AAR CORP
Form DEF 14A
August 28, 2015

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

SCHEDULE 14A

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

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
ý Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material under §240.14a-12

AAR CORP.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):
ý No fee required.
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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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

(3) Filing Party:

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Notice of Annual Meeting of Stockholders to be Held on Tuesday, October 13, 2015

To Our Stockholders:

We are pleased to invite you to attend our 2015 annual meeting of stockholders. Please read the information below and in the accompanying proxy statement to learn more about AAR CORP. and the matters to be voted on at the annual meeting.

Date	Tuesday, October 13, 2015
Time	9:00 a.m., Chicago time
Place	AAR CORP. One AAR Place 1100 North Wood Dale Road Wood Dale, Illinois 60191
Purposes	You will be asked at the annual meeting to: Elect three directors; Vote on an advisory resolution to approve our Fiscal 2015 executive compensation; Ratify the appointment of KPMG LLP as our independent registered public accounting firm for Fiscal 2016; and Transact any other business that may properly come before the annual meeting or any adjournment or postponement of the annual meeting.
Record Date	You may vote your shares at the annual meeting if you were a stockholder on August 18, 2015.
Voting	**Your vote is important. We encourage you to vote your shares as soon as possible. You may vote by proxy over the Internet, by telephone, or by completing and returning the enclosed proxy card in the postage-paid envelope provided. We also welcome you to attend the meeting and vote in person.**

By Order of the Board of Directors,

Robert J. Regan
Vice President, General Counsel and Secretary

August 28, 2015

PROXY STATEMENT FOR THE 2015 ANNUAL MEETING OF STOCKHOLDERS

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Important Notice Regarding the Availability of Our Proxy Materials
For Our Annual Meeting of Stockholders to be Held on Tuesday, October 13, 2015:

Copies of this Notice and Proxy Statement, our 2015 Annual Report to Stockholders and our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 are available free of charge at *www.proxyvote.com.*

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2015 Proxy Statement Summary

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

Annual Meeting Information

Time and Date	Tuesday, October 13, 2015 at 9:00 a.m., Chicago time
Place	AAR CORP. One AAR Place 1100 North Wood Dale Road Wood Dale, Illinois 60191
Record Date	Tuesday, August 18, 2015
Voting	Stockholders of record as of the record date may vote over the Internet at www.proxyvote.com; by telephone at 1-800-690-6903; by completing and returning their proxy card or voting information card; or in person at the annual meeting.

Proposals To Be Voted On By Our Stockholders

			Board Recommendation
Proposal 1	**Election of three directors (pages 4-7):**		**FOR**
Name	**Age**	**Brief Biography**	
ANTHONY K. ANDERSON	59	Independent business consultant and former Vice Chairperson and Managing Partner of Midwest Area at Ernst & Young LLP (a global accounting firm).	**FOR**
MICHAEL R. BOYCE	67	Chairman and Chief Executive Officer of The Peak Group (an operating and acquisition company) and since May 2015, Chairman of the Board of PQ Corporation (a specialty chemicals and catalyst company).	**FOR**
DAVID P. STORCH	62	Chairman of the Board, President and Chief Executive Officer of AAR CORP.	**FOR**
Proposal 2	**Advisory resolution to approve our Fiscal 2015 executive compensation (pages 8-9).**		**FOR**
Proposal 3	**Ratification of the appointment of KPMG LLP as our independent registered public accounting firm (page 10).**		**FOR**

Fiscal 2015 Business Performance Highlights

AAR CORP. (the "Company") is a leading provider of diversified products and services to the worldwide aviation and government and defense markets.

Fiscal 2015 was a transformative year for the Company, highlighted by the following actions:

We exited non-core businesses:

- Sold our cargo loading manufacturing business for a purchase price of $733.3 million, generating net proceeds after taxes in excess of $600 million

- Discontinued operations of our metals and composites manufacturing businesses, with the sale of these businesses expected to occur in Fiscal 2016

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We repositioned the Company as an industry-leading aviation services company by streamlining operations, focusing on higher-margin activities and delivering best-in-class services to customers across two business segments:

- Aviation Services business segment: Aftermarket parts supply and maintenance, repair and overhaul ("MRO") activities
- Expeditionary Services business segment: AAR Airlift and AAR Mobility operations

We returned total cash in the approximate amount of $162 million to our stockholders:

- Repurchased approximately $150 million of our shares of common stock
- Paid $12 million of cash dividends

We made significant balance sheet improvements:

- Redeemed $325 million of 7.25% high-yield notes
- Reduced outstanding debt by approximately $480 million
- Reduced total net debt to capital ratio to 10.5% from 35.3%
- Reduced annual interest expense by approximately $25 million
- Reduced the outstanding share count by 4.8 million shares to 35.5 million shares through a self-tender offer completed in May 2015 and stock repurchases made throughout Fiscal 2015

We refinanced our revolving credit facility on favorable terms:

- Increased our borrowing capacity to $500 million (with potential additional capacity of up to $750 million)
- Reduced our borrowing rates
- Extended the term of the facility to March 2020

Fiscal 2015 Executive Compensation Highlights

Overview

Our Compensation Committee approved a Fiscal 2015 executive compensation program that further emphasizes the importance of pay for performance, placing greater reliance on at-risk performance-based compensation and lesser reliance on fixed compensation.

Our Compensation Committee took the following specific actions with respect to our Fiscal 2015 executive compensation program:

Froze base salaries at their Fiscal 2014 levels with no increase (with one exception involving a promotion);

Did not pay any annual cash bonuses under the Fiscal 2015 short-term incentive plan based on the Company's earnings per share and cash flow from operations performance;

Paid special transaction bonuses based on the Company's successful divestiture of its cargo loading manufacturing business in March 2015;

Reduced significantly the dollar value of stock awards granted under the Fiscal 2015 long-term incentive plan compared to the dollar value granted under the Fiscal 2014 long-term incentive plan (e.g., a 43% dollar value reduction in the case of our Chief Executive Officer);

Granted at-risk performance-based restricted stock representing 75% of total stock awards to the named executive officers; and

Approved return on invested capital and cumulative net income as the two performance goals for at-risk performance-based restricted stock awards under the Fiscal 2015 long-term incentive plan.

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Chief Executive Officer Compensation

CEO Total Direct Compensation: Fiscal 2015 Compared With Fiscal 2014*

The total direct compensation of David P. Storch, our Chief Executive of Officer, was $4,760,362 in Fiscal 2015, which represented a less than one percent increase over his total direct compensation of $4,722,717 in Fiscal 2014:

Compensation Element	Fiscal 2014 Actual ($)	Fiscal 2015 Actual ($)
Base Salary	906,449	906,449**
Annual Cash Bonus	851,548	
Special Transaction Bonus	N/A	2,158,713
Long-Term Incentive Compensation	2,964,720	1,695,200
Total Direct Compensation	**4,722,717**	**4,760,362**

* Total direct compensation is the sum of base salary, annual cash bonus and long-term incentive compensation awards, expressed in dollars. For Fiscal 2015 only, total direct compensation also included a special transaction bonus.

** Mr. Storch voluntarily reduced his base salary by 15.4% to $767,000, effective September 1, 2015. Please refer to "Executive Compensation Compensation Discussion and Analysis Fiscal 2016 Executive Compensation Actions" for other changes to Mr. Storch's Fiscal 2016 compensation.

CEO Compensation Mix in Fiscal 2015

Mr. Storch's Fiscal 2015 total direct compensation was significantly weighted toward at-risk performance-based compensation. His at-risk performance-based restricted stock award and special transaction bonus represented 72% of his total direct compensation in Fiscal 2015, compared with fixed compensation at 28% of his total direct compensation.

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Compensation for Named Executive Officers other than the CEO

The Fiscal 2015 total direct compensation for the four other named executive officers of the Company consisted of 73% of at-risk performance-based compensation, compared with fixed compensation at 27% of total direct compensation.

* One named executive officer received an annual cash bonus under a business group performance incentive plan; he did not receive a special transaction bonus.

Key Compensation Policies and Practices

The key elements of the Company's executive compensation program are:

Annual advisory stockholder approval of executive compensation;

Non-guaranteed performance-based annual cash bonuses;

Challenging performance targets under both the short-term and long-term incentive plans;

Significant vesting periods for stock-based awards;

No repricing of stock options without stockholder approval;

No dividends on at-risk performance-based restricted stock until performance goals are met;

Stock ownership guidelines for directors and executive officers;

Insider trading policy prohibiting short sales, pledging and hedging transactions;

No tax-gross ups in any new agreement since 2012; and

Clawback of incentive compensation in the event of certain financial restatements.

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CORPORATE GOVERNANCE HIGHLIGHTS

Good corporate governance remains an essential part of the Company's culture. The Board of Directors annually reviews the Company's key corporate governance documents, including the Corporate Governance Guidelines and the Board Committee charters, to ensure that they reflect best practices consistent with the Company's culture and strategy.

The following table identifies the Company's key corporate governance practices and related information:

Corporate Governance Information	As of August 28, 2015
Number of Directors	11
Number of Independent Directors	9
Average Age of Directors	66
Average Tenure of Directors	11 years
Director Retirement Age	75 on nomination date
Lead Director	Yes
Stock Ownership Guidelines	Yes
Annual Stock Grant to Non-Employee Directors	Yes
Independent Directors Executive Sessions	Yes
Independent Compensation Consultant	Yes
Annual Board and Committee Self Evaluations	Yes
Code of Business Ethics and Conduct	Yes
Ethics Hotline Policy	Yes
Related Person Transaction Policy	Yes
Disclosure Committee for Financial Reporting	Yes
Annual Advisory Stockholder Approval of Executive Compensation	Yes

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

We will hold our 2015 annual meeting of stockholders on Tuesday, October 13, 2015, at 9:00 a.m., Chicago time, at AAR CORP.'s corporate headquarters located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191. We cordially invite you to attend the annual meeting and ask that you vote on the proposals described in this proxy statement.

QUESTIONS AND ANSWERS ABOUT OUR ANNUAL MEETING

Why am I receiving the proxy materials?

Our Board of Directors is providing these proxy materials to you, beginning on or about August 28, 2015, in connection with its solicitation of proxies for use at the Company's 2015 annual meeting of stockholders.

What information is contained in the proxy materials?

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

How do I access the proxy materials electronically?

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

We mailed a "Notice of Internet Availability of Proxy Materials" to all of our stockholders on or about August 28, 2015. The Notice provides you with instructions on how to:

Access and review our proxy materials over the Internet;

Submit your vote over the Internet; and

Request and receive printed proxy materials.

This proxy statement, our annual report to stockholders for the fiscal year ended May 31, 2015 ("Fiscal 2015") and our Fiscal 2015 annual report on Form 10-K may be viewed online at *www.proxyvote.com.*

What proposals are stockholders voting on at the annual meeting?

Stockholders will vote on three proposals at the annual meeting:

Proposal 1 The election of Anthony K. Anderson, Michael R. Boyce and David P. Storch as directors to serve until the 2018 annual meeting of stockholders;

Proposal 2 An advisory resolution to approve the Company's Fiscal 2015 executive compensation; and

Proposal 3 The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2016 ("Fiscal 2016").

Who is entitled to vote?

You are entitled to vote your shares if you were an AAR CORP. stockholder at the close of business on August 18, 2015. This date is referred to in this proxy statement as the "record date."

Stockholder of Record. You are a "stockholder of record" if your shares are registered in your name with Computershare, the Company's transfer agent. If you were a stockholder of record at the close of business on the record date, you may vote your shares by proxy by completing, signing, dating and returning the enclosed proxy card or voting by telephone or over the Internet, or in person by attending and voting at the annual meeting.

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

You may receive more than one set of proxy materials. This means you hold your shares in more than one account. Please vote all of your shares.

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

On the record date, 35,516,483 shares of common stock of the Company were outstanding. Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on at the annual meeting.

How do stockholders vote by telephone or over the Internet?

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

How do stockholders revoke a proxy?

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

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

Submitting a later-dated proxy by telephone, over the Internet or by mail; or

Voting in person at the annual meeting.

How will the proxy holders vote the shares?

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

FOR the election of the three director nominees;

FOR the advisory resolution to approve our Fiscal 2015 executive compensation; and

FOR the ratification of KPMG LLP as our independent registered public accounting firm for Fiscal 2016.

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

What are the quorum and vote requirements?

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

Please note that brokers will have discretionary authority to vote shares on the ratification of KPMG; however, brokers may not vote shares on the election of directors or on the advisory resolution to approve executive compensation without specific instructions from their beneficial owners. Accordingly, please follow your broker's instructions so that your vote may be counted.

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

	Required Vote	Effect of "Withhold" Votes, Abstentions and Broker Non-Votes
Proposal 1 **Election of Three Directors**	Affirmative vote of a plurality of the shares of common stock present and entitled to vote (the three nominees who receive the greatest number of votes will be elected directors of the Company).	"Withhold" votes and broker non-votes will have no effect on the voting for the election of directors.
Proposal 2 **Advisory Resolution to Approve Fiscal 2015 Executive Compensation**	Affirmative vote of a majority of the shares of common stock present and entitled to vote.	Abstentions will have the effect of a vote "against" and broker non-votes will have no effect on the voting for this matter.
Proposal 3 **Ratification of the Appointment of KPMG LLP**	Affirmative vote of a majority of the shares of common stock present and entitled to vote.	Abstentions will have the effect of a vote "against"; there will be no broker non-votes for this matter.

How will the vote be tabulated?

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

Who is the Company's proxy solicitor?

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

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PROPOSAL 1   ELECTION OF OUR DIRECTORS

The Company's Restated Certificate of Incorporation and By-Laws provide that the Board of Directors shall consist of between three and 15 directors, with the exact number of directors to be set from time to time by the Board. The number of directors is currently set at 11. The members of the Board are divided into three classes, each having a three-year term that expires in successive years: Class I (three directors), Class II (four directors), and Class III (four directors).

The Board of Directors has nominated three individuals to be elected as Class I directors at the annual meeting, each to serve a three-year term expiring at the 2018 annual

meeting or until the individual is succeeded by another qualified director who has been duly elected. The nominees for director in Class I at the annual meeting are Anthony K. Anderson, Michael R. Boyce and David P. Storch.

Each nominee is currently serving as a director of the Company. Each nominee, other than Mr. Storch, has been determined by the Board to be "independent" within the meaning of the rules of the New York Stock Exchange ("NYSE") and the SEC. As Chairman, President and Chief Executive Officer of the Company, Mr. Storch does not qualify as an independent director under the NYSE and SEC rules.

Information about Our Director Nominees and Our Continuing Directors

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

OUR DIRECTOR NOMINEES

	Director Since
Class I Directors whose terms expire at the 2018 annual meeting	
ANTHONY K. ANDERSON, 59: Since 2012, an independent business consultant. From 2006 to April 2012, Vice Chairperson and Managing Partner of Midwest Area at Ernst & Young LLP (a global accounting firm). Prior thereto, served in various management positions during a 35-year career with Ernst & Young LLP. *Other current public company directorships:* Avery Dennison Corp., Exelon Corp. and First American Financial Corporation. *Director Qualifications:* The Board of Directors concluded that Mr. Anderson should continue to serve as a director of the Company based on his 35 years working with a global accounting firm, his accounting and financial knowledge, his leadership in developing management talent programs, his service as a director of other public companies, and his professional, civic and charitable service, including as a director of numerous not-for-profit organizations.	2012
MICHAEL R. BOYCE, 67: Since 1998, Chairman and Chief Executive Officer of The Peak Group (an operating and acquisition company). Since May 2015, Chairman of the Board of PQ Corporation (a specialty chemicals and catalyst company), and from 2005 to May 2015, Chairman and Chief Executive Officer of PQ Corporation. From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc. (a chemicals company). *Other current public company directorship:* Stepan Company. *Director Qualifications:* The Board of Directors concluded that Mr. Boyce should continue to serve as a director of the Company based on his experience as Chairman and Chief Executive Officer of two leading global organizations, his insight into global manufacturing, supply and distribution practices and his international business development skills.	2005

	Director Since
DAVID P. STORCH, 62: Since August 2015 and from 2005 to 2007, Chairman of the Board, President and Chief Executive Officer of AAR CORP. From 2007 to August 2015, Chairman of the Board and Chief Executive Officer of AAR CORP. From 1996 to 2005, President and Chief Executive Officer of AAR CORP. From 1989 to 1996, President and Chief Operating Officer of AAR CORP.	1989

Other current public company directorships: KapStone Paper and Packaging Corp. and Kemper Corporation.

Director Qualifications: The Board of Directors concluded that Mr. Storch should continue to serve as a director of the Company based on his current position as Chairman of the Board, President and Chief Executive Officer of the Company, his leadership and management skills, his understanding of the Company's businesses gained during his 36-year career with the Company, his knowledge of the commercial aviation and government and defense services markets, and his leadership role in transforming the Company into a leading international provider of products and services to the commercial aviation and government and defense services markets.

OUR CONTINUING DIRECTORS

Class II Directors whose terms expire at the 2016 annual meeting

NORMAN R. BOBINS, 72: Since 2008, Non-Executive Chairman of The PrivateBank and Trust Company Chicago (a financial services company) and Chief Executive Officer of Norman Bobins Consulting, LLC. From May 2007 until October 2007, Chairman of the Board of LaSalle Bank Corporation. From 2002 to 2007, President and Chief Executive Officer of LaSalle Bank Corporation. From 2006 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2002 to 2007, Senior Executive Vice President at ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank Corporation.	2007

Other current public company directorships: AGL Resources Inc., Omega Healthcare Investors, Inc. and PrivateBancorp, Inc.

Other public company directorships held in the past five years: Aviv REIT, Inc., Nicor Inc. and SIMS Metal Management Limited.

Director Qualifications: The Board of Directors concluded that Mr. Bobins should serve as a director of the Company based on his 44 years of banking experience, his financial and accounting knowledge, his service as a director of other public companies, and his civic involvement as a director of various not-for-profit organizations.

RONALD R. FOGLEMAN, 73: Since 1997, President and Chief Operating Officer of B Bar J Cattle & Consulting Company (a consulting company). From 1994 to 1997, General, Chief of Staff of the United States Air Force, Washington, D.C.	2001

Other current public company directorship: Orbital ATK Inc.

Other public company directorships held in the past five years: Alliant Techsystems, Inc.

Director Qualifications: The Board of Directors concluded that General Fogleman should serve as a director of the Company based on his leadership skills and record of accomplishment during a 34-year career with the United States Air Force, his business experience and business relationships gained through his senior management positions at two consulting organizations, his understanding of the government defense and services markets and his service as a director of other public companies. General Fogleman currently serves as the Company's Lead Director.

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	Director Since
JAMES E. GOODWIN, 71: Since 2009, Chairman of Federal Signal Corporation (a safety and security products manufacturer). From 2007 to 2008, Interim President and Chief Executive Officer of Federal Signal Corporation. From 2001 to 2007, an independent business consultant. From 1999 to 2001, Chairman and Chief Executive Officer of UAL, Inc. and United Airlines, Inc., from which he retired after 34 years. From 1998 to 1999, President and Chief Operating Officer of United Airlines, Inc. From 1992 to 1998, Senior Vice President of United Airlines, Inc. *Other current public company directorships:* Federal Signal Corporation and John Bean Technologies Corporation. *Other public company directorship held in the past five years:* First Chicago Bancorp. *Director Qualifications:* The Board of Directors concluded that Mr. Goodwin should serve as a director of the Company based on his airline industry experience and expertise, including his leadership positions at UAL, Inc. and United Airlines, Inc., his management experience and his financial expertise, as well as his global consulting experience and his service as a director of other public companies.	2002
MARC J. WALFISH, 63: Since 2003, Founding Partner of Merit Capital Partners (a mezzanine investor company). From 1991 to 2003, partner at William Blair Mezzanine Capital Partners. From 1978 to 1991, various positions at Prudential Capital Corporation, most recently as Senior Vice President. *Director Qualifications:* The Board of Directors concluded that Mr. Walfish should serve as a director of the Company based on his experience in the finance industry, including as a founding partner of Merit Capital Partners, a mezzanine investor company, his knowledge of the capital markets and his expertise in corporate finance, strategic planning and risk management.	2003
Class III Directors whose terms expire at the 2017 annual meeting	
PATRICK J. KELLY, 60: Since 1986, Managing Director of KMK & Associates, LLC (a private equity firm with interests in companies operating in the food, distribution, technology, financial services, real estate and energy industries). *Director Qualifications:* The Board of Directors concluded that Mr. Kelly should serve as a director of the Company based on his leadership and operational experience at various businesses, his background as a long- term chief executive officer and his business expertise gained through his experience at a private equity firm with a diversified portfolio of operating companies.	2006
PETER PACE, 69: General, U.S. Marine Corps (Retired). From 2005 to 2007, Chairman of the Joint Chiefs of Staff. *Other current public company directorships*: Qualys, Inc. and Textura Corporation. *Other public company directorships held in the past five years*: Laserlock Technologies, Inc., Pike Electric Corp., and Wi2Wi Corporation. *Director Qualifications:* The Board of Directors concluded that General Pace should serve as a director of the Company based on his leadership and management skills and experience from over 40 years of service with the United States Marine Corps, culminating in his appointment as the 16th Chairman of the Joint Chiefs of Staff (the most senior position in the United States Armed Forces), where he served from 2005 to 2007 as the principal military adviser to the President, the Secretary of Defense, the National Security Council and the Homeland Security Council. The Board also gave positive weight to General Pace's understanding of the government defense and services markets and his service as a director of other public companies.	2012

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	Director Since
TIMOTHY J. ROMENESKO, 58: Since August 2015, Vice Chairman of AAR CORP. and Chief Operating Officer of the Expeditionary Services business group. From March 2015 to August 2015, President of AAR CORP. and Chief Operating Officer of the Expeditionary Services business group. From 2007 to March 2015, President and Chief Operating Officer of AAR CORP. From 1994 to 2007, Vice President, Chief Financial Officer and Treasurer of AAR CORP. From 1991 to 1994, Corporate Controller of AAR CORP. *Director Qualifications:* The Board of Directors concluded that Mr. Romenesko should serve as a director of the Company based on his leadership positions with the Company, his experience in various accounting and financial capacities during his 33-year career with the Company and his knowledge of the Company's commercial aviation and government and defense services markets.	2007
RONALD B. WOODARD, 72: Since 2014, retired Chairman of MagnaDrive, Inc. (an industrial torque transfer equipment company, which he co-founded following his retirement from The Boeing Company after 32 years). From 1995 to 1998, President of the Boeing Commercial Airplane Group. From 1991 to 1994, Vice President and General Manager of the Renton Division of Boeing Commercial Aircraft. From 1987 to 1991, President of deHavilland Aircraft. Prior to that, Vice President and General Manager of the Materiel Division of Boeing Commercial Aircraft, and various other management positions.	2004

Other current public company directorship: Outerwall, Inc. (formerly Coinstar, Inc.)

Other public company directorships held in the past five years: Continental Airlines, Inc.

Director Qualifications: The Board of Directors concluded that Mr. Woodard should serve as a director of the Company based on his management and manufacturing experience as a senior officer of The Boeing Company, his knowledge of the commercial aviation industry and his experience as a director of other public companies, including Continental Airlines, Inc.

Our Board of Directors unanimously recommends that you vote "FOR" each director nominee.

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PROPOSAL 2 ADVISORY RESOLUTION TO APPROVE OUR FISCAL 2015 EXECUTIVE COMPENSATION

We are asking our stockholders to approve the following advisory resolution (commonly known as a say-on-pay proposal) on the compensation awarded to our named executive officers for Fiscal 2015 as disclosed in this proxy statement:

> **"RESOLVED,** that the stockholders of the Company approve, on an advisory basis, the compensation of the named executive officers for Fiscal 2015 as reported in this proxy statement pursuant to Item 402 of Regulation S-K under the Securities Exchange Act of 1934, including the Compensation Discussion and Analysis, compensation tables and narrative discussion."

We ask our stockholders to vote on our say-on-pay proposal each year for two principal reasons: (i) we have learned through our stockholder outreach program that our stockholders have a strong interest in the Company's executive compensation program; and (ii) we value the opinions of our stockholders. Accordingly, our Compensation Committee gives serious attention to the results of our annual stockholder say-on-pay vote, together with other relevant factors, in making its decisions regarding the next year's executive compensation program.

Our say-on-pay vote on our Fiscal 2014 executive compensation was overwhelmingly positive, receiving a 96.5% "FOR" vote. This result was viewed as an endorsement of our executive compensation program and the individual compensation decisions made by our Compensation Committee with respect to our named executive officers. Nonetheless, our Compensation Committee revisits the Company's executive compensation program each year to ensure that the design of the program and the individual compensation decisions serve the best interests of the Company's stockholders.

For Fiscal 2015, our Compensation Committee emphasized further the Company's commitment to a pay-for-performance executive compensation program. This commitment placed greater reliance on at-risk performance-based compensation such as performance-based cash bonuses and performance-based restricted stock tied to the Company's cumulative net income performance results over a three-year performance period. It also placed lesser reliance on fixed compensation such as base salary and time-based restricted stock.

The table below shows the breakdown of at-risk performance-based compensation and fixed compensation for the Company's Chief Executive Officer and the other named executive officers for Fiscal 2015:

NAMED EXECUTIVE OFFICER	AT-RISK PERFORMANCE-BASED COMPENSATION		FIXED COMPENSATION	
	Performance-Based Cash Bonuses*	**Performance-Based Restricted Stock**	**Base Salary**	**Time-Based Restricted Stock**
David P. Storch	$2,158,713	$1,271,400	$906,449	$423,800
Timothy J. Romenesko	$1,727,250	$635,700	$499,272	$211,900
John M. Holmes	$548,000	$156,480	$409,375	$52,160
John C. Fortson	$1,220,356	$391,200	$400,000	$130,400
Robert J. Regan	$750,825	$391,200	$391,586	$130,400

* For Fiscal 2015, the Company paid "special transaction bonuses" to the named executive officers (except for Mr. Holmes) and other Company employees in consideration of the Company's successful divestiture of its cargo loading manufacturing business. The Company did not pay any annual cash bonuses for Fiscal 2015, except that Mr. Holmes received a bonus under a separate performance incentive plan tied to the results of the Aviation Services business group. For further information about the special transaction bonuses and the annual cash bonuses, please refer to the "Compensation Discussion and Analysis" section of this proxy statement.

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The percentage of at-risk performance-based compensation versus the percentage of fixed compensation for each named executive officer for Fiscal 2015 is set forth below:

Named Executive Officer	At-Risk Performance-Based Compensation	Fixed Compensation
David P. Storch	72%	28%
Timothy J. Romenesko	77%	23%
John M. Holmes	60%	40%
John C. Fortson	75%	25%
Robert J. Regan	69%	31%

Our Compensation Committee and our Board of Directors believe that the executive compensation paid to our named executive officers in Fiscal 2015, in form and amount, was fair, appropriate and in the best interest of the Company's stockholders.

We encourage our stockholders to read the "Compensation Discussion and Analysis" on pages 21-37 and the

"Summary Compensation Table" and other compensation tables and related narrative starting on page 38 of this proxy statement. These sections describe our executive compensation policies and practices and provide further information about the compensation of our named executive officers.

Our Board of Directors unanimously recommends that you vote "FOR" the advisory resolution to approve our Fiscal 2015 executive compensation.

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PROPOSAL 3 RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2016

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

The Audit Committee appointed KPMG LLP ("KPMG") as the Company's independent registered public accounting firm for Fiscal 2016. The Company's independent registered public accounting firm is responsible for auditing the Company's financial statements and the effectiveness of internal controls over financial reporting and for expressing opinions thereon.

The Audit Committee believes that the appointment of KPMG is in the best interests of the Company and its stockholders for the following primary reasons:

KPMG's independence in light of all services that it provides to the Company;

The quality of KPMG's past performance as the Company's independent registered public accounting firm;

KPMG's reputation in the industry and its expertise with respect to aviation and aerospace companies;

KPMG's understanding of the Company's businesses, operations, accounting policies and practices and internal control over financial reporting;

The reasonableness of the fees paid by the Company to KPMG for its services;

The recognition that a change in the Company's independent auditors is a time-consuming process replete with risks and costs and without any assurance of any benefit to the Company; and

Market information on KPMG's audit quality and performance, including recent Public Company Accounting Oversight Board ("PCAOB") reports on KPMG.

The Board of Directors asks that stockholders ratify the appointment of KPMG as the Company's independent registered public accounting firm for Fiscal 2016. Representatives of KPMG are expected to be present at the annual meeting, with the opportunity to make a statement if they so desire and to respond to appropriate questions of stockholders.

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the aggregate fees billed by KPMG to the Company for Fiscal 2014 and Fiscal 2015 for audit, audit-related and tax services provided by the Company's independent registered public accounting firm.

Description of Fees	Fiscal 2014 ($)	Fiscal 2015 ($)

Audit Fees	1,794,370	1,914,366
Audit-Related Fees[1]	136,000	7,500
Tax Fees[2]	387,109	332,341

1 Fiscal 2014 audit-related fees were for two consents on registration statement filings, acquisition due diligence assistance and SEC comment letter services. Fiscal 2015 audit-related fees were for assistance with an SEC comment letter.

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

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

Our Board of Directors unanimously recommends that you vote "FOR" the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for Fiscal 2016.

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CORPORATE GOVERNANCE

General

We review our corporate governance policies and procedures on an annual basis. We strive to emulate "best practices" and tailor them, where appropriate, to fit our specific needs. We believe that we comply with all applicable SEC and NYSE rules and regulations. We also have adopted additional corporate governance practices that we believe are in the best interests of the Company and its stockholders.

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

Corporate Governance Guidelines

Categorical Standards for Determining Director Independence

Code of Business Ethics and Conduct

Audit Committee Charter

Compensation Committee Charter

Nominating and Governance Committee Charter

Executive Committee Charter

Conflict Minerals Policy

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

Stockholder Engagement

We have implemented a stockholder engagement process as a "best practice" under our corporate governance and executive compensation programs. We believe that opportunities to receive and consider stockholder feedback enhance our corporate governance and executive compensation practices. One example in Fiscal 2015 was our decision to use proceeds from the sale of our cargo loading manufacturing business to make stock repurchases in the approximate amount of $150 million.

In Fiscal 2015, our stockholder engagement process consisted of presentations at various investor conferences and regular individual meetings and calls with stockholders. Through this process, we estimate that we made contact with the holders of approximately 70% of our outstanding shares in Fiscal 2015.

Ethics Hotline

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

Director Nominations and Qualifications

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

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

Professional background and relevant business and industry experience;

Current employment, leadership experience and other board service;

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

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

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

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

A balance of business, financial and other experience, expertise, capabilities and perspectives among sitting directors in the context of the current composition of the Board, operating requirements of the Company and long-term interests of stockholders; and

Other factors the Nominating and Governance Committee deems appropriate.

The Nominating and Governance Committee considers the racial, ethnic and gender diversity of the Board and director candidates, as well as the diversity of their knowledge, skills, experience, background and perspective, to assure that the Company maintains the benefit of a diverse, balanced and effective Board.

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

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

Stockholders may submit a proposed nomination to the Nominating and Governance Committee for consideration with respect to the 2016 annual meeting of stockholders by writing to the Secretary, AAR CORP., One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191. To be considered, proposed nominations must be received by the Secretary of the Company no later than April 16, 2016, must state the reasons for the proposed nomination and contain the information required under the Company's By-Laws, including the full name and address of each proposed nominee, as well as a brief biographical history setting forth past and present directorships, employment and occupations, information as to stock ownership, other arrangements regarding the common stock, and any other qualifications. Proposed nominations must also include a statement indicating that the proposed nominees have

consented to being named in the proxy statement and to serve if elected.

Director Independence

A majority of the members of the Board of Directors must be independent directors under the Company's Corporate Governance Guidelines and applicable SEC and NYSE rules. The Nominating and Governance Committee and the Board of Directors review each director annually and make a determination concerning independence after consideration of all known facts and circumstances. The Board has established categorical standards to assist it in determining director independence. The Company's "Categorical Standards for Determining Director Independence" include all of the elements of the applicable SEC and NYSE rules with respect to director independence, as well as those of the Company, and are available on the Company's website.

Based on these categorical standards, its review of all relevant facts and information available, and the recommendations of the Nominating and Governance Committee, the Board, at its meeting in July 2015, affirmatively determined that no director has a material relationship with the Company that would impair the director's ability to exercise independent judgment and, accordingly, that each director is an independent director, except for David P. Storch and Timothy J. Romenesko who are both employees of the Company. Under the NYSE rules, a director employed by the Company is not an independent director by definition.

Board Leadership and Lead Director

The Board of Directors determines the leadership structure for the Board and the Company in a manner that it believes best serves the interests of the Company's stockholders.

The Corporate Governance Guidelines provide that the Board shall have a Lead Director elected by the independent directors. The Lead Director chairs all executive sessions of the independent directors and works closely with the Chief Executive Officer on Board agendas, schedules and meetings. Ronald R. Fogleman, Chair of the Nominating and Governance Committee, currently serves as the Board's Lead Director.

The Board has no fixed policy with respect to combining or separating the offices of Chairman of the Board and Chief Executive Officer. Currently, the Company's President and Chief Executive Officer, David P. Storch, is also Chairman of the Board. The Board continues to believe that having Mr. Storch as Chairman and Chief Executive Officer is the most effective and appropriate leadership structure for the Board and the Company at this time given his tenure with the Company, his knowledge of the Company's businesses and the markets in which they compete and the Board's assessment of his performance.

Risk Management Oversight

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

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

The Board and its committees receive information from and have regular access to the individual members of management responsible for managing risk, including the Company's President and Chief Executive Officer, Vice Chairman, Chief Financial Officer, Group Vice Presidents, Controller, General Counsel and Internal Auditor. The directors meet each quarter with a broader group of the

Company's employees at regularly scheduled Board dinners as an informal way of learning more about the Company's businesses and its employees. The Board also schedules at least one meeting per year at a Company facility other than the corporate headquarters to promote interaction with local management and employees and allow directors a first- hand opportunity to inspect the Company's business operations.

Executive Sessions

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

Corporate Governance Guidelines

The Board of Directors adopted Corporate Governance Guidelines to codify long-standing policies and procedures and to demonstrate its commitment to corporate governance best practices. These Guidelines, under the administration of the Nominating and Governance Committee of the Board of Directors, address director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, management evaluation and succession, and the annual performance evaluation of the Board of Directors. These Guidelines are reviewed and approved annually by the Nominating and Governance Committee and the Board of Directors, most recently in July 2015.

Code of Business Ethics and Conduct

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

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Related Person Transaction Policy

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

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

The Policy provides that the Company may undertake certain pre-approved related person transactions (e.g., transactions in which the related person's interest derives solely from his or her service as a director of another

corporation or entity that is a party to the transaction) without further specific review, consideration and approval.

The Company has a Board-approved Founder's Agreement with Ira A. Eichner, the Founder and former Chairman of the Board of the Company. The Founder's Agreement recognizes Mr. Eichner's extraordinary contributions to the Company for over 56 years and the value to the Company of an ongoing relationship with Mr. Eichner. Under the Founder's Agreement. Mr. Eichner receives a quarterly retainer of $25,000. Mr. Eichner is Mr. Storch's father-in-law.

Communications with the Board of Directors

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

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

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

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BOARD MATTERS

Board Committees

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

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

Audit Committee

Audit Committee Fiscal 2015 Report

Dear Fellow Stockholders:

The Audit Committee is comprised entirely of independent directors qualified to serve on the Audit Committee under applicable SEC and NYSE rules and the Company's Categorical Standards for Determining Director Independence. The Board of Directors has determined that each Audit Committee member is an "audit committee financial expert" within the meaning of applicable SEC rules.

The Audit Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Audit Committee and the Board of Directors at their July 2015 meetings. The full text of the Audit Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Audit Committee's primary responsibility is to assist the Board of Directors in fulfilling its duty to stockholders to oversee and review: the quality and integrity of the Company's financial statements and internal controls over financial reporting; the qualifications, independence and performance of the Company's independent registered public accounting firm; and the performance of the Company's Internal Audit function. The Audit Committee performs the specific functions described in its charter, including:

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

Pre-approves all non-audit and audit-related services furnished by the independent registered public accounting firm;

Maintains communication between the Board and the independent registered public accounting firm;

Monitors the qualifications, independence and performance of the independent registered public accounting firm;

Oversees and reviews the Company's financial reporting processes and practices;

Oversees and reviews the quality and adequacy of internal controls over financial reporting, disclosure controls and the organization and performance of the Company's internal audit department;

Reviews the scope and results of audits;

Oversees the Company's enterprise risk management committee; and

Meets with the independent registered public accounting firm representatives and internal audit department representatives without members of management present.

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The Audit Committee held eight meetings during Fiscal 2015. The Audit Committee meets outside the presence of management for portions of its meetings to hold separate discussions with KPMG, the Company's independent registered public accounting firm, the internal auditors and other representatives of the Company.

The Company's management has primary responsibility for the Company's financial statements and the quality and integrity of the reporting process and systems of internal control. KPMG is responsible for auditing the Company's financial statements and issuing a report on the conformity of those statements with generally accepted accounting principles ("GAAP") and a report on the effectiveness of the Company's internal controls over financial reporting.

In fulfilling its responsibilities, the Audit Committee reviewed and discussed with the Company's management and KPMG the Company's audited financial statements contained in the Company's Annual Report on Form 10-K filed with the SEC, including the critical accounting policies applied by the Company in preparing these financial statements. The Audit Committee also reviewed with management and KPMG the preparation of the financial statements and related disclosures contained in the Company's earnings announcements and Quarterly Reports on Form 10-Q.

The Audit Committee reviewed and discussed with management and KPMG the overall scope and plans for the audit, the quality, adequacy and assessment of the effectiveness of internal controls over financial reporting and the Internal Audit Department's management, organization, responsibilities, budget and staffing. The Audit Committee also met with KPMG without management present and discussed the results of its audits, its evaluation of the Company's internal controls over financial reporting, disclosure controls and the overall quality, not just the acceptability, of the Company's accounting principles, the reasonableness of significant accounting judgments and the clarity of disclosures in the financial statements.

The Audit Committee also reviewed and discussed with KPMG the matters required by PCAOB Auditing Standard No. 16 ("Communications with Audit Committees") and KPMG's independence from the Company and its management, including the matters in the written disclosures and letter furnished to the Audit Committee by KPMG and required by applicable requirements of the PCAOB.

The Audit Committee concluded that KMPG is independent from the Company, appointed KPMG as the Company's

independent registered public accounting firm for Fiscal 2016 and recommends that the stockholders of the Company ratify that appointment (see Proposal 3).

In reliance on its review of the audited financial statements and the discussions referred to above and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in its charter, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, that the audited financial statements be included in the Company's Annual Report on Form 10 K for Fiscal 2015 for filing with the SEC.

Respectfully submitted,

The Audit Committee of the Board of Directors of AAR CORP.

James E. Goodwin, Chairman
Anthony K. Anderson
Norman R. Bobins
Patrick J. Kelly
Marc J. Walfish
Ronald B. Woodard

Compensation Committee

The Compensation Committee is comprised entirely of independent directors qualified to serve on the Compensation Committee under applicable SEC and NYSE rules and the Company's Categorical Standards for Determining Director Independence. Its members are Ronald B. Woodard (Chair), Anthony K. Anderson, Norman R. Bobins, Michael R. Boyce, Ronald R. Fogleman and Peter Pace.

The Compensation Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Compensation Committee and the Board of Directors at their July 2015 meetings. The full text of the Compensation Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Compensation Committee is primarily concerned with establishing, reviewing and approving Chief Executive Officer compensation, reviewing and approving other senior executive compensation and overseeing the Company's stock plans and any other compensation and employee

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benefit plans. The Compensation Committee performs the specific functions described in its charter, including:

Reviews and approves compensation policies and practices for all elected corporate officers, including named executive officers;

Sets the compensation of the Chief Executive Officer and, together with the full Board, evaluates the Chief Executive Officer's performance;

Administers the Company's annual cash incentive and long-term stock incentive programs for officers, the AAR CORP. Stock Benefit Plan, the AAR CORP. 2013 Stock Plan and the AAR CORP. Section 162(m) Annual Cash Incentive Plan;

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

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

The Compensation Committee held four meetings during Fiscal 2015. The Compensation Committee Fiscal 2015 Report appears on page 37. Information about the role of the Compensation Committee consultant and management in the executive compensation process is set forth under "Executive Compensation   Compensation Discussion and Analysis."

Nominating and Governance Committee

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

The Nominating and Governance Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Nominating and Governance Committee and the Board of Directors at their July 2015 meetings. The full text of the Nominating and Governance Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

The Nominating and Governance Committee is responsible for both nominating and governance matters as described in its charter. The Nominating and Governance Committee

performs the specific functions described in its charter, including:

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

Reviews, considers, and acts upon related person transactions;

Develops and recommends Corporate Governance Guidelines for Board approval; and

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

The Nominating and Governance Committee held three meetings during Fiscal 2015.

Executive Committee

The Executive Committee is comprised of David P. Storch (Chair), James E. Goodwin, Ronald R. Fogleman and Marc J. Walfish. Messrs. Goodwin, Fogleman and Walfish are independent directors as defined by applicable SEC and NYSE rules. As Chairman and Chief Executive Officer of the Company, Mr. Storch does not qualify as an independent director under the NYSE and SEC rules.

The Executive Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was reviewed and approved by the Board of Directors at its July 2015 meeting. The full text of the Executive Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

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

The Executive Committee held one meeting during Fiscal 2015.

Board Meetings and Attendance

During Fiscal 2015, the Board held six meetings. All directors attended at least 75% of the Board meetings and meetings of Board committees on which they served in Fiscal 2015.

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The Company's Corporate Governance Guidelines provide that directors are expected to attend all stockholder meetings. All members of the Company's Board of Directors attended the Company's 2014 annual meeting of stockholders.

Director Compensation

The Board believes that compensation for any director who is not an officer or employee of the Company or any subsidiary should be a mix of cash and equity compensation. Directors who are officers or employees of the Company or any subsidiary receive no additional compensation for service on the Board or any of its committees.

The Board of Directors reviews director compensation annually to ensure that it is fair, appropriate and in line with its peer group companies. At its January 2014 meeting, the Board reviewed the findings of a report by Mercer (US) Inc. ("Mercer"), its independent compensation consultant, analyzing director compensation information of the Company and its peer group companies. This report showed that the Company's total cash compensation (annual retainers plus meeting fees) and total direct compensation (total cash compensation plus the annual equity grants) for directors was above the median but

below the 75^{th} percentile of the Company's Fiscal 2014 peer group.

The Board of Directors considered changes to the Fiscal 2015 director compensation program, including the elimination of meeting fees, an increase in the retainers and the adoption of a fixed value equity grant in lieu of a grant of a fixed number of shares. The Board ultimately approved the same director compensation program for Fiscal 2015 that was in effect in Fiscal 2014, primarily because it concluded that:
(i) yearly changes to the program generally should be avoided unless the program's results are inconsistent with the program's objectives, (ii) a per-meeting fee was deemed preferable to an increased retainer since it constitutes compensation for actual work performed and (iii) a grant of a fixed number of shares rewards directors when the stock price improves and penalizes them when the stock price falls, thus enhancing the alignment of the directors' interests with the interests of the stockholders. Specifically with respect to the fixed stock grant, the Board approved 5,000 shares per director, consistent with its practice over the last four fiscal years. The Board also considered that the Company's stock ownership guidelines require directors to own 20,000 shares within four years of becoming a director.

Accordingly, the Fiscal 2015 director compensation program, as approved by the Board upon the recommendation of the Compensation Committee, consists of the compensation elements set forth in the table below:

Compensation Element	Fiscal 2015 Non-Employee Director Compensation Program
Annual Retainer	$50,000
Lead Director Annual Retainer	$30,000
Committee Chair Annual Retainer	$10,000
Board and Committee Meeting Fees	$2,500 per meeting ($1,250 for telephone meetings)
Annual Stock Award	5,000 shares of common stock (vesting after one year)

All retainers are paid quarterly, and meeting fees are paid promptly following each meeting attended. The annual stock award was approved at the Board's January 2014 meeting with an effective date of June 1, 2014. Each non-employee director may elect to defer receipt of the retainers and meeting fees pursuant to the Company's Non-Employee Directors' Deferred Compensation Plan (the "Director Plan"). Under the Director Plan, deferred retainer fees are converted into stock units equivalent to shares of common stock based on the then current stock price, and at distribution are paid out, at the participant's election, in cash or in shares of common stock. Deferred meeting fees

are credited with interest quarterly based on the 10-year United States Treasury Bond rate and at distribution are paid out in cash. Distribution occurs upon termination of service on the Board or on the happening of certain other events, as specified in the Director Plan.

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

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Director Compensation Table

Fiscal 2015 Director Compensation. The following table sets forth all compensation paid to each non-employee director for Fiscal 2015:

Name[1]	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)	All Other Compensation ($)[5]	Total ($)
Anthony K. Anderson	87,500	122,500				785	210,785
Norman R. Bobins	88,750	122,500				2,287	213,537
Michael R. Boyce	82,500	122,500				7,195	212,195
Ronald R. Fogleman	120,000	122,500				2,113	244,613
James E. Goodwin	96,250	122,500				785	219,535
Patrick J. Kelly	85,000	122,500				785	208,285
Peter Pace	81,250	122,500				785	204,535
Marc J. Walfish	87,500	122,500				785	210,785
Ronald B. Woodard	98,750	122,500				785	222,035

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

2 The following table provides a breakdown of director fees earned or paid in cash for Fiscal 2015:

Name	Annual Retainer ($)	Committee Chair Retainer Fees ($)	Meeting Fees ($)	Lead Director Fee	Total ($)
Anthony K. Anderson	50,000		37,500		87,500
Norman R. Bobins	50,000		38,750		88,750
Michael R. Boyce	50,000		32,500		82,500
Ronald R. Fogleman	50,000	10,000	30,000	30,000	120,000
James E. Goodwin	50,000	10,000	36,250		96,250

Patrick J. Kelly	50,000		35,000	85,000
Peter Pace	50,000		31,250	81,250
Marc J. Walfish	50,000		37,500	87,500
Ronald B. Woodard	50,000	10,000	38,750	98,750

3

The amounts in this column reflect the aggregate grant date fair value of the Fiscal 2015 stock awards granted to each non-employee director computed in accordance with FASB ASC Topic 718. As of May 31, 2015, each non-employee director held 5,000 unvested restricted shares, which subsequently vested on June 2, 2015. On June 1, 2015, each non-employee director received a grant of 5,000 unvested restricted shares that will vest on June 1, 2016.

4

No stock options were granted to non-employee directors in Fiscal 2015. No non-employee director held any stock options as of May 31, 2015.

5

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

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Fiscal 2016 Director Compensation. At its April 2015 meeting, the Board, upon the recommendation of the Compensation Committee and following a presentation by Mercer, its independent compensation consultant, on director compensation trends and best practices, approved the same director compensation program for Fiscal 2016 that was in effect for Fiscal 2015.

Compensation Committee Interlocks and Insider Participation

Messrs. Anderson, Bobins, Boyce, and Woodard, General Fogleman and General Pace, all of whom are independent non-employee directors, are the current members of the Compensation Committee of the Board of Directors of the Company. During Fiscal 2015, none of the executive officers of the Company served on the board of directors or compensation committee of any entity whose officers served either on the Board of Directors of the Company or on the Compensation Committee of the Board of Directors of the Company.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") describes our Fiscal 2015 executive compensation program. It provides information about the goals and the key

elements of the program and explains the reasons behind the Compensation Committee's executive compensation decisions.

Our focus in this CD&A is the Fiscal 2015 compensation of the following "named executive officers" of the Company:

Name	Title
David P. Storch	Chairman of the Board, President and Chief Executive Officer
Timothy J. Romenesko	Vice Chairman; Chief Operating Officer of Expeditionary Services
John M. Holmes	Vice President; Chief Operating Officer of Aviation Services
John C. Fortson	Vice President, Chief Financial Officer and Treasurer
Robert J. Regan	Vice President, General Counsel and Secretary

I. Executive Summary

A. Goals of Our Executive Compensation Program

The primary goals of our executive compensation program are to:

- Attract and retain talented executives capable of producing outstanding business results for the Company;

- Motivate and reward executives by paying for performance in a manner that takes into account Company, business group and individual performance; and

- Provide for compensation that strikes a proper balance between short-term and long-term compensation, and between cash and stock compensation, with an emphasis on stock compensation to align the interests of executives with the interests of the Company's stockholders.

B. Fiscal 2015 Business Performance Highlights

The Company is a leading provider of diversified products and services to the worldwide aviation and government and defense markets. Fiscal 2015 was a *transformative* year for the Company, highlighted by the following actions:

We exited non-core businesses:

- Sold our cargo loading manufacturing business for a purchase price of $733.3 million, generating net proceeds after taxes in excess of $600 million

- Discontinued operations of our metals and composites manufacturing businesses,

  with the sale of these businesses expected to occur in Fiscal 2016

We repositioned the Company as an industry-leading aviation services company by streamlining operations, focusing on higher-margin activities and delivering best-in-class services to customers across two business segments:

- Aviation Services business segment: Aftermarket parts supply and maintenance, repair and overhaul ("MRO") activities

- Expeditionary Services business segment: AAR Airlift and AAR Mobility operations

We returned total cash in the approximate amount of $162 million to our stockholders:

- Repurchased approximately $150 million of our shares of common stock

- Paid $12 million of cash dividends

We made significant balance sheet improvements:

- Redeemed $325 million of 7.25% high-yield notes

- Reduced outstanding debt by approximately $480 million

- Reduced total net debt to capital ratio to 10.5% from 35.3%

- Reduced annual interest expense by approximately $25 million

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- Reduced the outstanding share count by 4.8 million shares to 35.5 million shares through a self-tender offer completed in May 2015 and stock repurchases made throughout Fiscal 2015

We refinanced our revolving credit facility on favorable terms:

- Increased our borrowing capacity to $500 million (with potential additional capacity of up to $750 million)
- Reduced our borrowing rates
- Extended the term of the facility to March 2020

For more information about our financial and operating performance in Fiscal 2015, please see "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on July 15, 2015. For more information about our stock price performance, please see "Comparison of Cumulative Five-Year Total Return" in our Form 10-K.

C. Fiscal 2015 Executive Compensation Highlights

Our Compensation Committee approved a Fiscal 2015 executive compensation program that further emphasizes the importance of pay for performance, placing greater reliance on at-risk performance-based compensation and lesser reliance on fixed compensation.

Our Compensation Committee took the following specific actions with respect to our Fiscal 2015 executive compensation program:

- Froze base salaries at their Fiscal 2014 levels with no increase (with one exception involving a promotion);
- Did not pay any annual cash bonuses under the Fiscal 2015 short-term incentive plan based on the Company's earnings per share and cash flow from operations performance;
- Paid special transaction bonuses based on the Company's successful divestiture of its cargo loading manufacturing business in March 2015;
- Reduced significantly the dollar value of stock awards granted under the Fiscal 2015 long-term incentive plan compared to the dollar value granted under the Fiscal 2014 long-term incentive plan (e.g., a 43% reduction in the case of our Chief Executive Officer);
- Granted at-risk performance-based restricted stock representing 75% of total stock awards to the named executive officers; and

Approved return on invested capital and cumulative net income as the two performance goals for at-risk performance-based restricted stock awards under the Fiscal 2015 long-term incentive plan.

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II. Principal Compensation Elements of the Company's Executive Compensation Program

The table below identifies the principal elements of our executive compensation program, and the subsequent narrative provides a fuller description of each element.

Compensation Element	Form of Compensation	Performance Criteria
Base salary	Cash	Individual performance and contributions
Annual cash compensation incentive	Cash	Earnings per share Cash flow from operations Specific business unit goals
Long-term stock incentive compensation	Time-based restricted stock	Individual performance and contributions
	Performance-based restricted stock	Cumulative net income over three years Return on invested capital (implemented for Fiscal 2015)
Retirement benefits	Eligibility to participate in and receive Company contributions to our 401(k) plan (available to all employees) and, for certain officers, a supplemental deferred compensation plan	Not applicable
Perquisites	Various (see below)	Not applicable
Severance/change in control benefits	Various (see below)	Not applicable

A. Base Salary

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

The executive's current salary;

The executive's performance and contributions during the past fiscal year;

The executive's qualifications and responsibilities;

The executive's tenure with the Company and the position held by the executive;

The Company-wide merit increase in the base salaries for all employees;

Competitive salary considerations relative to similar positions at other companies competing for talent in the Company's employment market, including the Company's peer group companies; and

The recommendation of the Chief Executive Officer, in the case of all executive officers other than himself.

The Compensation Committee generally sets the base salaries of the Company's named executive officers at or around the 50th percentile of salary levels of comparable positions at its peer group companies. The Company does not target base salaries at any specific percentage of total compensation when setting base salary. The Compensation Committee froze Fiscal 2015 base salaries at their Fiscal 2014 levels, with one exception involving a promotion. Please refer to Section IVA for further information about Fiscal 2015 base salaries.

B. **Annual Cash Incentive Compensation**

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

Within the first 90 days of each fiscal year, the Company establishes specific performance goals for its executive officers, including the named executive officers, that govern the payment of annual cash bonuses for that fiscal year. The Company may pay an annual cash bonus to an executive officer, typically measured as a percentage of the executive officer's base salary, based on the extent to which the Company, a business unit of the Company and/or the executive officer achieves applicable performance goals. Performance at a target level results in a target annual cash bonus, and performance above or below target results in payment of an annual cash bonus at a higher or lower percentage of base salary, respectively. Performance below a minimum threshold level results in no annual cash bonus. In all cases, the Compensation Committee has the discretion to not award any annual cash bonuses or to reduce the amount of the annual cash bonuses in a given year, even if performance targets are met.

For executive officers at the corporate level, the annual cash bonus in Fiscal 2015 was based on two performance goals: earnings per share and cash flow from operations. For executive officers in charge of a business group, the annual cash bonus was based on the performance results of the business group, rather than the Company as a whole. Please refer to Section IVB below for further information about Fiscal 2015 cash bonuses.

C.

Long-Term Stock Incentive Compensation

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

Generally, when determining restricted stock and stock option grant opportunities, the Compensation Committee considers the executive's position and responsibilities in the Company, performance and contributions during the preceding year, capabilities and potential for future

contributions to the Company, the number of restricted stock shares and options previously granted to the executive and, for senior management (including the named executive officers), their stock ownership relative to the Company's stock ownership guidelines. For senior management other than the Chief Executive Officer, the Chief Executive Officer also considers the Chief Executive Officer's recommendation. The particular mix of stock awards whether performance-based restricted shares, time-based restricted shares or stock options depends on various factors considered by the Compensation Committee, including the number of shares available for award, the Company's performance priorities and the participants involved. In addition, the value of stock grants in any year will vary depending on the Board's assessment of the Company's business and share price performance in the prior fiscal year.

For Fiscal 2015, the Compensation Committee made grants of performance-based risk and time-based restricted stock to our named executive officers, as explained in Section IVD below.

D.

Retirement Benefits

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

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

Retirement Savings Plan. The Retirement Savings Plan is a tax-qualified 401(k) plan that covers most of the Company's U.S. employees, including the named executive officers. An employee can elect to defer up to 75% of his compensation, up to a maximum of $18,000 in 2015, or $24,000 if age 50 or over. Contributions can be made on a pre-tax or after-tax basis, as elected by the participant. The Company provides

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a matching contribution equal to 20% of the first 5% of the participant's contributions, up to 1% of compensation, a profit-sharing contribution of up to 4% of compensation based on the participant's deferrals and the performance of the participant's operating unit and a retirement benefit contribution of up to 4% of compensation based on the participant's age and service.

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

E.
Perquisites

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

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

III. The Process for Determining Fiscal 2015 Executive Compensation

Each year the Compensation Committee reviews the Company's existing executive compensation program and the programs of peer group companies and other companies identified by Mercer, its independent compensation consultant, as having compensation "best practices." The Compensation Committee seeks to confirm that each compensation element of the Company's program, as well as the compensation structure, fits the Company in light of its history, culture, performance and strategy. Particular attention is given to the Company's stock price performance to ensure proper alignment between executive compensation and stock price performance.

The Compensation Committee followed the process below in setting and approving executive compensation in Fiscal 2015.

A.
Fiscal 2015 Peer Group

The Compensation Committee believes that total compensation opportunities for the Company's key executives, including the named executive officers, should be competitive with those offered by other companies competing for talent in the Company's employment market.

In July 2014, the Compensation Committee reviewed its peer group for executive compensation purposes using the following criteria: company type (publicly traded on a major exchange); industry classification (using Standard and Poor's GICS codes); annual revenues (one-half to two times the Company's annual revenues); and business model (organizations that conducted business in the Company's two operating segments at that time Aviation Services and Technology Products). The Compensation Committee's objective is to assemble a set of peer group companies to which relevant pay and performance comparisons may be made with the Company.

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The Compensation Committee engaged Mercer to assist in determining the composition of the Company's Fiscal 2015 peer group for executive compensation purposes and the benchmarking of executive compensation. Following

consideration of Mercer's peer group report, the Compensation Committee revised the Company's peer group for Fiscal 2015 to consist of the following 20 companies, up from 18 peer companies in Fiscal 2014:

Aerojet Rocketdyne Holdings Inc. (formerly Gencorp Inc.)	Kratos Defense & Security Solutions, Inc.
Alliant Techsystems, Inc.	Moog Inc.
Applied Industrial Technologies Inc.	Orbital ATK (formerly Alliant Techystems)
B/E Aerospace, Inc.	Rockwell Collins, Inc.
Crane Co.	Spirit AeroSystems Holdings, Inc.
Cubic Corporation	Teledyne Technologies, Inc.
Curtiss-Wright Corporation	TransDigm Group Inc.
Esterline Technologies Corporation	Triumph Group, Inc.
Hexcel Corporation	Wesco International, Inc.
Kaman Corporation	Woodward, Inc.

The four companies added to the Fiscal 2015 peer group were Aerojet Rocketdyne Holdings Inc. (formerly Gencorp Inc.), Orbital ATK (formerly Alliant Techsystems), Wesco International, Inc. and Woodard, Inc. The two companies dropped from the Fiscal 2015 peer group were Kennametal Inc. and MSC Industrial Direct, neither of which competes with the Company. The Compensation Committee made these changes to the peer group to ensure that the Company's performance and executive compensation program are measured against those of comparably-sized companies (e.g., in terms of revenue, market capitalization and other financial measures). The mix of the Company's commercial and defense businesses presents a challenge in constructing a peer group for several reasons, primarily given that many defense contractors may have significantly greater revenues and market capitalization.

B.

Executive Compensation Assessment

Following the Compensation Committee's approval of the Fiscal 2015 peer group, Mercer conducted an executive compensation assessment in July 2014, at the direction of the Compensation Committee, to assist with executive compensation decisions. Mercer's executive compensation assessment included (i) a benchmarking analysis showing how the compensation paid to the Company's named executive officers compared to compensation paid to the named executive officers of the Company's peer group companies and (ii) a comparison of the Company's Fiscal 2015 financial performance against the financial

performance of its peer group companies. The key findings of the Mercer executive compensation assessment of the Company are set forth below:

The Company's base salaries are positioned competitively with the 50th percentile of its Fiscal 2015 peer group companies;

Total cash compensation (base salary plus annual cash bonus) is between the 50th percentile and the 75th percentile of the Company's Fiscal 2015 peer group companies; and

Total direct compensation (base salary plus annual cash bonus plus the dollar value of Fiscal 2015 stock awards) falls between the 50th percentile and the 75th percentile of the Company's peer group companies.

The Company's one year financial performance showed earnings per share growth between the 50th and 75th percentile of the Company's peer group; net income growth was greater than the 75th percentile of its peer group; and return on invested capital was between the 25th and

50th percentile of its peer group

The Company's three-year financial performance was less positive, with earnings per share growth, net income growth and return on invested capital below the 25th percentile of the Company's peer group.

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In addition, the Compensation Committee recognized that the Company posted significant stock price increases over the last three fiscal years and four of the last five fiscal years, as shown below:

Fiscal Year Ending	Closing Stock Price on Last Business Day ($)	Increase (Decrease) Over Prior Fiscal Year (%)
May 31, 2015	29.54	22
May 31, 2014	24.30	21
May 31, 2013	20.06	66
May 31, 2012	12.05	(54)
May 31, 2011	26.39	34

The Compensation Committee also reviewed and considered historical compensation data for the Company's executives. This data included summaries of cash and equity compensation received in past years by each executive. In addition, the Compensation Committee reviewed the executives' total annual compensation, including cash and non-cash direct compensation, cumulative benefits and savings under retirement plans and equity compensation programs, perquisites and potential payments on termination of employment, whether on a change in control of the Company or otherwise. It reviewed the performance of the Company and the executives during the year, taking into account established goals, leadership qualities, operational performance, business responsibilities, career experience, and long-term potential to enhance stockholder value. In addition to peer group compensation information and general industry compensation information, the Compensation Committee reviewed internal pay comparisons among the Company's executives to ensure that the Company's executive compensation program reflects the executives' relative positions, responsibilities, and contributions to the Company.

C.

Recommendations of the Chief Executive Officer

The Compensation Committee considered the recommendations of the Chief Executive Officer in making Fiscal 2015 compensation decisions for all of the named executive officers other than the Chief Executive Officer. In making these recommendations, the Chief Executive Officer evaluated the performance of the executives during the prior year against pre-established performance goals. Some of the performance goals related to the financial performance of the Company or the executive's business group. Other performance goals were non-quantitative and related to customer relationships, acquisition integration, diversity development, or similar Company initiatives. The Chief Executive Officer's recommendations reflected his

assessment of an individual executive officer's contributions to the performance of the Company.

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

D.

Stockholder Advisory Vote

The Compensation Committee carefully considered the results of the Fiscal 2014 say-on-pay vote in designing the Fiscal 2015 executive compensation and making Fiscal 2015 compensation decisions for the Company's key executives. Holders of approximately 96.5% of the outstanding shares approved the Fiscal 2014 compensation paid to the named executive officers at the Company's 2014 annual meeting. This result was viewed as an endorsement of the Company's executive compensation program and the individual compensation decisions made by our Compensation Committee. Nonetheless, the Compensation Committee revisit the Company's executive compensation program each year, as it did with respect to the Fiscal 2015 executive compensation program, to ensure that the design of the program and the individual compensation decisions serve the best interests of the Company's stockholders.

* * * * * * * * *

The Compensation Committee considered all of the above items, including the executive compensation assessment and the executive compensation levels of peer group companies, in approving the Fiscal 2015 base salaries, target annual cash bonuses and target long-term incentive compensation of the Company's named executive officers. Each of these Fiscal 2015 compensation elements is addressed below in more detail.

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IV. Our Fiscal 2015 Executive Compensation Program

A.

Fiscal 2015 Base Salaries

For Fiscal 2015, the Compensation Committee, at management's recommendation, froze base salaries at their Fiscal 2014 levels without any increase, to emphasize that base salaries representing fixed compensation should be a less significant percentage of total compensation than at-risk performance-based compensation. The one exception was that Mr. Holmes received a base salary increase to $475,000 from $387,500 effective March 2, 2015 upon his promotion to Chief Operating Officer of the Aviation Services business group.

The following table shows the Fiscal 2015 base salaries for the named executive officers:

Named Executive Officer	Fiscal 2015 ($)
David P. Storch	906,449
Timothy J. Romenesko	499,272
John M. Holmes	409,375*
John C. Fortson	400,000
Robert J. Regan	391,586

* Reflects a base salary of $387,500 from June 1, 2014 to March 1, 2015 and a base salary of $475,000 from March 2, 2015 to May 31, 2015.

For Fiscal 2016, Mr. Storch voluntarily reduced his base salary by 15.4% to $767,000 and Mr. Romenesko voluntarily reduced his base salary to $450,000, in each case effective September 1, 2015. These voluntary salary reductions reflect the relatively smaller size of the Company following the divestiture of its cargo loading manufacturing business and the Company's increased commitment to a pay-for-performance executive compensation program that places lesser reliance on fixed compensation such as base salary.

B.

Annual Cash Bonuses

Section 162(m) Annual Cash Incentive Plan. The Compensation Committee previously approved the AAR CORP. Section 162(m) Annual Cash Incentive Plan, which sets a ceiling on the annual cash bonuses payable under the Company's short-term incentive plans, including the Fiscal 2015 short-term incentive plan. The purpose of the Section 162(m) Annual Cash Incentive Plan is to enable the annual bonuses to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code.

The Section 162(m) Annual Cash Incentive Plan uses as its performance goal the Company's net income for a given fiscal year. It establishes a maximum award opportunity for each participant, expressed as a percentage of net income. The maximum annual awards are 5% of net income for the Chief Executive Officer, 3% for the President and 2% for all others. These maximum awards are designed to cap the bonuses determined under the Company's annual short-term bonus plans. Accordingly, any bonus determined under the Fiscal 2015 short-term incentive plan below is subject to these caps. In all years since the inception of the Section 162(m) Annual Cash Incentive Plan in Fiscal 2010, the Compensation Committee has exercised negative discretion to reduce the annual cash bonuses of the named executive officers to the amounts determined under the Company's annual short-term bonus plans. In Fiscal 2015, for example, no cash bonuses were paid under the Fiscal 2015 short-term incentive plan.

Fiscal 2015 Short-Term Incentive Plan. The Compensation Committee approved, after consideration of peer group information, other market data, the state of the business environment in which the Company operates and the factors described above, the Fiscal 2015 short-term incentive plan for corporate officers, including Mr. Storch, Mr. Romenesko, Mr. Fortson and Mr. Regan. The Fiscal 2015 short-term incentive plan is an at-risk performance-based plan in which the

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Company measured its performance against two performance gals: earnings per share (weighted 75%) and cash flow from operations (weighted 25%) at the threshold, target and maximum levels set forth in the table below:

Performance Goal	Threshold	Target	Maximum
Earnings per share (75%)	$1.44	$1.80	$2.16
Cash flow from operations (25%)	$90 million	$120 million	$150 million

The Compensation Committee believes that these two performance goals are critical measures of the Company's financial success. Earnings per share demonstrates the Company's emphasis on delivering earnings to stockholders, and cash flow from operations shows how well the Company's businesses are producing cash that will ultimately benefit stockholders, whether in the form of increased investment, stock repurchases or dividend payouts. The Compensation Committee sets the target goals based on the Company's financial plans for a

particular year. The Fiscal 2015 earnings per share target of $1.80 which is below the Fiscal 2014 earnings per share target of $2.02 reflected the Compensation Committee's recognition of a more difficult operating environment facing certain of the Company's key businesses in Fiscal 2015. The cash flow from operations target was $120 million in both Fiscal 2015 and Fiscal 2014. Despite the reduction in the earnings per share target, the Company paid no cash bonuses under the Fiscal 2015 short-term incentive plan.

The Fiscal 2015 annual cash bonus opportunities at threshold, target and maximum levels for the named executive officers (other than Mr. Holmes, who participates in a separate performance incentive plan tied to the results of the Aviation Services business) are set forth in the table below:

	Threshold		Target		Maximum	
Named Executive Officer	($)	Percent of Base Salary (%)	($)	Percent of Base Salary (%)	($)	Percent of Base Salary (%)
David P. Storch	555,631	61.3	1,133,061	125.0	2,266,122	250.0
Timothy J. Romenesko	283,667	56.8	567,354	113.6	1,134,708	227.3
John C. Fortson	181,818	45.5	363,637	90.9	727,274	181.8
Robert J. Regan	177,994	45.4	355,988	90.9	711,976	181.8

The Company's actual Fiscal 2015 earnings per share and cash flow from operations results compared to the threshold and target levels were:

Performance Goal	Threshold	Target	Actual
Earnings per share	$1.44	$1.80	$0.24
Cash flow from operations	$90 million	$120 million	($43.0 million)

As a result of the Company's earnings per share and cash flow from operations performance falling below the threshold level, Mr. Storch, Mr. Romenesko, Mr. Fortson and

Mr. Regan did not receive cash bonuses under the Fiscal 2015 short-term incentive plan.

Performance Incentive Plan. The Company had a separate annual cash bonus plan for Mr. Holmes in Fiscal 2015 called the the Performance Incentive Plan ("PIP"). The PIP is based on the annual results of the Aviation Services business group in three areas pre-tax income, free cash flow and return on average net invested capital, as shown below:

Performance Goal	Threshold	Target

Pre-tax income	$30.30 million	$37.88 million
Free cash flow	$64.74 million	$80.93 million
Return on average net invested capital	10.58%	11.75%

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Mr. Holmes's annual cash bonus opportunities for Fiscal 2015 were target bonus $480,000 and maximum bonus $775,000. Mr. Holmes's Fiscal 2015 annual cash bonus is capped at 200% of his base salary in effect upon adoption of the PIP. No annual cash bonus under the PIP is payable if the Company does not generate positive net income for the fiscal year.

Based on the performance of Aviation Services in Fiscal 2015, Mr. Holmes received an annual cash bonus of $548,000 under the PIP.

C. Special Transaction Bonuses

In July 2014, the Compensation Committee commenced consideration of an incentive bonus program (the "Transaction Bonus Program") relating to the proposed divestiture of a significant portion of the Company's manufacturing businesses, including the cargo loading manufacturing business (the "Transaction").

The purpose of the Transaction was to implement a strategic business restructuring designed to allow the Company to:

- Build on its leadership position in aviation services;
- Operate as a global commercial and defense aviation services business, with its focus dedicated to aftermarket activities (power-by-the hour and repair management programs, distribution and parts trading) and MRO activities (airframe heavy maintenance, component repair, landing gear repair and exchange and engineering services);
- Develop and expand its expeditionary services businesses at AAR Airlift (fixed-wing and rotary-wing aircraft services, mission support, logistics resupply and training and aircraft modification) and AAR Mobility (pallets, containers, shelter systems and accessories);
- Take advantage of high market multiples in the sale of manufacturing businesses; and
- Use the proceeds from the Transaction to enhance the balance sheet strength of the Company through debt retirements and to return cash to stockholders through the repurchase of shares of the Company's common stock.

The Compensation Committee received input from Mercer, its independent compensation consultant, with respect to the Transaction Bonus Program, including the nature and scope of similar incentive-based programs at other companies that were linked to the success of a significant transaction. The Compensation Committee also considered the transformative nature of the Transaction and the benefits of a successful Transaction to the Company's stockholders. Based on these considerations, in January 2015, the Compensation Committee determined that a bonus program linked to the success of a significant divestiture transaction is commonly used by public companies to incentivize performance. The Compensation Committee further determined that the Transaction Bonus Program provided appropriate incentives ("Special Transaction Bonuses") to those individuals, including certain of the named executive officers, who were pivotal to the success or failure of the Transaction. Accordingly, the Compensation Committee approved the Transaction Bonus Program and the Special Transaction Bonuses described below.

The participants in the Transaction Bonus Program, as approved by the Compensation Committee, included each of the named executive officers (other than Mr. Holmes) and certain other Company employees. The Transaction Bonus Program established an incentive bonus pool based on of the gross proceeds of the Transaction, with the pool consisting of $3.5 million for gross proceeds of $600 million; $7.0 million for gross proceeds of $700 million; and an additional 1% for gross proceeds above $700 million.

On March 26, 2015, the Company completed the Transaction at a purchase price of $705 million, subject to adjustment. Subsequently, the Company received an additional $28.3 million as a result of post-closing adjustments for a total purchase price of $733.3 million.

The Transaction, the largest in the Company's history, was a transformative event for the Company as it:

- Represented the exchange of 20% of the Company's earnings before interest, taxes, depreciation and amortization for proceeds equal to 45% of the Company's enterprise value;

- Reflected a significant gain over the purchase of the business in 2011 and allowed the Company to monetize its investment in the A400M program;

- Focused the Company on its core aviation services and expeditionary services competencies; and

- Provided financial flexibility for the Company to use the proceeds of the Transaction to de-risk and deleverage its balance sheet through debt retirements, invest in core businesses and pursue strategic acquisitions.

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Based on the success of the Transaction, the named executive officers (other than Mr. Holmes) received the percentage of the incentive bonus pool and the amount of the Special Transaction Bonuses under the Transaction Bonus Program set forth in the table below:

Named Executive Officer	Percentage of Incentive Bonus Pool	Special Transaction Bonus ($)
David P. Storch	30.6%	$2,158,713
Timothy J. Romenesko	24.5%	$1,727,250
John C. Fortson	17.3%	$1,220,356
Robert J. Regan	10.7%	$750,825

D.

Stock Awards Under the Fiscal 2015 Long-Term Incentive Plan

The Compensation Committee granted awards of performance-based restricted stock and time-based restricted stock to the named executive officers and certain other officers and key employees under the Fiscal 2015 long-term incentive plan. No stock option grants were made in Fiscal 2015.

In Fiscal 2015, as in other years, the Compensation Committee determined the types of stock awards to be granted and the allocation and dollar value of those awards. These determinations are based on:

The Committee's emphasis on performance-based awards;

The Company's burn rate experience under the AAR CORP. 2013 Stock Plan;

The number of participants in the stock plan;

The levels of responsibility, seniority and overall compensation of the participants;

The Company's performance in the last fiscal year and its forecasted performance in the current fiscal year;

The Company's budget for compensation expense; and

The Company' stock price.

The Compensation Committee made two key decisions with respect to stock awards under the Fiscal 2015 long-term incentive plan:

First, allocating total stock awards in the following manner:

At-risk performance-based restricted stock	75%
Time based restricted stock	25%
Stock options	0%

Second, reducing significantly the dollar value of the stock awards granted to the named executive officers compared to Fiscal 2014, as shown below:

Named Executive Officer	Fiscal 2014 ($)	Fiscal 2015 ($)	Percentage Decline (%)
David P. Storch	2,964,720	1,695,200	(43%)
Timothy J. Romenesko	1,482,360	847,600	(43%)
John M. Holmes		208,640	
John C. Fortson	700,010	521,600	(25%)
Robert J. Regan	889,417	521,600	(41%)

These two decisions reflected the Compensation Committee's belief that stock-based compensation provides great flexibility: the use of at-risk performance-based stock incentives key performers to meet and exceed

pre-established financial measures and the use of time-based restricted stock incentivizes key performers to remain with the Company and share in its future success

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Performance-Based Restricted Stock. At its meeting on July 14, 2014 the Compensation Committee approved the following grants of at-risk performance-based restricted stock to the named executive officers for Fiscal 2015, subject to performance conditions over the three-year performance period Fiscal 2015 through Fiscal 2017 and separate vesting requirements, each as described below (dollar value based on the grant date fair value):

	Fiscal 2015 At-Risk Performance-Based Restricted Stock	
Named Executive Officer	**Number of Shares**	**Dollar Value ($)**
David P. Storch	48,750	1,271,400
Timothy J. Romenesko	24,375	635,700
John M. Holmes	6,000	156,480
John C. Fortson	15,000	391,200
Robert J. Regan	15,000	391,200

The Company's cumulative net income (weighted 75%) and return on invested capital (weighted 25%) are the two performance goals for the at-risk performance-based restricted stock under the Fiscal 2015 long-term incentive plan. The table below shows the threshold, target and maximum levels set by the Compensation Committee for each of these performance goals:

Performance Goal	Threshold	Target