to applications that are hosted by third-party service organizations. As a result of these ITGC deficiencies, certain automated controls that depend on the effective operation of the ITGCs and certain manual business process controls that are dependent upon the completeness and accuracy of information derived from affected IT systems across multiple financial reporting processes of the Company were also considered to be ineffective.

The Company did not design, implement and operate effective controls over changes to its vendor data master file that are required to safeguard the Company's funds and prevent or timely detect unauthorized payments. This control deficiency also existed in prior periods.

The material weaknesses described above arose because the Company did not have an effective continuous risk assessment process that successfully identified and assessed risks of misstatement, including risks of unauthorized acquisition, use or disposition of assets, to ensure controls were designed and implemented to respond to those risks. Additionally, the material weaknesses in ITGCs and vendor payment information also arose due to ineffective training of our resources in the areas of IT and cyber security and the use of third-party service organizations.

These control deficiencies did not result in any identified misstatements to the consolidated financial statements as of and for the year ended May 31, 2019. However, the control deficiencies create a reasonable possibility that a material misstatement to our consolidated financial statements will not be prevented or detected on a timely basis and, therefore, we concluded that the deficiencies represent material weaknesses in our internal control over financial reporting.

KPMG LLP, our independent registered public accounting firm, has issued an adverse opinion on the effectiveness of our internal control over financial reporting as of May 31, 2019. That report appears below following management's report and discussion.

Remediation Plan

The Company is in the process of updating its continuous risk assessment process in order to timely identify and assess risks of material misstatement and ensure that the financial reporting processes and related internal controls are in place to respond to those risks in our financial reporting.

Controls Over Inventory Cycle Counts

The Company's cycle count program had been previously designed to achieve a minimum cycle count coverage based on dollar value of inventory held at the end of the year. While our cycle counting covered a large portion of the Company's inventory in fiscal 2019, the design of our controls did not ensure that all inventory stocking locations were counted, resulting in material amounts of inventory being excluded from our cycle counts. As part of remediation, we are designing and implementing controls over our cycle counting program so that all inventory stocking locations are counted within a reasonable timeframe. We anticipate achieving full location-based cycle count coverage by August 31, 2019 with the material weakness remediated by the end of fiscal 2020.

Information Technology and Safeguarding Controls

We have been implementing and continue to implement measures designed to ensure that control deficiencies contributing to the ITGC material weakness are remediated. These actions include establishing and improving policies, procedures and controls associated with end-user and privileged access to certain IT applications, additional training of IT personnel, and expansion of change management controls or other appropriate procedures related to third-party service organizations where timely and effective service organization audit reports are not available. We anticipate completing our remediation of the ITGC material weakness by the end of fiscal 2020.

We are taking a number of steps to address the deficiencies related to controls over changes to the vendor data master file. Among others, we are implementing a new process and controls over vendor set-up and maintenance to facilitate appropriate monitoring and approval of changes made to our vendor data master file. In addition, we are enhancing training of our employees to increase awareness around IT and cyber-security threats. We have also created and filled the position of Chief Information Security Officer.

The material weaknesses will not be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that the controls are operating effectively.

Changes in Internal Control Over Financial Reporting

Effective June 1, 2018, we adopted the new revenue standard under ASC 606 using the modified retrospective method of adoption. We have implemented certain changes to our internal controls over financial reporting to support the reporting and disclosure requirements of the new revenue standard. Except for our internal control changes related to ASC 606 and the identification of and ongoing remediation of the material weaknesses described above (some of which occurred in early periods), there were no changes in our internal control over financial reporting during the three-month period ended May 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
AAR CORP.:

Opinion on Internal Control Over Financial Reporting

We have audited AAR CORP.'s and subsidiaries' (the Company) internal control over financial reporting as of May 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weaknesses, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of May 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of May 31, 2019 and 2018, the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended May 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated July 18, 2019 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses have been identified and included in management's assessment related to the ineffective design, implementation and operation of (i) internal controls over the existence of inventories subject to the Company's cycle counting program; (ii) information technology general controls (ITGCs) over IT applications, networks, operating systems and databases that are relevant to the preparation of the Company's financial statements; and (iii) internal controls over changes to the Company's vendor data master file that are required to safeguard the Company's funds and prevent or timely detect unauthorized payments. The material weaknesses described above arose because the Company did not have an effective continuous risk assessment process that successfully identified and assessed risks of misstatement, including risks of unauthorized acquisition, use or disposition of assets, to ensure controls were designed and implemented to respond to those risks. Additionally, the material weaknesses in ITGCs and vendor payment information also arose due to ineffective training of Company resources in the areas of IT and cyber security and the use of third-party service organizations.

The material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and this report does not affect our report on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Chicago, Illinois
July 18, 2019

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item regarding the Directors of the Company and nominees for election of the Board is incorporated by reference to the information contained under the caption "Information about Our Director Nominees and Our Continuing Directors" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

The information required by this item regarding the Executive Officers of the Company appears under the caption "Supplemental Item: Executive Officers of the Registrant" following Part I, Item 4 above.

The information required by this item regarding the compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information contained under the caption "Delinquent Section 16(a) Reports" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

The information required by this item regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and the status of one or more members of the Audit Committee being an "audit committee financial expert" is incorporated by reference to the information contained under the caption "the Board's Role and Responsibilities—Role and Responsibilities of the Board Committees" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

The information required by this item regarding our Code of Business Ethics and Conduct applicable to our directors, officers and employees is incorporated by reference to the information contained under the caption "Board Practices and Policies—Code of Business Ethics and Conduct" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Company's board of directors. The information regarding these procedures is incorporated by reference to the information contained under the caption "Our Strategy—Director Nominations and Qualifications" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information contained under the following captions: (a) "Executive Compensation—Compensation Committee Fiscal 2019 Report on Executive Compensation," (b) "Executive Compensation—Compensation Discussion and Analysis," (c) "Executive Compensation—Summary Compensation Table," (d) "Executive Compensation—Fiscal 2019 Grants of Plan-Based Awards," (e) "Executive Compensation—Outstanding Equity Awards at Fiscal 2019 Year End," (f) "Executive Compensation—Fiscal 2019 Option Exercises and Stock Vested," (g) "Executive Compensation—Retirement Plan," (h) "Executive Compensation—Non-Qualified Deferred Compensation (SKERP)," (i) "Executive Compensation—Tables of Potential Payments Upon a Termination of Employment or Change-in-Control of the Company," (j) "Director Compensation—Director Compensation Table," and (k) "Director Compensation—Compensation Committee Interlocks and Insider Participation" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information contained under the caption "Stock Ownership Information" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

The information required by this item regarding equity compensation plan information is incorporated by reference to the information contained under the caption "Equity Compensation Plan Information" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the information contained under the captions "Our Strategy—Director Independence" and "Board Practices and Policies—Related Person Transaction Policy" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to the information contained under the caption "Independent Registered Public Accounting Firm Fees and Services" in our definitive proxy statement for the 2019 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

Our consolidated financial statements are as set forth under Item 8 of this report on Form 10-K.

(a)(2) Financial Statement Schedules

All schedules are omitted because they are not applicable, not required, or the information is included in the consolidated financial statements.

(a)(3) Exhibits

Management contracts and compensatory arrangements have been marked with an asterisk (*) on the Exhibit Index which is contained below:

	Index		Exhibits
3.	Articles of Incorporation and By-Laws	3.1	Restated Certificate of Incorporation.[6]
		3.2	By-Laws, as amended and restated through July 9, 2008[14] and as amended July 9, 2018.[39]
4.	Instruments defining the rights of security holders	4.1	Restated Certificate of Incorporation (see Exhibit 3.1).
		4.2	By-Laws, as amended and restated through July 9, 2008 (See Exhibit 3.2).
		4.3	Form of 2.25% Convertible Senior Note due 2016.[12]
		4.4	Indenture for 2.25% Convertible Senior Notes due 2016 between AAR CORP. and U.S. Bank National Association, as trustee, dated as of February 11, 2008.[12]
		4.5	Indenture providing for Issuance of Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December 1, 2010.[17]
		4.6	Indenture providing for Issuance of Subordinated Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December 1, 2010.[17]

Index			Exhibits
		4.7	Credit Agreement dated April 12, 2011 among AAR CORP., Bank of America National Association, as administrative agent, and the various financial institutions party thereto,[18] as amended August 26, 2011 and October 13, 2011,[20] and as further amended on April 8, 2013 and April 24, 2013[21] and as further amended on March 24, 2015[27] and as further amended on November 1, 2016[29] and as further amended on February 28, 2018.[31]
		4.8	Indenture dated as of February 14, 2014 governing $30,000,000 of 1.75% Convertible Senior Notes due 2016, by and between AAR CORP., as Issuer, and U.S. National Bank National Association, as Trustee.[22]
		4.9	Form of 1.75% Convertible Senior Notes due 2016.[25]
		4.10	Description of Common Stock (filed herewith)
			Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant is not filing certain documents. The Registrant agrees to furnish a copy of each such document upon the request of the Commission.
10.	Material Contracts	10.1*	Amended and Restated AAR CORP. Stock Benefit Plan effective October 1, 2001,[3] as amended June 27, 2003,[4] May 5, 2005,[7] July 12, 2005,[8] June 23, 2006,[10] January 23, 2007,[10] January 27, 2007,[13] and July 11, 2011.[19]
		10.2*	AAR CORP. Directors' Retirement Plan, dated April 14, 1992,[1] amended May 26, 2000 and April 10, 2001.[2]
		10.3*	AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated effective July 10, 2017[32] and as amended January 1, 2019 (filed herewith).
		10.4*	AAR CORP. Nonemployee Directors' Deferred Compensation Plan, as Amended and Restated effective July 10, 2017 (filed herewith).
		10.5	Indenture dated October 3, 2003 between AAR Distribution, Inc. and iStar Garden City LLC.[5]

Index		Exhibits
	10.6	Lease Agreement dated October 3, 2003 between AAR Allen Services, Inc., as tenant and iStar Garden City LLC, as Landlord, and related Guaranty dated October 3, 2003 from Registrant to iStar Garden City LLC.[5]
	10.7	Lease Agreement by and between Indianapolis Airport Authority and AAR Aircraft Services, Inc. dated as of December 19, 2015.[28]
	10.8*	Form of Non-Employee Director Non-Qualified Stock Option Agreement.[24]
	10.9*	Form of Fiscal 2020 Director Restricted Stock Agreement (filed herewith).
	10.10*	Form of Split Dollar Insurance Agreement.[9]
	10.11	Confirmation of OTC Convertible Note Hedge Transaction for 2016 Notes, dated February 5, 2008, by and between AAR CORP., and Merrill Lynch Financial Markets, Inc.[11]
	10.12	Confirmation of OTC Warrant Transaction for 2016 Notes, dated February 5, 2008, by and between AAR CORP., and Merrill Lynch Financial Markets, Inc.[11]
	10.13*	Form of Directors' and Officers' Indemnification Agreement.[15]
	10.14*	Employment Agreement dated as of April 18, 2017 between Registrant and David P. Storch.[16]
	10.15*	Form of Policy for Recoupment of Incentive Compensation.[23]
	10.16*	Section 162(m) Annual Cash Incentive Plan.[28]
	10.17*	AAR CORP. 2013 Stock Plan.[28] and as amended July 11, 2016.[30]
	10.18*	Amended and Restated Severance and Change in Control Agreement dated as of October 11, 2017 between AAR CORP. and Robert J. Regan.[33]
	10.19*	Severance and Change in Control Agreement dated as of January 7, 2019 between AAR CORP. and Sean M. Gillen (filed herewith).

	Index		Exhibits
		10.20	Credit Agreement among AAR CORP., as parent guarantor, AAR Canada Holdings ULC, as borrower, and Canadian Imperial Bank of Commerce, as lender, dated as of October 18, 2017.[34]
		10.21	Purchase Agreement dated February 23, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer.[35]
		10.22	First Amendment to Purchase Agreement dated as of May 22, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and Citibank, N.A., as buyer.[36]
		10.23*	Retirement Agreement dated May 24, 2018 between AAR CORP. and David P. Storch.[36]
		10.24*	Post-Retirement Agreement dated May 24, 2018 between AAR CORP. and David P. Storch,[36] as amended May 31, 2019[38] and July 11, 2019 (filed herewith).
		10.25*	Amended and Restated Employment Agreement dated as of May 24, 2018 between AAR CORP. and John M. Holmes.[36]
		10.26*	Form of AAR CORP. Fiscal 2019 Short-Term Incentive Plan.[37]
		10.27*	Form of AAR CORP. Fiscal 2019 Non-Qualified Stock Option Agreement.[37]
		10.28*	Form of AAR CORP. Fiscal 2019 Restricted Stock Agreement.[37]
		10.29*	Form of AAR CORP. Fiscal 2019 Performance Restricted Stock Agreement.[37]
21.	Subsidiaries of the Registrant	21.1	Subsidiaries of AAR CORP. (filed herewith).
23.	Consents of experts and counsel	23.1	Consent of Independent Registered Public Accounting Firm (filed herewith).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1	Section 302 Certification dated July 18, 2019 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).

	Index		Exhibits
		31.2	Section 302 Certification dated July 18, 2019 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
32.	Rule 13a-14(b)/15d-14(b) Certifications	32.1	Section 906 Certification dated July 18, 2019 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		32.2	Section 906 Certification dated July 18, 2019 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101	The following materials from the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at May 31, 2019 and 2018, (ii) Consolidated Statements of Income for the fiscal years ended May 31, 2019, 2018 and 2017, (iii) Consolidated Statements of Comprehensive Income for fiscal years ended May 31, 2019, 2018 and 2017 (iv) Consolidated Statements of Cash Flows for the fiscal years ended May 31, 2019, 2018 and 2017, (v) Consolidated Statement of Changes in Equity for the three years ended May 31, 2019 and (vi) Notes to Consolidated Financial Statements.**

Notes:

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

[1] Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1992.

[2] Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2001.

[3] Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2001.

[4] Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2003.

[5] Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2003.

6 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2004.

7 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2005.

8 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 28, 2006.

9 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2006.

10 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2007.

11 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated February 11, 2008.

12 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated February 14, 2008.

13 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2008.

14 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated July 11, 2008.

15 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2008.

16 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated April 18, 2017.

17 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 2010.

18 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated April 14, 2011.

19 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2011.

20 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated October 11, 2011.

21 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated April 24, 2013.

22 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 10-Q for the quarterly period ended February 28, 2014.

23 Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2012.

24 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2012.

25 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2014.

26 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2014.

27 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated March 24, 2015.

28 Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

29 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated November 1, 2016.

30 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated October 11, 2016.

31 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated February 28, 2018.

32 Incorporated by reference to Exhibits to the Registrant's Current Report on Form S-8 dated July 20, 2017.

33 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated October 13, 2017.

34 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated October 18, 2017.

35 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated February 28, 2018.

36 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated May 25, 2018.

37 Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q dated September 27, 2018.

38 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated June 4, 2019.

39 Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated July 13, 2018.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

Table of Contents

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

AAR CORP.
(Registrant)

Date: July 18, 2019

BY: /s/ JOHN M. HOLMES

John M. Holmes
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN M. HOLMES John M. Holmes	*President and Chief Executive Officer; Director (Principal Executive Officer)*	
/s/ SEAN M. GILLEN Sean M. Gillen	*Vice President and Chief Financial Officer (Principal Financial Officer)*	
/s/ ERIC S. PACHAPA Eric S. Pachapa	*Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)*	
/s/ DAVID P. STORCH David P. Storch	*Chairman of the Board; Director*	
/s/ ANTHONY K. ANDERSON Anthony K. Anderson	*Director*	
/s/ NORMAN R. BOBINS Norman R. Bobins	*Director*	
/s/ MICHAEL R. BOYCE Michael R. Boyce	*Director*	
/s/ JAMES E. GOODWIN James E. Goodwin	*Director*	July 18, 2019
/s/ PATRICK J. KELLY Patrick J. Kelly	*Director*	
/s/ DUNCAN J. MCNABB Duncan J. McNabb	*Director*	
/s/ PETER PACE Peter Pace	*Director*	
/s/ JENNIFER L. VOGEL Jennifer L. Vogel	*Director*	
/s/ MARC J. WALFISH Marc J. Walfish	*Director*	

/s/ RONALD B. WOODARD	*Director*
Ronald B. Woodard	

Exhibit 4.10

DESCRIPTION OF COMMON STOCK

General

The following is a description of certain terms of our common stock. This description does not purport to be complete and is subject to and qualified in its entirety by reference to the provisions of our restated certificate of incorporation, bylaws and the Delaware General Corporation Law.

Our authorized common stock consists of 100,000,000 shares of common stock, $1.00 par value per share.

Voting. Holders of common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders and do not have cumulative voting rights. Holders of a majority of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election.

Dividend Rights. Holders of common stock are entitled to receive dividends when, as and if declared by our board of directors, in its discretion, out of funds legally available for the payment of dividends.

Liquidation Rights. Upon the liquidation, dissolution or winding up of our company, the holders of common stock are entitled to receive ratably the net assets of our company available after the payment of all debts and other liabilities.

Rights Subject to Preferred Stock. The rights, preferences and privileges of holders of common stock are subject to, and maybe adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

No Preeemptive Rights; Redemption. Holders of common stock have no preemptive, subscription, redemption or conversion rights.

Transfer Agent and Registrar. The transfer agent and registrar for our common stock is Computershare Trust Company, N.A., c/o Computershare Investor Services, P.O. Box 505000, Louisville, KY 40233-5000. Its telephone number is 1-877-282-1168.

Certain Charter and By-Law Provisions

General. We have implemented certain measures designed to enhance the board of directors’ ability to protect our stockholders against, among other things, unsolicited attempts to acquire a significant interest in us or to influence our management (whether through open market purchases, tender offers or otherwise) that do not offer an adequate price to all stockholders or that the board of directors otherwise considers not in the best interests of our company and its stockholders.

Certain provisions in our restated certificate of incorporation may have a significant impact on the stockholders’ ability to change the composition of the incumbent board of directors or the ability of a substantial holder of the common stock to acquire control of, or to remove, the incumbent board of directors, and might discourage certain types of transactions that involve an actual or threatened change of control of us.

The provisions of our restated certificate of incorporation are intended to encourage persons seeking to acquire control of us to initiate such an acquisition through arm's-length negotiations with our management and board of directors. These provisions could have the effect of discouraging a third party from making a tender offer to or otherwise attempting to obtain control of us, even though such an attempt might be beneficial to our stockholders. At the same time, these provisions help ensure that the board of directors, if confronted by an unsolicited proposal from a third party who recently acquired a block of common stock, will have sufficient time to review the proposal and alternatives to it and to seek better proposals for its stockholders, employees, suppliers, customers and others. These provisions are discussed below.

Preferred Stock. Our restated certificate of incorporation allows the board of directors, without stockholder approval, to issue up to 250,000 shares of preferred stock with voting, liquidation and conversion rights that could be superior to and adversely affect the voting power of holders of common stock. The issuance of preferred stock could have the effect of delaying, deferring or preventing a change in control of our company.

Classified Board of Directors. Our restated certificate of incorporation provides that our board of directors shall be divided into three classes of directors serving staggered three-year terms. The classification of directors has the effect of making it more difficult for stockholders to change the composition of the board of directors in a relatively short period of time.

Voting Restriction on Certain Business Combinations. An affirmative vote of the holders of a number of the outstanding shares of our capital stock entitled to vote generally in the election of directors equal to (i) all shares held by related parties plus (ii) at least 80% of shares held by other parties is required to adopt certain business combinations, including mergers, consolidations, asset and securities sales, plans of liquidation or dissolution and certain reclassifications, involving any related party. A related party is defined as the beneficial owner, directly or indirectly, of at least 10% of our voting stock.

The 80% affirmative voting requirement is not applicable to business combinations approved by (i) a majority of our board of directors prior to the related party's acquisition of at least 10% of our voting stock or (ii) a majority of those members of the board of directors who are not related to the related party.

Special Stockholders' Meeting. Our restated certificate of incorporation and bylaws allow only the Chairman of the board of directors or a majority of the board of directors then in office to call a special meeting of the stockholders.

No Action by Stockholder Consent. Our restated certificate of incorporation prohibits action that is required or permitted to be taken at any annual or special meeting of our stockholders from being taken by the written consent of stockholders without a meeting.

Supermajority Voting. The provisions relating to the classified board, right to call a special meeting and prohibition on stockholder consent, as well as certain other provisions of the restated certificate of incorporation, may be altered, amended, or repealed only by the affirmative vote of the holders of 80% or more of the outstanding shares of voting stock. Our bylaws may be amended, altered, changed or replaced by the affirmative vote of the holders of at least 80% or more of the outstanding shares of voting stock entitled to vote in the election of directors or by a majority of board of directors then in office.

Delaware Anti-Takeover Law

We are a Delaware corporation that is subject to Section 203 of the General Corporation Law of the State of Delaware. Under Section 203, certain "business combinations" between a Delaware corporation, whose stock generally is publicly traded or held of record by more than 2,000 stockholders, and an "interested stockholder" are prohibited for a three-year period following the date that such stockholder became an interested stockholder, unless (i) the corporation has elected in its certificate of incorporation not to be governed by Section 203 (we have not made such election), (ii) the business combination was approved by the board of directors of the corporation before the other party to the business combination became an interested stockholder, (iii) upon consummation of the transaction that made it an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the commencement of the transaction (excluding voting stock owned by directors who are also officers or held in employee benefit plans in which the employees do not have a confidential right to tender or vote stock held by the plan) or (iv) the business combination is approved by the board of directors of the corporation and ratified by two-thirds of the voting stock not owned by the interested stockholder. The three-year prohibition also does not apply to certain business combinations proposed by an interested stockholder following the announcement or notification of certain extraordinary transactions involving the corporation and a person who had not been an interested stockholder during the previous three years or who became an interested stockholder with the approval of a majority of the corporation's directors. The term "business combination" is defined generally to include mergers or consolidations between a Delaware corporation and an interested stockholder, transactions with an interested stockholder involving the assets or stock of the corporation or its majority-owned subsidiaries, and transactions that increase an interested stockholder's percentage ownership of stock. The term "interested stockholder" is defined generally as those stockholders who become beneficial owners of 15% or more of a Delaware corporation's voting stock, together with the affiliates or associates of that stockholder.

Exhibit 10.3

FIRST AMENDMENT
TO
AAR CORP. SUPPLEMENTAL KEY EMPLOYEE RETIREMENT PLAN

(As Amended and Restated Effective July 10, 2017)

WHEREAS, AAR CORP., a Delaware corporation (the “Company”), maintains the AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated Effective July 10, 2017 (the “Plan”); and

WHEREAS, pursuant to Section 7.1 of the Plan, the Company has reserved the right to amend the Plan and now deems it appropriate to do so; and

WHEREAS, the Compensation Committee, at its meeting on January 15, 2019, approved the amendment described below;

NOW, THEREFORE, the Plan is hereby amended, effective as of January 1, 2019, as follows:

1. By amending Section 1.43 to replace the reference to “defined terms” with “capitalized terms.”

2. By amending Section 4.5(a) to read as follows:

(a) The Compensation Committee of the Board may at any time, in its discretion, designate any Participant to receive an Additional Supplemental Company Contribution, which the Compensation Committee may authorize from time to time for a particular Plan Year. The amount of any Additional Supplemental Company Contribution that is to be made for a particular Plan Year shall be determined by the Compensation Committee in its sole discretion based on the following percentages of a Participant’s base salary and bonus:

Participant	Contribution
President and Chief Executive Officer	Up to 12%
Other Executive Officers and Key Employees designated from time to time by the Compensation Committee	Up to 10%

3. By amending Section 4.5(c) to read as follows:

(c) A Participant shall vest in his Additional Supplemental Company Account as follows:

(i) Subject to (c)(ii) below, a Participant shall vest in his Additional Supplemental Company Account according to the vesting schedule described in (A) — (C) below that results in the greatest amount of vested Account balance:

(A) The Participant shall vest in 100% of the balance of his Additional Supplemental Company Account upon the earlier of (I) the date the Participant attains age 65 or (II) the date the Participant's age (measured in full years) plus Years of Vested Service equals 75.

(B) The Participant shall vest in 75% of the balance of his Additional Supplemental Company Account upon the date the Participant's age (measured in full years) plus Years of Vested Service equals 70.

(C) The Participant shall vest in 50% of the balance of his Additional Supplemental Company Account upon the earlier of (I) the date the Participant has 20 Years of Vested Service or (II) the date the Participant's age (measured in full years) plus Years of Vested Service equals 65.

(ii) Notwithstanding the provisions of (c)(i) above, on a Change in Control, any unvested portion of the Additional Supplemental Company Account of each Participant who is actively employed by the Company or an Affiliated Company on the date of such Change in Control shall become fully vested and nonforfeitable on such Change in Control.

Any unvested portion of the Participant's Additional Supplemental Company Account shall be forfeited upon the Participant's termination of employment with the Company and its Affiliated Companies.

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed on its behalf by its duly authorized officer on this 15th day of March, 2019.

AAR CORP.

By: /s/ John M. Holmes
John M. Holmes
President and Chief Executive Officer

EXHIBIT 10.4

FINAL

AAR CORP.
NONEMPLOYEE DIRECTORS' DEFERRED COMPENSATION PLAN

As Amended and Restated Effective July 10, 2017

AAR CORP.
NONEMPLOYEE DIRECTORS' DEFERRED COMPENSATION PLAN

As Amended and Restated Effective July 10, 2017

TABLE OF CONTENTS

AAR CORP.
NONEMPLOYEE DIRECTORS' DEFERRD COMPENSATION PLAN

As Amended and Restated Effective July 10, 2017

SECTION I

INTRODUCTION

Effective January 1, 1996 AAR CORP. established the Nonemployee Directors' Deferred Compensation Plan for members of its Board of Directors who are not employees of the Company or an affiliate. The Plan was previously amended and restated effective as of April 8, 1997 and January 1, 2005, and it is further amended and restated effective July 10, 2017.

SECTION II

DEFINITIONS

(a) "Account" means the account established for a Participant, which shall consist of a Stock Unit Account and/or a Cash Account, as described in Section V.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time.

(d) "Committee" means the Compensation Committee of the Board of Directors.

(e) "Common Stock" means the Company's $1.00 par value common stock.

(f) "Company" means AAR CORP., a Delaware corporation.

(g) "Fair Market Value" means, as of any date, the closing price of a share of Common Stock on the New York Stock Exchange on such date, or if no trading occurred on the New York Stock Exchange on such date, the trading day immediately preceding such date.

(h) "Meeting Fees" means the meeting fees payable to a Nonemployee Director for attending Board and committee meetings.

(i) "Nonemployee Director" means a member of the Board who is not an employee of the Company or an affiliate.

(j) "Participant" means a Nonemployee Director who has elected to participate in the Plan as described in Section III.

(k) "Plan" means the AAR CORP. Nonemployee Directors' Deferred Compensation Plan.

(l) “Plan Administrator” means the employee or employees designated by the Committee to administer the Plan as described in Section VII.

(m) “Plan Year” means the calendar year.

(n) “Pre-2005 Account Balances” means the portion of a Participant’s Account attributable to deferrals credited to the Account as of December 31, 2004 and earnings thereon, whether accrued before or after December 31, 2004.

(o) “Retainer” means the annual retainers payable to a Nonemployee Director for his service on the Board, including services as a lead Director or the chair of a Board committee.

(p) “Stock Award” means the annual award of Common Stock granted to a Nonemployee Director for his service on the Board, including services as a lead Director and as a committee therein.

SECTION III

PLAN PARTICIPANTS

Each Nonemployee Director may become a Participant under the Plan by filing the written election form described in Section IV below with the Plan Administrator with respect to any Retainers, Meeting Fees and Stock Awards payable to the Nonemployee Director for his service as a member of the Board.

SECTION IV

DEFERRAL ELECTIONS

(a) Retainer. For each Plan Year, each Participant may elect to defer receipt of his entire Retainer payable to him for such Plan Year until the date elected by the Participant and have the cash value of such Retainer either (i) credited to the Stock Unit Account established for him under the Plan and converted to Stock Units pursuant to paragraph (a)(i) of Section V below or (ii) credited to the Cash Account established for him under the Plan pursuant to paragraph (b)(i) of Section V below. If a Participant does not make a deferral election with respect to his Retainer, the Participant will receive quarterly payment of the Retainer in cash.

(b) Meeting Fees. For each Plan Year, each Participant may elect to defer receipt of his entire Meeting Fees payable to him for such Plan Year until the date elected by the Participant and have the cash value of such Meeting Fees either (i) credited to the Stock Unit Account established for him under the Plan and converted to Stock Units pursuant to paragraph (a)(i) of Section V below or (ii) credited to the Cash Account established for him under the Plan pursuant to paragraph (b)(i) of Section V below. If a Participant does not make a deferral election with respect to his Meeting Fees, the Participant will receive his entire Meeting Fees in cash as soon as practicable after the date on which such Meeting Fees are otherwise payable.

(c) Stock Award. For each Plan Year, each Participant may elect to defer receipt of his entire annual Stock Award that would otherwise be granted to him in such Plan Year until the date elected by the Participant and have the shares of Common Stock subject to the Stock Award either (i) credited to the Stock Unit Account established for him under the Plan and converted to Stock Units pursuant to paragraph (a)(ii) of Section V below or (ii) credited to the Cash Account established for him under the Plan and converted to a cash amount pursuant to paragraph (b)(ii) below. If a Participant does not make a deferral election with respect to his Stock Award, the Participant will receive the Stock Award on the date of the annual grant made to Nonemployee Directors.

(d) Election of Time and Form of Payment. Each Participant may elect the time and form of distribution of his Stock Unit Account and Cash Account, provided that the portion of a Stock Unit Account attributable to Stock Awards cannot be distributed prior to the first anniversary of the date as of which the applicable Stock Award was deferred.

(e) Election Form.

(i) Each election described in paragraphs (a) through (d) above with respect to a Retainer, Meeting Fees and/or a Stock Award for a Plan Year shall be set forth in writing on an election form provided by the Plan Administrator.

(ii) An election form effective for a Plan Year shall be delivered to the Plan Administrator prior to the first day of such Plan Year. Except as provided in clause (iii) below, an initial election form shall become irrevocable on December 31 of the Plan Year in which it is delivered to the Plan Administrator and shall only apply to a Retainer, Meeting Fees or a Stock Award earned by a Participant after the end of such Plan Year. An election form shall continue in effect until revoked by a Participant by notice delivered to the Plan Administrator no later than the last day of the Plan Year immediately preceding the first day of the Plan Year for which the election is to become effective. If an election form is not in effect for a Nonemployee Director for a Plan Year, he shall be deemed to have elected not to defer receipt of his Retainer, Meeting Fees or Stock Award.

(iii) Notwithstanding the preceding provisions of this Section IV, an election made by a Participant in the Plan Year in which he first becomes eligible to participate in the Plan may be made pursuant to an election form delivered to the Plan Administrator within 30 days after the date on which he first becomes eligible to participate, and such election form shall be effective with respect to Retainers, Meeting Fees and Stock Awards earned from and after the date such election form is delivered to the Plan Administrator. Such Participant shall not be considered first eligible if, on the date he becomes a Participant, he participates in any other nonqualified account balance plan maintained by the Company or an affiliate that is subject to Code Section 409A.

SECTION V

PARTICIPANT ACCOUNTS

(a) Stock Unit Account.

(i) A Participant’s Retainer and Meeting Fees deferred pursuant to paragraph (a)(i) and/or paragraph (b)(i) of Section IV shall be credited as a dollar amount to the

Participant's Stock Unit Account as of the date on which each payment of such Retainer and Meeting Fees otherwise would have been paid and shall be converted as of such date into Stock Units equivalent to Common Stock. Such conversion shall be determined by dividing the dollar amount of the Retainer or Meeting Fees payable on such date by the Fair Market Value of a share of Common Stock on such payment date. The number of whole Stock Units so determined shall be credited to the Participant's Stock Unit Account. Any cash remaining in the Participant's Stock Unit Account after such conversion, together with other subsequent credits of deferred Retainers and Meeting Fees thereto and credits thereto pursuant to clause (iii) below, shall be converted into Stock Units on the next conversion date.

(ii) A Participant's Stock Award deferred pursuant to paragraph (c)(i) of Section IV shall be credited to the Participant's Stock Unit Account as of the date the Stock Award would otherwise have been granted to the Participant, in the same number of Stock Units as shares of Common Stock subject to the Stock Award.

(iii) Additional credits shall be made to a Participant's Stock Unit Account in dollar amounts equal to the cash dividends (or the Fair Market Value of dividends paid in property other than Common Stock) that the Participant would have received had he been the owner on each record date of a number of shares of Common Stock equal to the number of Stock Units in his Stock Unit Account on such date. In the case of a dividend in Common Stock or a Common Stock split, additional credits will be made to a Participant's Stock Unit Account of a number of Stock Units equal to the number of full shares of Common Stock that the Participant would have received had he been the owner on each record date of a number of shares of Common Stock equal to the number of Stock Units in his Stock Unit Account on such date. Any cash dividends (or dividends paid in property other than Common Stock) shall be converted into Stock Units at the next quarterly conversion date applicable to the Retainer as set forth in clause (i) of this paragraph.

(b) Cash Account.

(i) A Participant's Retainer and Meeting Fees deferred pursuant to paragraph (a)(ii) and/or paragraph (b)(ii) of Section IV shall be credited to clause (ii) of paragraph (a) and/or clause (ii) of paragraph (b) the Participant's Cash Account as of the date they would otherwise have been paid to the Participant.

(ii) A Participant's Stock Award deferred pursuant to paragraph (c)(ii) of Section IV shall be credited to the Participant's Cash Account as of the date the Stock Award would otherwise have been granted to the Participant and converted to a dollar amount determined by multiplying the number of shares of Common Stock subject to the Stock Award by the Fair Market Value of a share of Common Stock on the grant date of such Stock Award.

(iii) Until the entire balance of a Cash Account has been paid to the Participant, or to the beneficiaries of a deceased Participant, such balance shall be increased on the last day of each calendar quarter to reflect accrued interest on such balance based on the ten-year United States Treasury Bond rate at the end of the applicable calendar quarter.

The Committee may, from time to time, change prospectively the interest rate applied with respect to Participants' Cash Accounts.

(c) Maintenance of Accounts. Each Stock Unit Account and each Cash Account shall be maintained on the books of the Company until full payment of the balance thereof has been made to the applicable Participant (or the beneficiaries of a deceased Participant). No funds shall be set aside or earmarked for any Account, which shall be purely a bookkeeping device.

SECTION VI

DISTRIBUTION OF ACCOUNTS

(a) Time and Form of Distribution.

(i) A Participant may elect the time and form of distribution of all or any portion of his Pre-2005 Account Balances to be made or commence at any time after his Board service ends if he elects such distribution by written instrument delivered to the Plan Administrator prior to the date such Board service ends.

(ii) The remaining balance of a Participant's Account shall be paid to him (or to his beneficiaries in the event of his death) at the time, and in the form, previously designated in the Participant's election form.

(iii) If a Participant does not make a timely election with respect to the time and form of payment, the portion of the Participant's Account that is not subject to an election shall be paid in a single lump sum as of the January 31 next following the date the Participant's service on the Board terminates for any reason.

(b) Cash/Common Stock.

(i) The balance of a Participant's Account shall be distributed in shares of Common Stock or in cash, as designated by the Participant (or his beneficiaries in the event of his death), by written notice delivered to the Plan Administrator prior to the applicable distribution date. If a timely designation is not received by the Plan Administrator, distribution shall be made in cash or in Common Stock as the Company shall decide.

(ii) In the event of a distribution from the Participant's Stock Unit Account in Common Stock, a certificate representing a number of shares of Common Stock equal to the number of Stock Units in the Participant's Stock Unit Account to be distributed in shares, registered in the name of the Participant (or his beneficiaries), and any remaining cash in the Stock Unit Account, shall be distributed to the Participant (or his beneficiaries). In the event of a cash distribution from the Participant's Stock Unit Account, the Participant (or his beneficiaries) shall receive an amount in cash equal to the aggregate of (A) the number of Stock Units in the Stock Unit Account multiplied by the Fair Market Value of a share of Common Stock on the day before the applicable distribution date, and (B) any remaining cash in the Stock Unit Account.

(iii) Any cash distribution of a Participant's Cash Account shall be made to the Participant (or his beneficiaries) on the applicable distribution date. In the event of a distribution from the Participant's Cash Account in Common Stock, a certificate representing the number of whole shares of Common Stock determined by dividing the cash value to be distributed by the Fair Market Value of a share of Common Stock on the day before the applicable distribution date, registered in the name of the Participant (or his beneficiaries), and any remaining cash in the Cash Account, shall be distributed to the Participant (or his beneficiaries).

(c) Beneficiary Designation. If a Participant's service on the Board shall terminate by reason of his death, or if he shall die after becoming entitled to distribution hereunder, but prior to receipt of his entire distribution, all cash or Common Stock then distributable hereunder with respect to him shall be distributed to such beneficiary or beneficiaries as such Participant shall have designated by an instrument in writing last filed with the Committee prior to his death, or in the absence of such designation or of any living beneficiary, to his spouse, or if not then living, to his then living descendants, per stirpes, or if none is then living, to the personal representative of his estate, in the same manner as would have been distributed to the Participant had he continued to live.

(d) Change in Time and Form of Payment. Notwithstanding subsection (a) above, a Participant may elect to change the time and/or form of payment with respect to any portion of his Account by filing a new election form with the Plan Administrator. The new election shall supersede the prior election (or default election) governing the time and form of payment, provided that:

(i) with respect to any Pre-2005 Account Balances, the election form is filed with the Plan Administrator prior to the date the Participant's Board service ends; and

(ii) with respect to the remainder of the Participant's Account, the election form is filed with the Plan Administrator at least 12 months prior to the date any amounts are to be distributed, the notice may not take effect for 12 months after the Plan Administrator's receipt of the election form, and the payment of such amount does not occur or commence until a date that is at least five years later than the date the payment(s) would otherwise have been made or begun.

(e) Unforeseeable Emergency. In the discretion of the Plan Administrator, and at the written request of a Participant, up to 100% of the balance in a Participant's Account, determined as of the last day of the calendar month prior to the date of distribution, may be distributed to a Participant in a cash lump sum in the case of an unforeseeable emergency, subject to the limitations set forth below. Such a distribution may also include amounts necessary to pay federal, state or local income taxes or penalties reasonably anticipated to result from a distribution related to the portion of such Participant's Account. For purposes of this paragraph, an unforeseeable emergency is a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Code Section 152(a)) of the Participant, loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, as determined by the Plan Administrator in its discretion, but in any case payment may not be made to the extent that such hardship is or may be relieved:

(i) through reimbursement or compensation by insurance or otherwise,

(ii) by liquidation of the Participant's assets to the extent the liquidation of such assets would not itself cause severe financial hardship; or

(iii) by cessation of deferrals under the Plan.

Withdrawal of amounts because of an unforeseeable emergency shall be permitted only to the extent reasonably needed to satisfy the unforeseeable emergency.

(f) Change in Control. Notwithstanding any other provisions of the Plan, the entire balance of each Participant's Account shall be distributed to such Participant within 10 days after (i) the date the Board, in its discretion, deems a Change in Control of the Company likely to occur (provided, however, that this clause (i) shall only apply to a Participant's Pre-2005 Account Balances) or (ii) the date a Change in Control actually occurs. Distribution of each Participant's Account shall be made in shares of Common Stock or in cash as designated by the Participant (or his beneficiaries in the event of his death) pursuant to the procedures set forth in paragraph (b) of this Section VI. For purposes of this paragraph (f), the definition of a Change in Control shall mean:

(i) with respect to Pre-2005 Account Balances:

(A) the time any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), has acquired (other than directly from the Company) beneficial ownership (as that term is defined in Rule 13d-3 under the Exchange Act), of more than 20% of the outstanding capital stock of the Company entitled to vote for the election of directors;

(B) the effective time of (I) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or (II) a transfer of substantially all of the assets of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or

(C) the election, over any period of time, to the Board of Directors of the Company without the recommendation or approval of the incumbent Board of Directors of the Company, of the lesser of (I) three directors, or (II) directors constituting a majority of the number of directors of the Company then in office.

(ii) With respect to the remainder of a Participant's Account, the earliest of:

(A) the time any person (as such term is used in Section 13(d) of the Exchange Act) has acquired (other than directly from the Company) beneficial ownership (as that term is defined in Rule 13(d)-3 under the Exchange Act) of more than 35% of the outstanding capital stock of the Company entitled to vote for the election of directors;

(B) the effective time of (I) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or (II) a transfer of substantially all of the assets of the Company, other than to an entity of which the Company owns at least 50% of the voting stock; or

(C) the election, over any 12-month period, to the Board of Directors of the Company, without the recommendation or approval of the incumbent Board of Directors of the Company, of directors constituting a majority of the number of directors of the Company then in office.

SECTION VII

ADMINISTRATION OF THE PLAN

(a) Plan Administrator. The Committee shall appoint one or more employees of the Company to act as the Plan Administrator. The Plan Administrator shall be responsible for the general operation and administration of the Plan, and shall have such powers as are necessary to discharge its duties under the Plan, including, without limitation, the following:

(i) with the advice of the General Counsel of the Company, to construe and interpret the Plan, to decide all questions of eligibility, to determine the amount, manner and time of payment of any benefits hereunder, to prescribe rules and procedures to be followed by Participants and their beneficiaries under the Plan, and to otherwise to carry out the purposes of the Plan; and

(ii) To appoint or employ individuals to assist in the administration of the Plan and any other agents deemed advisable.

The decisions of the Plan Administrator shall be binding and conclusive upon all Participants, beneficiaries and other persons.

(b) Claims Procedure. Any Participant claiming a benefit, requesting an interpretation or ruling, or requesting information, under the Plan, shall present the request in writing to the Plan Administrator, which shall respond in writing as soon as practicable. If the claim or request is denied, the written notice of denial shall state the following:

(i) The reasons for denial, with specific reference to the Plan provisions upon which the denial is based;

(ii) A description of any additional material or information required and an explanation of why it is necessary; and

(iii) An explanation of the Plan's review procedure.

The initial notice of denial shall normally be given within 90 days after receipt of the claim. If special circumstances require an extension of time, the claimant shall be so notified and the time limit shall be 180 days. Any person whose claim or request is denied, or who has not received a response within 30 days, may request review by notice in writing to the Plan Administrator. The original decision shall be reviewed by the Plan Administrator, which may, but shall not be required to, grant a hearing. On review, whether or not there is a hearing, the claimant may have representation, examine pertinent documents and submit issues and comments in writing. The decision on review shall ordinarily be made within 60 days. If an extension of time is required for a hearing or other special circumstances, the claimant shall be so notified and the time limit shall be extended to 120 days. The decision on review shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

SECTION VIII

AMENDMENT OR TERMINATION

(a) Authority. The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the Board and shall be effective as of the date of such resolution or such later date as the resolution may expressly state; provided that no amendment or termination of the Plan shall (i) directly or indirectly deprive any current or former Participant or his beneficiaries of all or any portion of his Account as determined as of the effective date of such amendment or termination, or (ii) directly or indirectly reduce the balance of any Account held hereunder as of the effective date of such amendment or termination.

(b) Distributions on Termination. Upon termination of the Plan, (i) distribution of Pre-2005 Account Balances shall be made to Participants or their beneficiaries in the manner and at the time described in Section VI as if each Participant's service on the Board had then terminated, and (ii) the remaining balance in each Participant's Account shall be distributed in accordance with Section VI, unless otherwise permitted by regulations issued under Code Section 409A. No additional deferred Retainers, Meeting Fees or Stock Awards shall be credited to the Accounts of Participants after termination of the Plan, but the Company shall continue to credit earnings, gains and losses to Accounts pursuant to Section V until the balances of such Accounts have been fully distributed to Participants or their beneficiaries.

SECTION IX

GENERAL PROVISIONS

(a) Unfunded Plan. The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any benefits hereunder. The right of a Participant or his beneficiary to receive a benefit hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to Accounts shall constitute general assets of the Company. Nothing contained in the Plan shall constitute a guaranty by the Company, the Committee, the Plan Administrator, or any other person or entity, that the assets of the Company will be sufficient to pay any benefit hereunder.

(b) Common Stock. Shares of Common Stock distributed under the Plan may be treasury shares of the Company or shares purchased by the Company on the open market. The Company shall reserve such number of shares of Common Stock as may be issuable under the Plan.

(c) Non-Transferability. No interest of any person or entity in, or right to receive a distribution under, the Plan, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

(d) Governing Law. The Plan shall be construed and administered under the laws of the State of Illinois, except to the extent preempted by federal law.

(e) Incapacitation of Participant. If any person entitled to a payment under the Plan is deemed by the Company to be incapable of personally receiving and giving a valid receipt for such payment, then, unless and until claim therefor shall have been made by a duly appointed guardian or other legal representative of such person, the Company may provide for such payment or any part thereof to be made to any other person or institution that is contributing toward or providing for the care and maintenance of such person. Any such payment shall be a payment for the account of such person and a complete discharge of any liability of the Company, the Committee and the Plan Administrator and the Plan therefor.

(f) Plan Following Corporate Transaction. The Plan shall be continued, following a transfer or sale of assets of the Company, or following the merger or consolidation of the Company into or with any other corporation or entity, by the transferee, purchaser or successor entity, unless the Plan has been terminated by the Company pursuant to the provisions of Section VIII prior to the effective date of such transaction.

(g) Location of Participants. Each Participant or beneficiary shall keep the Plan Administrator informed of his current address. The Plan Administrator shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the

Plan Administrator within three years after the date on which payment of the Participant's benefits under the Plan may first be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Participant, the Plan Administrator is unable to locate any beneficiary of the Participant, then the Company shall have no further obligation to pay any benefit hereunder to such Participant, or beneficiary or any other person and such benefit shall be forfeited. If such Participant, or his beneficiary or any other person, subsequently makes a valid claim for distribution of the amount forfeited, such amount, without gains or earnings thereon, shall be distributed to such Participant or his beneficiary or such other person pursuant to Section VI.

(h) No Liability to Participants. Notwithstanding any of the preceding provisions of the Plan, none of the Company, any member of the Committee, any Plan Administrator or any individual acting as an employee or agent of the Company, the Committee or the Plan Administrator, shall be liable to any Participant, former Participant, or any beneficiary or other person for any claim, loss, liability or expense incurred by such Participant, or beneficiary or other person in connection with the Plan.

(i) Equitable Adjustment of Stock Units. The aggregate number of Stock Units that may be issuable under the Plan and the number of Stock Units in each Stock Unit Account shall all be appropriately adjusted as the Committee may determine for any increase or decrease in the number of shares of issued Common Stock resulting from a subdivision or consolidation of shares, whether through reorganization, recapitalization, stock split-up, spin-off, stock distribution or combination of shares or other increase or decrease in the number of such shares outstanding effected without receipt of consideration by the Company. Adjustments under this paragraph (l) shall be made in the sole discretion of the Committee, and its decisions shall be binding and conclusive.

(j) Tax Savings Clause. Notwithstanding anything to the contrary contained in the Plan, (i) if the Internal Revenue Service prevails in a claim by it that amounts credited to a Participant's Account, and/or earnings thereon, constitute taxable income to the Participant or his beneficiary for any taxable year of his prior to the taxable year in which such credits and/or earnings are distributed to him or (ii) legal counsel satisfactory to the Company and the applicable Participant or his beneficiary renders an opinion that the Internal Revenue Service would likely prevail in such a claim, (A) the Participant's Pre-2005 Account Balances, to the extent constituting taxable income, and (B) the remainder of such Participant's Account, to the extent constituting taxable income pursuant to Code Section 409A and guidance and regulations thereunder, shall be immediately distributed to the Participant or his beneficiary. For purposes of this paragraph, the Internal Revenue Service shall be deemed to have prevailed in a claim if such claim is upheld by a court of final jurisdiction, or if the Company, or a Participant or beneficiary, based upon an opinion of legal counsel satisfactory to the Company and the Participant or his beneficiary, fails to appeal a decision of the Internal Revenue Service, or a court of applicable jurisdiction, with respect to such claim, to an appropriate Internal Revenue Service appeals authority or to a court of higher jurisdiction, within the appropriate time period.

(k) Notices. Any notice under the Plan shall be in writing, or by electronic means, and shall be received when actually delivered, or mailed postage paid as first class U.S. Mail. Notices shall be directed to the Company at its principal business office at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191, to a Nonemployee Director at the address stated in his election form, and to a beneficiary entitled to benefits at the address stated in the Participant's beneficiary designation, or to such other addresses any party may specify by notice to the other parties.

Exhibit 10.9

<u>Fiscal 2020 Form</u>

<u>AAR CORP.</u>

<u>Director Restricted Stock Agreement</u>
<u>(“Agreement”)</u>

Subject to the provisions of the AAR CORP. 2013 Stock Plan (“Plan”), the terms of which are hereby incorporated by reference herein, and in consideration of the agreements of the Grantee herein provided, AAR CORP. a Delaware corporation (“Company”), hereby grants to Grantee a restricted stock award (“Award”), effective June 3, 2019 (“Date of Award”), of 3,922 shares of common stock (“Common Stock”) of the Company, $1.00 par value (“Award Shares”), subject to the forfeiture and nontransferability provisions hereof and the other terms and conditions set forth herein:

1. <u>Acceptance By Grantee</u>. The Award is conditioned upon the acceptance by the Grantee of the terms and conditions of the Award as set forth in this Agreement. The Grantee must confirm acceptance of the Award and this Agreement on Morgan Stanley’s web site (www.stockplanconnect.com). The Company will accept the Award on the Grantee’s behalf. By acceptance of this Agreement, you irrevocably agree to be bound by the terms hereof.

2. <u>Restrictions</u>. The Grantee represents that he is accepting the Award Shares without a view toward distribution of said Award Shares and that he will not sell, assign, transfer, pledge or otherwise encumber the Award Shares during the period commencing on the Date of Award and ending on the date the restrictions applicable to such Award Shares are released pursuant to paragraph 3 of this Agreement (“Restrictive Period”).

3. <u>Release of Restrictions</u>. Subject to the provisions of paragraph 4 below, the restrictions described in paragraph 2 above shall be released with respect to the Award Shares on the first anniversary of the Date of Award, except as follows:

(a) *In General*. If the Grantee’s membership on the Company’s Board of Directors terminates prior to the last day of the Restrictive Period for any reason other than Retirement, death or Disability, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 2 hereof.

(b) *Retirement*. If the Grantee’s membership on the Company’s Board of Directors terminates by reason of Retirement prior to the last day of the Restrictive Period, the Restrictive Period shall terminate in accordance with the restriction release schedule set forth above in the first clause of this paragraph 3 as to the Award Shares not previously released; provided, however, that if the Grantee dies after Retirement and prior to the last day of the Restrictive Period, the Grantee’s date of death will be treated as the date on which his membership on the Company’s Board of Directors has terminated, and the provisions of paragraph 3(c) shall apply in determining the release of restrictions as to the Award Shares not previously released. For purposes of this Agreement, “Retirement” means the Grantee’s voluntary termination of membership on the Company’s Board of Directors at or after attaining age 65 with five or more consecutive years of service as a non-employee member of the Company’s Board of Directors.

(c) *Death or Disability*. If the Grantee's membership on the Company's Board of Directors terminates by reason of death or Disability, the Restrictive Period shall terminate on the date of such death or Disability. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(d) *Restrictive Covenant*. If at any time prior to the Award Shares' release from the restrictions hereunder, the Grantee, without the Company's express written consent, directly or indirectly, alone or as a member of a partnership, group, or joint venture or as an employee, officer, director, or greater than 1% stockholder of any corporation, or in any capacity engages in any activity which is competitive with any of the businesses conducted by the Company or its affiliated companies at any time during the Grantee's membership on the Company's Board of Directors, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 2 hereof.

4. Change in Control. In the event of a Change in Control of the Company, and the Grantee's membership on the Company's Board of Directors ends on or after the Change in Control but prior to the last day of the Restrictive Period, then notwithstanding any conditions or restrictions contained in this Agreement, the Restrictive Period shall terminate as to all Award Shares not previously released.

5. Change in Outstanding Shares. In the event of any change in the outstanding shares of Common Stock occurring through stock splits, stock dividends, stock consolidations, spin-offs, other distributions of assets to stockholders or assumption or conversion of outstanding Awards due to an acquisition after the Date of Award, the Award Shares shall be treated in the same manner in any such transaction as other shares of Common Stock. Any additional shares of Common Stock received by the Grantee with respect to the Award Shares in any such transaction shall be subject to the same restrictions as are then applicable to those Award Shares for which the additional shares have been issued.

6. Rights of Grantee. As the holder of the Award Shares, the Grantee is entitled to all of the rights of a stockholder of AAR CORP. with respect to any of the Award Shares, when issued, including, but not limited to, the right to receive dividends declared and payable since the Date of Award.

7. Shares. Award Shares shall be held by the Company in electronic book entry form on the records of the Company's Transfer Agent for the account of the Grantee until such restrictions are released pursuant to the terms hereof, or such Award Shares are forfeited to the Company as provided by the Plan or this Agreement. The Grantee shall be entitled to the Award Shares as to which such restrictions have been released, and the Company agrees to issue such Award Shares in electronic form on the records of the Transfer Agent. Upon request by the Grantee, the Transfer Agent will transfer such released Award Shares in electronic form to the Grantee's broker for the Grantee's account or issue certificates in the name of the Grantee representing the Award Shares for which restrictions have been released.

8. Legend. The Company may, in its discretion, place a legend or legends on any electronic shares or certificates representing Award Shares issued to the Grantee that the Company believes is required to comply with any law or regulation.

9. Committee Powers. The Committee may subject the Award Shares to such conditions, limitations or restrictions as the Committee determines to be necessary or desirable to comply with any law or regulation or with the requirements of any securities exchange. At any time during the Restrictive Period, the Committee may reduce or terminate the Restrictive Period otherwise applicable to all or any portion of the Award Shares.

10. Postponement of Distribution. Notwithstanding anything herein to the contrary, the distribution of any portion of the Award Shares shall be subject to action by the Board taken at any time in its sole discretion (i) to effect, amend or maintain any necessary registration of the Plan or the Award Shares distributable in satisfaction of this Award under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (ii) to permit any action to be taken in order to (a) list such Award Shares on a stock exchange if the Common Stock is then listed on such exchange or (b) comply with restrictions or regulations incident to the maintenance of a public market for its Shares of Common Stock, including any rules or regulations of any stock exchange on which the Award Shares are listed, or (iii) to determine that such Award Shares and the Plan are exempt from such registration or that no action of the kind referred to in (ii)(b) above needs to be taken; and the Company shall not be obligated by virtue of any terms and conditions of this Award or any provision of this Agreement or the Plan to issue or release the Award Shares in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not shorten the term of any restriction attached to the Award Shares and neither the Company nor its directors or officers shall have any obligation or liability to the Grantee or to any other person as to which issuance under the Award Shares was delayed.

11. Miscellaneous.

(a) The Award and this Agreement shall be construed, administered and governed in all respects under and by the laws of the State of Illinois.

(b) Capitalized terms used herein and not defined herein will have the meanings set forth in the Plan.

(c) This Agreement has been examined by the parties hereto, and accordingly the rule of construction that ambiguities be construed against a party which causes a document to be drafted shall have no application in the construction or interpretation hereof. If any part of this Agreement is held invalid for any reason, the remainder hereof shall nevertheless remain in full force and effect.

(d) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

(e) This Agreement shall be construed consistent with the provisions of the Plan and in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control and any terms of this Agreement which conflict with Plan terms shall be void.

Questions concerning the provisions of this Agreement should be directed to the Company's Corporate Secretary: 630/227-2050; fax 630/227-2059.

Exhibit 10.19

SEVERANCE AND CHANGE IN CONTROL AGREEMENT

This Severance and Change in Control Agreement ("Agreement") is made and entered into as of the 7th day of January, 2019, by and between AAR CORP., a Delaware corporation (the "Company"), and Sean M. Gillen ("Employee").

WHEREAS, the Company employs Employee in the capacity of Vice President and Chief Financial Officer; and

WHEREAS, the Company and Employee desire to enter into an Agreement as herein set forth to reflect certain mutually agreed terms and conditions thereof.

NOW, THEREFORE, in consideration of the mutual agreements herein set forth and other good and valuable consideration, the parties hereto agree as follows:

1. **Employment**. Employee will continue employment with the Company as an at-will employee subject to the terms and conditions hereinafter set forth.

2. **Duties**. During the continuation of Employee's employment, Employee shall:

   (a) Well and faithfully serve the Company and do and perform assigned duties and responsibilities in the ordinary course of Employee's employment and the business of the Company (within such limits as the Company may from time to time prescribe), professionally, faithfully and diligently.

   (b) Devote Employee's full time, energy and skill to the business of the Company and Employee's assigned duties and responsibilities, and to the promotion of the best interests of the Company; provided that Employee shall not (to the extent not inconsistent with Section 5 below) be prevented from (a) serving as a director of any corporation consented to in advance in writing by the Company, (b) engaging in charitable, religious, civic or other non-profit community activities, or (c) investing his personal assets in such form or manner as will not require any substantial services on Employee's part in the operation or affairs of the business in which such investments are made or which would detract from or interfere or cause a conflict of interest with performance of Employee's duties hereunder.

   (c) Observe all policies and procedures of the Company in effect from time to time applicable to employees of the Company including, without limitation, policies with respect to employee loyalty and prohibited conflicts of interest.

3. **Benefits**. Employee shall be entitled to participate, according to the eligibility provisions of each, in such welfare plans (including but not limited to medical, dental, life, accident and disability insurance programs), vacation, retirement plans and other fringe benefits as may be in effect from time to time and available to other officers of the Company during Employee's employment term. Employee shall also be entitled to participate in such additional executive fringe benefits as may be

authorized from time to time by the President and Chief Executive Officer of the Company. Employee shall be eligible to participate in the Company's Supplemental Key Employee Retirement Plan (the "SKERP").

4. **Confidential Information, Assignment of Inventions**.

(a) Employee acknowledges that the trade secrets, confidential information, secret processes and know-how developed and acquired by AAR CORP. and its affiliates or subsidiaries (together the "Affiliated Companies") are among their most valuable assets and that the value of such information may be destroyed by unauthorized disclosure. All such trade secrets, confidential information, secret processes and know-how imparted to or learned by Employee in the course of his employment with respect to the business of the Affiliated Companies (whether acquired before or after the date hereof) will be deemed to be confidential and will not be used or disclosed by Employee, except to the extent necessary to perform Employee's duties and, in no event, disclosed to anyone outside the employ of the Affiliated Companies and their authorized consultants and advisors, unless (i) such information is or has been made generally available to the public, (ii) disclosure of such information is required by law in the opinion of Employee's counsel (provided that written notice thereof is given to Company as soon as possible but not less than 24 hours prior to such disclosure), or (iii) express written authorization to use or disclose such information has been given by the Company. If Employee ceases to be employed by the Company for any reason, Employee shall not take any electronically stored data, documents or other papers containing or reflecting trade secrets, confidential information, secret processes, know-how, or computer software programs from Company. Employee acknowledges that Employee's employment hereunder will place Employee in a position of utmost confidence and that Employee will have access to confidential information concerning the operation of the business of the Affiliated Companies, including, but not limited to, manufacturing methods, developments, secret processes, know-how, computer software programs, costs, prices and pricing methods, sources of supply and customer names and relations. All such information is in the nature of a trade secret and is the sole and exclusive property of the Affiliated Companies and shall be deemed confidential information for the purposes of this paragraph. Nothing herein shall prohibit Employee from (i) reporting a suspected violation of law to any governmental or regulatory agency and cooperating with such agency, or from receiving a monetary recovery for information provided to such agency, (ii) testifying truthfully under oath pursuant to subpoena or other legal process or (iii) making disclosures that are otherwise protected under applicable law or regulation. However, if Employee is required by subpoena or other legal process to disclose confidential information, Employee first shall notify the Company promptly upon receipt of the subpoena or other notice, unless otherwise required by law.

(b) Employee hereby assigns to the Company all rights that Employee may have as author, designer, inventor or otherwise as creator of any written or graphic material, design, invention, improvement, or any other idea or thing whatever that Employee may write, draw, design, conceive, perfect, or reduce to practice during employment with the Company or within 120 days after termination of such employment, whether done during or outside of normal work hours, and whether done alone or in conjunction with others ("Intellectual Property"), provided, however, that Employee reserves all rights in anything done or developed entirely by Employee on Employee's own personal time and without the use of any Company equipment, supplies, facilities or information, or the participation of any other Company employee, unless it relates to the Company's business or reasonably anticipated business, or grows out of any work performed by Employee for the Company. Employee will promptly disclose all such Intellectual Property developed by Employee to the Company, and fully cooperate at the Company's request and expense in any efforts by the Company or its assignees to secure protection for such Intellectual Property by way of domestic or foreign patent, copyright, trademark or service mark registration or otherwise, including executing specific assignments or such other documents or taking such further action as may be considered necessary to vest title in Company or its assignees and obtain patents or copyrights in any and all countries.

5. **Non-Compete; Severance**.

(a) Employee agrees that during Employee's continuation of employment with the Company and for one (1) year thereafter so long as the Company makes severance payments to Employee pursuant to subsections 5(b) or 5(c) below, Employee shall not, without the express written consent of the Company, either alone or as a consultant to, or partner, employee, officer, director, or stockholder of any organization, entity or business, (i) take or convert for Employee's personal gain or benefit or for the benefit of any third party, any business opportunities which may be of interest to the Company or any Affiliated Company which Employee becomes aware of during the term of his employment; (ii) engage in direct or indirect competition with the Company or any Affiliated Company within 100 miles of any location within the United States of America or any other country where the Company or any Affiliated Company does business from time to time during the term hereof; (iii) solicit in connection with any activity which is competitive with any of the businesses of the Company or any Affiliated Company, any customers of the Company or any Affiliated Company; (iv) solicit for employment any sales, marketing or management employee of Company or any Affiliated Company or induce or attempt to induce any customer or supplier of the Company or any Affiliated Company to terminate or materially change such relationship. Company and Employee acknowledge the reasonableness of the foregoing covenants not to compete and non-solicitation, including but not limited to the geographic area and duration of time which are a part hereof, and further, that the restrictions stated in this Section 5 are reasonably necessary for the protection of Employer's legitimate proprietary interests. This covenant not to compete may be enforced with respect to any geographic area in which the Company or any Affiliated Company does business during the term hereof. Nothing herein shall prohibit Employee from being the legal or equitable holder, solely for investment purposes, of less than 5% of the capital stock of any publicly held corporation which may be in direct or indirect competition with the Company or any Affiliated Company.

(b) The Company will pay Employee, upon termination of Employee's employment by the Company prior to a Change in Control (as defined in 7(c)(i) below) for any reason other than Cause (as defined in 7(c)(iv) below), severance each month for 12 months, in an amount (subject to applicable withholding) equal to 1/12 of Employee's then current base salary; and further, if the Company pays discretionary bonuses to its officers for the fiscal year in which Employee's employment is terminated, Employee will be paid a bonus in a lump sum at the time any such bonuses are paid to other officers or at such time as the severance period is complete, whichever is later (with interest at prime rate plus one percentage point from the earlier of such dates), for the completed fiscal year preceding termination if such bonus has not been paid prior to termination, and for the fiscal year in which employment is terminated, prorata for the period prior to termination of employment based on Employee's performance during such period; provided, however, that all such monthly payment obligations shall terminate immediately upon Employee obtaining full time employment in a comparable position in terms of salary level, and all such payment obligations shall terminate or lapse immediately upon any breach by Employee of Section 4 or 5(a) of this Agreement.

(c) If Employee terminates Employee's employment or Employee's employment is terminated by the Company for Cause (as defined below), the Company may elect (but is not required to), by written notice thereof to Employee, within five (5) days of any such termination of Employee's employment with the Company prior to a Change in Control (as defined below), to pay Employee severance as provided in and subject to the provisions of subsection 5(b) above.

(d) Employee may terminate this Severance and Change in Control Agreement effective immediately upon notice thereof in writing to Company at any time while still employed within a sixty (60) calendar day period immediately following the effective date of any reduction by Company in (i) Employee's level of responsibility or position from that held by Employee on the effective date of this Agreement, or (ii) Employee's level of compensation, including retirement benefits in effect immediately prior to any such change.

(e) The Employee acknowledges and agrees that the Company would be irreparably harmed by violations of Section 4 or Section 5(a) above, and in recognition thereof, the Company shall be entitled to an injunction or other decree of specific performance with respect to any violation thereof (without any bond or other security being required) in addition to other available legal and equitable remedies.

6. **Termination of Employment**. Upon and after termination of employment howsoever arising, Employee shall, upon request by Company:

(a) immediately return to the Company all correspondence, documents, business calendars/diaries, or other property belonging to the Company which is in Employee's possession;

(b) immediately resign from any office Employee holds with the Company or any Affiliated Company; and

(c) cooperate fully and in good faith with the Company in the resolution of all matters Employee worked on or was involved in during Employee's employment with the Company. Employee's cooperation will include reasonable consultation by telephone. Further, in connection therewith, Employee will, at Company's request upon reasonable advance notice and subject to Employee's availability, make Employee available to Company in person at Company's premises, for testimony in court, or elsewhere; provided, however, that in such event, Company shall reimburse all Employee's reasonable expenses and pay Employee a reasonable per diem or hourly stipend.

7. **Change in Control**.

(a) In the event a Change in Control of the Company occurs, and at any time during the eighteen (18) month period commencing on the date of the Change in Control either the Company terminates Employee's employment for other than Cause or Disability, or Employee terminates Employee's employment for Good Reason, in either case by written notice to the other party (including the particulars thereof), and having given the other party the opportunity to be heard with respect thereto, then:

(i) The Company shall, within thirty (30) days following such termination of employment, pay to Employee, in a lump sum, a cash payment in an amount equal to the sum of (A) all base salary earned through the date of termination, (B) any annual cash bonus earned by Employee for the fiscal year of the Company most recently ended prior to the date of termination to the extend unpaid on the date of termination, (C) a prorata portion of the annual cash bonus, including the value of any restricted stock grant in lieu of annual cash bonus, Employee would have earned had Employee been employed by the Company on the last day of the fiscal year in which the date of termination occurs (as if all performance goals have been met at target level or, in the event the bonus is of the "discretionary" type, the bonus shall be based on a percentage of base salary which is not less than percentage of base salary received as bonus for the preceding fiscal year) that is applicable to the period commencing on the first day of such fiscal year and ending on the date of termination, and (D) any and all other benefits and amounts earned by Employee prior to the date of termination to the extent unpaid, all subject to applicable withholding.

(ii) The Company shall, within thirty (30) days following such termination of employment, pay to Employee in a lump sum, a cash payment in an amount equal to two times Employee's total compensation (base salary plus annual cash bonus) for either the fiscal year of the Company most recently ended prior to the date of termination, or the preceding fiscal year, whichever is the highest total compensation, subject to applicable withholding.

(iii) Employee and Employee's dependents shall continue to be covered by, and receive employee welfare and executive fringe benefits (including but not limited to medical, dental, life, accident and disability insurance available to officers of the Company and additional executive retirement and other fringe benefits approved by the President and CEO of the Company) in accordance with the terms of the Company's benefit plans and executive fringe benefit programs, for two (2) years following the date of termination, and at no less than the levels Employee and Employee's dependents were receiving immediately prior to the Change in Control. Employee's dependents shall be entitled to continued benefits coverage pursuant to the preceding sentence for the balance of such two (2) year period in the event of Employee's death during such period. The period during which Employee and Employee's dependents are entitled to continuation of group health plan coverage pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended, and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended, shall commence on the date next following the expiration of the aforementioned two (2) year period.

(iv) Notwithstanding any conditions or restrictions related to any Award granted to Employee under the AAR CORP. 2013 Stock Plan (or successor plan), (A) all performance opportunity restricted stock shares and units eligible for award hereunder shall be immediately awarded based on the higher of target or actual performance through the employment termination date using the latest data then available to determine goals applicable for the partial performance period, and all restrictions thereon shall be immediately released, and (B) all outstanding option grants, stock appreciation rights, restricted stock and restricted stock units granted or awarded under the Plan which have not then become vested or exercisable or which remain restricted, shall immediately become vested or exercisable and restrictions will lapse, as the case may be, and any such options shall remain exercisable for the full remaining life of the option(s).

(v) The Company, at its expense, shall provide Employee with outplacement services of a nationally recognized outplacement firm of the Employee's choosing until the earlier of (A) the Employee's attainment of employment, or (B) the date eighteen (18) months from the date of Employee's termination of employment; provided, however, that the cost of such outplacement services shall not exceed 3.5% of the cash payment due to Employee pursuant to subsection 7(a) (ii) above.

The amounts paid to Employee under this Change in Control provision applicable to Employee shall be considered severance pay in consideration of past service Employee has rendered to the Company and in consideration of Employee's continued service from the date hereof to entitlement of those payments.

(b) In the event that a Change in Control occurs, the Company will continue to provide SKERP retirement benefits to Employee and Employee's spouse at no less than the level they are receiving or entitled to receive under the SKERP as it was in effect immediately prior to the Change in Control.

(c) For purposes of this Agreement

(i) "Change in Control" means the earliest of:

(A) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), has acquired (other than directly from the Company) beneficial ownership (as that term is defined in Rule 13d-3 under the Exchange Act), of more than 20% of the outstanding capital stock of the Company entitled to vote for the election of directors; or

(B) the effective time of (I) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or (II) a transfer of substantially all of the assets of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or

(C) the election over any period of time to the Board of Directors of the Company without the recommendation or approval of the incumbent Board of Directors of the Company, of the lesser of (I) three (3) directors, or (II) directors constituting a majority of the number of directors of the Company then in office.

(ii) "Good Reason" means:

(A) a material reduction in the nature or scope of Employee's duties, responsibilities, authority, power or functions from those enjoyed by Employee immediately prior to the Change in Control, or a material reduction in Employee's compensation (including benefits), occurring after the Change in Control; or

(B) a relocation of the primary place of employment of at least 50 miles.

(iii) "Disability" means a physical or mental condition which has prevented Employee from substantially performing Employee's assigned duties for a period of 180 consecutive days and which is expected to continue to render Employee unable to substantially perform Employee's duties on a full-time basis and otherwise meets the benefit eligibility requirements of the Company's Long Term Disability Welfare Benefit Plan or any executive program in which Employee was a participant at the time of a Change in Control. The Company will make reasonable accommodation for any disability of Employee as may be required by applicable law. In the event of termination by the Company for Disability after a Change in Control, a good faith determination of the existence of a Disability shall be made by resolution of the Compensation Committee of the Board of Directors of the Company, in its sole discretion, setting forth the particulars of the Disability which shall be final and binding upon the Employee. The Company may require the submission of such medical evidence as to the condition of the Employee as it may deem necessary in order to arrive at its determination of the occurrence of a Disability, and Employee will cooperate in providing any such information. Employee will be provided with reasonable opportunity to present additional medical evidence as to the medical condition of Employee for consideration prior to the Board making its determination of the occurrence of a Disability. Upon termination of Employment by Company for Disability after a Change in Control, Employee will receive

Disability payments pursuant to the Company's short and long term Disability welfare benefit plans then in effect according to the terms of such plans and continue to be eligible to participate in the Company's medical, dental and life insurance programs then in effect and available to officers of the Company in accordance with their terms for a period of three (3) years from the date of such termination of this Agreement.

(iv) "Cause" means:

(A) Employee engages, during the performance of Employee's duties hereunder, in acts or omissions constituting dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing or malfeasance;

(B) Employee intentionally disobeys or disregards a lawful and proper direction of the Board or the Company; or

(C) Employee materially breaches the Agreement and such breach by its nature, is incapable of being cured, or such breach remains uncured for more than ten (10) days following receipt by Employee of written notice from the Company specifying the nature of the breach and demanding the cure thereof. For purposes of this clause (C), a material breach of the Agreement that involves inattention by Employee to Employee's duties under the Agreement shall be deemed a breach capable of cure.

Without limiting the generality of the foregoing, the following shall not constitute Cause for the termination of employment of Employee or the modification or diminution of any of Employee's authority hereunder:

(X) any personal or policy disagreement between Employee and the Company or any member of the Board;

(Y) any action taken by Employee in connection with Employee's duties hereunder, or any failure to act, if Employee acted or failed to act in good faith and in a manner Employee reasonably believed to be in and not opposed to the best interest of the Company and Employee had no reasonable cause to believe Employee's conduct was unlawful; or

(Z) termination of Employee's employment for overall unsatisfactory performance (including, but not limited to, failure to meet financial goals).

Termination for Cause shall be limited to a good faith finding by resolution of the Compensation Committee of the Board, setting forth the particulars thereof. Any such action shall be taken at a regular or specially called meeting of the Compensation Committee of the Board, after a minimum ten (10) days' notice thereof to Employee, with termination of Employee's employment with the Company for Cause listed as an agenda item. Employee will be given a reasonable opportunity to be heard at such meeting with counsel present if Employee desires. Any such resolution shall be final and binding.

Upon termination of employment by Company for Cause, no further compensation or benefits shall accrue or be payable to Employee by the Company, except for any compensation, bonus or other benefits which have accrued to Employee prior to the date of any such termination.

Nothing herein shall be construed to prevent the Company from terminating Employee's employment at any time for any reason or for no reason.

(d) The Company will pay reasonable legal/attorney's fees (including court costs and other costs of litigation) incurred by Employee in connection with enforcement of any right or benefit under this Agreement.

(e) If in connection with the Change in Control or other event Employee would be or is subject to an excise tax under Section 4999 of the Internal Revenue Code (an "Excise Tax") with respect to any cash, benefits or other property received, or any acceleration of vesting of any benefit or award (the "Change in Control Benefits"), Employee may elect to have the Change in Control Benefits otherwise payable under this Agreement reduced to the largest amount payable without resulting in the imposition of such Excise Tax. Within 15 days after the occurrence of the event that triggers the Excise Tax, a nationally recognized accounting firm selected by the Company shall make a determination as to whether any Excise Tax would be reported with respect to the Change in Control Benefits and, if so, the amount of the Excise Tax, the total net after-tax amount of the Change in Control Benefits (after taking into account federal, state and local income and employment taxes and the Excise Tax) and the amount of reduction to the Change in Control Benefits necessary to avoid such Excise Tax. Any reduction to the Change in Control Benefits shall first be made from any cash benefits payable pursuant to this Agreement, if any, and thereafter, as determined by Employee, and the Company shall provide Employee with such information as is necessary to make such determination. The Company shall be responsible for all fees and expenses connected with the determinations by the accounting firm pursuant to this Section 10(e). Employee agrees to notify the Company in the event of any audit or other proceeding by the IRS or any taxing authority in which the IRS or other taxing authority asserts that any Excise Tax should be assessed against Employee and to cooperate with the Company in contesting any such proposed assessment with respect to such Excise Tax (a "Proposed Assessment"). Employee agrees not to settle any Proposed Assessment without the consent of the Company. If the Company does not consent to allow Employee to settle the Proposed Assessment, within 30 days following such demand therefor, the Company shall indemnify and hold harmless Employee with respect to any additional taxes, interest and/or penalties that Employee is required to pay by reason of the delay in finally resolving Employee's tax liability (such indemnification to be made as soon as practicable, but in no event later than the end of the calendar year following the calendar year in which Employee makes such remittance).

8. **Changes in Business**. The Company, acting through its Board of Directors, will at all times have complete control over the Company's business and retirement and other employee health and welfare benefit plans ("Plans"). Without limiting the generality of the foregoing, the Company may at any time or times change or discontinue any or all of its present or future operations or Plans (subject to their terms), may close or move any one or more of its divisions or offices, may undertake any new servicing or sales operation, may sell any one or more of its divisions or offices to any company not controlled, directly or indirectly, by the Company or may take any and all other steps which its Board of Directors, in its exclusive judgment, shall deem desirable, and Employee shall have no claim or recourse against the Company, its officers, directors or employees by reason of such action except for enforcement of the provisions of Sections 5 and 7 of this Agreement.

9. **Severance Payment as Sole Obligation**. Except as expressly provided in Sections 5 and 7 above, no further compensation, payments, liabilities or benefits shall accrue or be payable to Employee upon or as a result of termination of Employee's employment for any reason whatsoever except for any compensation, bonus or other benefits which accrued to Employee prior to the date of employment termination.

The amounts paid to the Employee under Section 5 and 7 of this Agreement shall be considered severance pay in consideration of past services Employee has rendered to the Company and in consideration of Employee's continued service from the date hereof to entitlement to those payments.

10. **Notices**. Any notice or other instrument or thing required or permitted to be given, served or delivered to any of the parties hereto shall be delivered personally, or via United States mail, overnight delivery or facsimile transmission to the addresses listed below:

(a) If to the Company, to:

AAR CORP.
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
Attention: Chief Executive Officer

With a copy to:

AAR CORP.
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
Attention: General Counsel
Fax No.: 630-227-2058

(b) If to Employee, to:

Sean M. Gillen
743 8th Street
Wilmette, IL 60091

or to such other address as either party may from time to time designate by notice to the other. Each notice shall be effective when such notice and any required copy are delivered to the applicable address.

11. **Non-Assignment**.

(a) The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of Employee, and any attempted unpermitted assignment shall be null and void and without further effect; provided, however, that, upon the sale or transfer of all or substantially all of the assets of the Company, or upon the merger by the Company into or the combination with another corporation or other business entity, or upon the liquidation or dissolution of the Company, this Agreement will inure to the benefit of and be binding upon the person, firm or corporation purchasing such assets, or the corporation surviving such merger or consolidation, or the shareholder effecting such liquidation or dissolution, as the case may be. After any such transaction, the term Company in this Agreement shall refer to the entity which conducts the business now conducted by the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the estate and beneficiaries of Employee and upon and to the benefit of the permitted successors and assigns of the parties hereto.

(b) The Employee agrees on behalf of Employee, Employee's heirs, executors and administrators, and any other person or person claiming any benefit under Employee by virtue of this Agreement, that this Agreement and all rights, interests and benefits hereunder shall not be assigned, transferred, pledged or hypothecated in any way by the Employee or by any beneficiary, heir, executor, administrator or other person claiming under the Employee by virtue of this Agreement and shall not be subject to execution, attachment or similar process. Any attempted assigned, transfer, pledge or hypothecation or any other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provisions or the levy or any execution, attachment or similar process thereon shall be null and void and without further effect.

12. **Severability**. If any term, clause or provision contained herein is declared or held invalid by any court of competent jurisdiction, such declaration or holding shall not affect the validity of any other term, clause or provision herein contained.

13. **Construction.** Careful scrutiny has been given to this Agreement by the Company, Employee, and their respective legal counsel. Accordingly, the rule of construction that the ambiguities of the contract shall be resolved against the party which caused the contract to be drafted shall have no application in the construction or interpretation of this Agreement or any clause or provision hereof.

14. **Entire Agreement**. This Agreement as amended and restated herein and the other agreements referred to herein set forth the entire understanding of the parties and supersede all prior agreements, arrangements and communications, whether oral or written, pertaining to the subject matter hereof.

15. **Waiver**. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing signed by Employee and an authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

16. **Governing Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Illinois without regard to its conflicts of law principles.

17. **Execution**. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and which shall constitute but one and the same Agreement.

18. **Provisions Regarding Code §409A**.

(a) If at the time of Employee's termination of employment for reasons other than death he is a "Key Employee" as determined in accordance with the procedures set forth in Treas. Reg. § 1.409A-1(i), any amounts payable to Employee pursuant to this Agreement that are subject to Section 409A of the Internal Revenue Code shall not be paid or commence to be paid until six months following Employee's termination of employment, or if earlier, Employee's subsequent death.

(b) Reimbursements or in-kind benefits provided under this Agreement that are subject to Section 409A of the Internal Revenue Code are subject to the following restrictions: (i) the amount of expenses eligible for reimbursements, or in-kind benefits provided, to Employee during a calendar year shall not affect the expenses eligible for reimbursement or the in-kind benefits provided in any other calendar year, and (ii) reimbursement of an eligible expense shall be made as soon as practicable, but in no event later than the last day of the calendar year following the calendar year in which the expense was incurred.

(c) Employee's right to receive installment payments pursuant to this Agreement shall be treated as the right to receive a series of separate and distinct payments.

WITNESS the due execution of this Agreement by the parties hereto as of the day and year first above written.

Employer:

AAR CORP.

/s/ John M. Holmes
By: John M. Holmes
Title: President and Chief Executive Officer

Employee:

/s/ Sean M. Gillen
Sean M. Gillen

Exhibit 10.24

July 11, 2019

Mr. David P. Storch
1270 Linden Avenue
Highland Park, IL 60035

Dear David:

You and AAR CORP. ("AAR") entered into a letter agreement dated May 24, 2018, as amended on May 31, 2019 (collectively, the "Agreement") relating to your service as Chairman of the Board of Directors of AAR and as a consultant to AAR.

You and AAR now desire to further amend the Agreement to reduce the annual retainer payable to you as a consultant to $150,000 from $400,000 for the fiscal year ending May 31, 2020.

In consideration of the mutual promises in this letter agreement, you and AAR hereby agree, effective as of the date of this letter, to amend and supplement the Agreement as follows:

1. **Amendments**. Section 2(c) of the Agreement is amended to add the following language at the end of the first sentence:

   "; provided, however, that effective July 11, 2019, your annual retainer for the fiscal year ending May 31, 2020 shall be reduced to $150,000 from $400,000."

2. **No Other Changes**. In all other respects, the Agreement shall remain unchanged and shall continue in full force and effect.

Please indicate your acknowledgment of, and agreement to, the terms and conditions of this letter agreement by signing and returning a copy of this letter agreement to AAR.

Very truly yours,

AAR CORP.

By: /s/Ronald B. Woodard
Name: Ronald B. Woodard
Title: Chairman of the Compensation Committee of the Board of Directors
Date: July 11, 2019

AAR CORP.

By: /s/ John M. Holmes
Name: John M. Holmes
Title: President and Chief Executive Officer
Date: July 11, 2019

Acknowledged and Agreed:

By: /s/ David P. Storch
Name: David P. Storch
Date: July 11 2019

Exhibit 21.1

AAR CORP.
Subsidiaries, Affiliated Companies, and Joint Ventures

Name(1)	Place of Incorporation	Ownership %(2)
AAR CORP.	Delaware	
AAR do Brasil Ltda.	Brazil	0.1%
Rags of Honor, LLC	Illinois	10%
AAR Aircraft & Engine Sales & Leasing, Inc. (3)	Illinois	
AAR Asset Management, LLC	Delaware	
AAR International Financial Services, L.L.C.	Illinois	10%
AAR Aircraft Services, Inc. (4)	Illinois	
Aviation Maintenance Staffing, Inc.	Delaware	
Aeronautica Corporation (5)	Illinois	
AAR Airlift Group, Inc. (6)	Florida	
AAR Airlift Group Afghanistan Inc. Logistic Services (7)	Afghanistan	50%
AAR Airlift Pakistan (Private) Limited	Pakistan	50%
AAR Airlift Group Peru S.A.C.	Peru	50%
AAR Airlift S.A.S.	Colombia	
Wide Open Sky General Trading & Services, LLC	Iraq	
AAR Government Services, Inc.	Illinois	
AAR Airlift Cyprus Limited	Cyprus	
AAR Airlift Panama, Inc.	Panama	
AAR International, Inc. (8)	Illinois	
AAR (25262) LLC	Delaware	
AAR Airlift Group Afghanistan Inc. Logistic Services (7)	Afghanistan	50%
AAR Airlift Pakistan (Private) Limited	Pakistan	50%
AAR Airlift Group Peru S.A.C.	Peru	50%
AAR Australia, L.L.C.	Illinois	
AAR Canada Holdings ULC	British Columbia	
AAR Aircraft Services — Windsor ULC (9)	British Columbia	
AAR Aircraft Services — Trois Rivieres ULC (10)	British Columbia	
AAR Aviation Maintenance Staffing Canada ULC	British Columbia	
AAR do Brasil Ltda.	Brazil	99.9%
AAR Global Services — Australia Pty Ltd (11)	Australia	
AAR International Financial Services, L.L.C.	Illinois	90%
AARIFS (561) LLC	Illinois	
AARIFS (662) LLC	Delaware	
AARIFS (25092) LLC	Delaware	
AARIFS (25093) LLC	Delaware	
AAR Indamer Technics Private Limited (Joint Venture)	India	40%
EAVF Aircraft Holdco Limited (Joint Venture)	Bermuda	2%
Primat Capital LLC (Joint Venture)	Delaware	10%
Primat Capital 2019-1 LLC	Delaware	
Osprey 737-300 Leasing LLC	Delaware	
AAR Landing Gear Services Sdn. Bhd. (Joint Venture)	Malaysia	49%
TN-AR Holdings LLC (Joint Venture)	Delaware	99.9%

Name(1)	Place of Incorporation	Ownership %(2)
AAR Ireland Limited (12)	Ireland	
AAR Japan, Inc.	Illinois	
AAR Russia Limited (Joint Venture)	Cyprus	50%
Airinmar Limited	United Kingdom	
Technisch Handelskantoor Lloyd B.V.	Netherlands	
Allen Airmotive Properties B.V.	Netherlands	
AAR Manufacturing, Inc. (13)	Illinois	
Brown International Corporation (14)	Alabama	
EP Aviation, LLC	Delaware	
AAR Supply Chain, Inc. (15)	Illinois	
AAR Allen Services, Inc. (16)	Illinois	
AAR Landing Gear LLC (17)	Florida	
Windy City 737-400 Holdings LLC (Joint Venture)	Delaware	50%
Windy City XI LLC	Delaware	
Windy City XII LLC	Delaware	
Windy City XIV LLC	Delaware	
Windy City XV LLC	Delaware	
Windy City XVII LLC	Delaware	

(1) An *italicized* name means the entity is a subsidiary of the entity appearing in bold above it. An indentation means the entity is a subsidiary of the entity above.

(2) Where not wholly owned by AAR CORP. and/or one of its affiliated companies. Joint ventures are so noted.

(3) Also does business under the name AAR Aircraft Advisory Services.

(4) Also does business under the names AAR Aircraft Services — Indianapolis, AAR Aircraft Services — Oklahoma, AAR Aircraft Services —Duluth, AAR Aircraft Services — Rockford, AAR Aircraft Services — Miami, and AAR Engineering Services.

(5) Also does business under the name Aeronautica.

(6) Also does business under the names AAR Airlift, AAR Airlift Group, AAR Aircraft Services — Melbourne and AAR Rotorcraft Services.

(7) Also does business under the name AAR Defense Systems & Logistics.

(8) Also does business under the names AAR Aircraft Component Services International, AAR Engineering Services — Asia, Allen Asset Management, and AAR International Inc. — Dubai.

(9) Also does business under the name AAR MRO Services-Canada, Windsor (ON).

(10) Also does business under the name AAR MRO Services-Canada, Trois Rivieres.

(11) Also does business under the name AAR Defense Systems and Logistics.

(12) Also does business under the name AAR Aircraft Turbine Center.

(13) Also does business under the names AAR Manufacturing, AAR Composites, AAR Mobility Systems, and AAR Mobility Systems — Sacramento.

(14) Also does business under the name AAR Integrated Technologies.

(15) Also does business under the names AAR Aircraft Turbine Center, AAR Defense Systems & Logistics, Allen Asset Management, AAR Distribution, and Airinmar.

(16) Also does business under the names AAR Aircraft Component Services, AAR Hermetic, and AAR Petrotech.

(17) Also does business under the names AAR Landing Gear Services and AAR Wheels and Brakes Services.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
AAR CORP.:

We consent to the incorporation by reference in the registration statements (Nos. 333-214445, 333-191915, 333-152594, 333-26093, and 333-219376) on Form S-8 of AAR CORP. of our reports dated July 18, 2019, with respect to the consolidated balance sheets of AAR CORP. and subsidiaries (the Company) as of May 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended May 31, 2019, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of May 31, 2019, which reports appear in the May 31, 2019 annual report on Form 10-K of AAR CORP.

Our report dated July 18, 2019, on the consolidated financial statements, refers to the Company's change in its method of accounting for revenue from contracts with customers effective June 1, 2018, due to the adoption of Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* and its subsequent amendments.

Our report dated July 18, 2019, on the effectiveness of internal control over financial reporting as of May 31, 2019, expresses our opinion that the Company did not maintain effective internal control over financial reporting as of May 31, 2019 because of the effect of material weaknesses on the achievement of the objectives of the control criteria and contains an explanatory paragraph that states that material weaknesses have been identified and included in management's assessment related to the ineffective design, implementation and operation of (i) internal controls over the existence of inventories subject to the Company's cycle counting program; (ii) information technology general controls (ITGCs) over IT applications, networks, operating systems and databases that are relevant to the preparation of the Company's financial statements; and (iii) internal controls over changes to the Company's vendor data master file that are required to safeguard the Company's funds and prevent or timely detect unauthorized payments. The material weaknesses described above arose because the Company did not have an effective continuous risk assessment process that successfully identified and assessed risks of misstatement, including risks of unauthorized acquisition, use or disposition of assets, to ensure controls were designed and implemented to respond to those risks. Additionally, the material weaknesses in ITGCs and vendor payment information also arose due to ineffective training of Company resources in the areas of IT and cyber security and the use of third-party service organizations.

/s/ KPMG LLP

Chicago, Illinois
July 18, 2019

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Exhibit 31.1

CERTIFICATION

I, John M. Holmes, certify that:

1. I have reviewed this Annual Report on Form 10-K of AAR CORP. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: July 18, 2019

/s/ JOHN M. HOLMES

John M. Holmes
President and Chief Executive Officer

QuickLinks

Exhibit 31.1

CERTIFICATION

Exhibit 31.2

CERTIFICATION

I, Sean M. Gillen, certify that:

1. I have reviewed this Annual Report on Form 10-K of AAR CORP. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: July 18, 2019

/s/ SEAN M. GILLEN

Sean M. Gillen
Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the AAR CORP. (the "Company") Annual Report on Form 10-K for the period ended May 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Holmes, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 18, 2019

/s/ JOHN M. HOLMES

John M. Holmes
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the AAR CORP. (the "Company") Annual Report on Form 10-K for the period ended May 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean M. Gillen, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 18, 2019

/s/ SEAN M. GILLEN

Sean M. Gillen
Vice President and Chief Financial Officer