UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended February 29, 2020

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to _________

Commission File No. **1-6263**

AAR CORP.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2334820** (I.R.S. Employer Identification No.)
One AAR Place, 1100 N. Wood Dale Road **Wood Dale, Illinois** (Address of principal executive offices)	**60191** (Zip Code)

(630) 227-2000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

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

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

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

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

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

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

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

As of February 29, 2020 there were 35,100,696 shares of the registrant's Common Stock, $1.00 par value per share, outstanding.

AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended February 29, 2020
Table of Contents

			Page
Part I — FINANCIAL INFORMATION			
	Item 1.	Financial Statements	
		Condensed Consolidated Balance Sheets	3
		Condensed Consolidated Statements of Operations	5
		Condensed Consolidated Statements of Comprehensive Income (Loss)	6
		Condensed Consolidated Statements of Cash Flows	7
		Condensed Consolidated Statements of Changes in Equity	8
		Notes to Condensed Consolidated Financial Statements	9
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
	Item 4.	Controls and Procedures	29
Part II — OTHER INFORMATION			
	Item 1.	Legal Proceedings	30
	Item 1A.	Risk Factors	30
	Item 6.	Exhibits	31
	Exhibit Index		31
	Signature Page		32

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of February 29, 2020 and May 31, 2019
(In millions, except share data)

ASSETS

	February 29, 2020 (Unaudited)	May 31, 2019
Current assets:		
Cash and cash equivalents	$ 37.0	$ 21.3
Restricted cash	27.9	19.8
Accounts receivable, less allowances of $20.2 and $16.0, respectively	225.7	197.8
Contract assets	64.7	59.2
Inventories	621.6	523.7
Rotable assets and equipment on or available for short-term lease	69.0	65.3
Assets of discontinued operations	26.3	29.2
Other current assets	85.9	36.2
Total current assets	1,158.1	952.5
Property, plant and equipment, net of accumulated depreciation of $244.9 and $231.8 respectively	136.7	132.8
Other assets:		
Goodwill	116.5	116.2
Intangible assets, net of accumulated amortization of $18.2 and $30.3, respectively	12.0	22.2
Operating lease right-of-use assets, net	99.4	—
Rotable assets supporting long-term programs	225.3	216.0
Other non-current assets	80.9	77.5
	534.1	431.9
	$ 1,828.9	$ 1,517.2

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of February 29, 2020 and May 31, 2019
(In millions, except share data)

LIABILITIES AND EQUITY

	February 29, 2020 (Unaudited)	May 31, 2019
Current liabilities:		
Accounts payable	$ 295.1	$ 187.8
Accrued liabilities	149.8	140.5
Liabilities of discontinued operations	40.4	29.2
Total current liabilities	485.3	357.5
Long-term debt	206.0	141.7
Operating lease liabilities	80.0	—
Deferred revenue on long-term programs	101.3	83.8
Other liabilities	26.9	28.3
	414.2	253.8
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	481.5	479.4
Retained earnings	725.1	709.8
Treasury stock, 10,200,090 and 10,512,974 shares at cost, respectively	(282.6)	(287.7)
Accumulated other comprehensive loss	(39.9)	(40.9)
Total equity	929.4	905.9
	$ 1,828.9	$ 1,517.2

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three and Nine Months Ended February 29/28, 2020 and 2019
(Unaudited)
(In millions, except share data)

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Sales:				
Sales from products	$ 294.8	$ 292.4	$ 862.9	$ 814.5
Sales from services	258.3	237.1	792.6	674.6
	553.1	529.5	1,655.5	1,489.1
Cost and operating expenses:				
Cost of products	238.3	239.0	700.4	665.5
Cost of services	249.5	205.2	722.3	588.8
Provision for doubtful accounts	1.9	0.7	3.3	13.7
Selling, general and administrative	58.1	54.8	173.3	152.1
	547.8	499.7	1,599.3	1,420.1
Operating income	5.3	29.8	56.2	69.0
Other expense, net	(0.2)	(0.6)	(0.6)	(0.4)
Interest expense	(2.4)	(2.6)	(6.5)	(7.2)
Interest income	0.1	0.2	0.3	0.8
Income from continuing operations before provision for income taxes	2.8	26.8	49.4	62.2
Provision for income taxes (benefit)	0.2	(0.6)	9.6	4.7
Income from continuing operations	2.6	27.4	39.8	57.5
Loss from discontinued operations	(0.3)	(64.8)	(18.9)	(72.8)
Net income (loss)	$ 2.3	$ (37.4)	$ 20.9	$ (15.3)
Earnings (Loss) per share - basic:				
Earnings from continuing operations	$ 0.08	$ 0.79	$ 1.14	$ 1.66
Loss from discontinued operations	(0.01)	(1.87)	(0.54)	(2.11)
Earnings (Loss) per share - basic	$ 0.07	$ (1.08)	$ 0.60	$ (0.45)
Earnings (Loss) per share - diluted:				
Earnings from continuing operations	$ 0.07	$ 0.78	$ 1.13	$ 1.63
Loss from discontinued operations	(0.01)	(1.86)	(0.54)	(2.08)
Earnings (Loss) per share - diluted	$ 0.06	$ (1.08)	$ 0.59	$ (0.45)

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Loss)
For the Three and Nine Months Ended February 29/28, 2020 and 2019
(Unaudited)
(In millions)

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Net income (loss)	$ 2.3	$ (37.4)	$ 20.9	$ (15.3)
Other comprehensive income (loss), net of tax expense (benefit):				
Currency translation adjustments	(0.1)	0.5	0.3	(0.6)
Pension and other post-retirement plans:				
Amortization of actuarial loss and prior service cost included in net income, net of tax of $0.0 and $0.1 for the three months ended February 29/28, 2020 and 2019, respectively, and $0.1 and $0.2 for the nine months ended February 29/28, 2020 and 2019, respectively	0.2	0.3	0.7	0.8
Other comprehensive income, net of tax	0.1	0.8	1.0	0.2
Comprehensive income (loss)	$ 2.4	$ (36.6)	$ 21.9	$ (15.1)

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended February 29/28, 2020 and 2019
(Unaudited)
(In millions)

	Nine Months Ended February 29/28, 2020	Nine Months Ended February 29/28, 2019
Cash flows provided from (used in) operating activities:		
Net income (loss)	$ 20.9	$ (15.3)
Less: Loss from discontinued operations	(18.9)	(72.8)
Income from continuing operations	39.8	57.5
Adjustments to reconcile income from continuing operations to net cash provided from (used in) operating activities:		
Depreciation and intangible amortization	32.8	31.3
Amortization of stock-based compensation	10.3	8.8
Customer contract termination and restructuring costs	24.7	—
Provision for doubtful accounts	3.3	13.7
Deferred tax provision	1.5	(10.2)
Changes in certain assets and liabilities:		
Accounts receivable	(34.6)	(73.3)
Contract assets	(5.4)	(5.2)
Inventories	(98.0)	(71.8)
Rotable spares and equipment on or available for short-term lease	(3.7)	18.6
Rotable assets supporting long-term programs	(23.7)	(38.2)
Accounts payable	107.1	47.7
Accrued and other liabilities	(9.6)	2.8
Deferred revenue on long-term programs	1.1	51.9
Other	(46.1)	(17.2)
Net cash provided from (used in) operating activities – continuing operations	(0.5)	16.4
Net cash provided from (used in) operating activities – discontinued operations	(8.4)	8.1
Net cash provided from (used in) operating activities	(8.9)	24.5
Cash flows used in investing activities:		
Property, plant and equipment expenditures	(18.3)	(12.3)
Payments for acquisitions	—	(2.3)
Other	(1.7)	1.3
Net cash used in investing activities – continuing operations	(20.0)	(13.3)
Net cash used in investing activities – discontinued operations	—	(0.5)
Net cash used in investing activities	(20.0)	(13.8)
Cash flows provided from (used in) financing activities:		
Short-term borrowings, net	65.0	25.0
Repayments on long-term borrowings	—	(25.0)
Cash dividends	(8.1)	(7.9)
Purchase of treasury stock	(4.1)	(0.8)
Financing costs	(1.3)	—
Stock compensation activity	1.1	8.3
Net cash provided from (used in) financing activities – continuing operations	52.6	(0.4)
Net cash used in financing activities – discontinued operations	—	(1.4)
Net cash provided from (used in) financing activities	52.6	(1.8)
Effect of exchange rate changes on cash	0.1	(0.1)
Increase in cash and cash equivalents	23.8	8.8
Cash, cash equivalents, and restricted cash at beginning of period	41.1	41.6
Cash, cash equivalents, and restricted cash at end of period	$ 64.9	$ 50.4

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Nine Months Ended February 29/28, 2020 and 2019
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2019	$ 45.3	$ 479.4	$ 709.8	$ (287.7)	$ (40.9)	$ 905.9
Cumulative effect adjustment upon adoption of ASC 842 on June 1, 2019	—	—	2.5	—	—	2.5
Net income	—	—	4.4	—	—	4.4
Cash dividends ($0.075 per share)	—	—	(2.9)	—	—	(2.9)
Stock option activity	—	0.9	—	1.8	—	2.7
Restricted stock activity	—	(4.3)	—	1.1	—	(3.2)
Other comprehensive income, net of tax	—	—	—	—	0.1	0.1
Balance, August 31, 2019	$ 45.3	$ 476.0	$ 713.8	$ (284.8)	$ (40.8)	$ 909.5
Net income	—	—	14.2	—	—	14.2
Cash dividends ($0.075 per share)	—	—	(2.6)	—	—	(2.6)
Stock option activity	—	0.9	—	1.2	—	2.1
Restricted stock activity	—	1.8	—	—	—	1.8
Repurchase of shares	—	—	—	(4.1)	—	(4.1)
Other comprehensive income, net of tax	—	—	—	—	0.8	0.8
Balance, November 30, 2019	$ 45.3	$ 478.7	$ 725.4	$ (287.7)	$ (40.0)	$ 921.7
Net income	—	—	2.3	—	—	2.3
Cash dividends ($0.075 per share)	—	—	(2.6)	—	—	(2.6)
Stock option activity	—	0.5	—	5.3	—	5.8
Restricted stock activity	—	2.3	—	(0.2)	—	2.1
Other comprehensive income, net of tax	—	—	—	—	0.1	0.1
Balance, February 29, 2020	$ 45.3	$ 481.5	$ 725.1	$ (282.6)	$ (39.9)	$ 929.4
Balance, May 31, 2018	$ 45.3	$ 470.5	$ 733.2	$ (280.7)	$ (32.0)	$ 936.3
Cumulative effect adjustment upon adoption of ASC 606 on June 1, 2018	—	—	(20.4)	—	—	(20.4)
Net income	—	—	15.1	—	—	15.1
Cash dividends ($0.075 per share)	—	—	(2.7)	—	—	(2.7)
Stock option activity	—	0.7	—	2.2	—	2.9
Restricted stock activity	—	(1.4)	—	(0.5)	—	(1.9)
Other comprehensive loss, net of tax	—	—	—	—	(0.2)	(0.2)
Balance, August 31, 2018	$ 45.3	$ 469.8	$ 725.2	$ (279.0)	$ (32.2)	$ 929.1
Net income	—	—	7.0	—	—	7.0
Cash dividends ($0.075 per share)	—	—	(2.6)	—	—	(2.6)
Stock option activity	—	0.9	—	1.6	—	2.5
Restricted stock activity	—	0.1	—	(0.1)	—	—
Other comprehensive loss, net of tax	—	—	—	—	(0.4)	(0.4)
Balance, November 30, 2018	$ 45.3	$ 470.8	$ 729.6	$ (277.5)	$ (32.6)	$ 935.6
Net loss	—	—	(37.4)	—	—	(37.4)
Cash dividends ($0.075 per share)	—	—	(2.6)	—	—	(2.6)
Stock option activity	—	1.0	—	—	—	1.0
Restricted stock activity	—	3.0	—	(0.2)	—	2.8
Repurchase of shares	—	—	—	(0.8)	—	(0.8)
Other comprehensive income, net of tax	—	—	—	—	0.8	0.8
Balance, February 28, 2019	$ 45.3	$ 474.8	$ 689.6	$ (278.5)	$ (31.8)	$ 899.4

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Note 1 – Basis of Presentation

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," and "our," unless the context indicates otherwise. The accompanying Condensed Consolidated Financial Statements include the accounts of AAR and its subsidiaries after elimination of intercompany accounts and transactions.

We have prepared these statements without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). The Condensed Consolidated Balance Sheet as of May 31, 2019 has been derived from audited financial statements. To prepare the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain information and note disclosures, normally included in comprehensive financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such rules and regulations of the SEC. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our latest annual report on Form 10-K.

In the opinion of management, the condensed consolidated financial statements reflect all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the Condensed Consolidated Balance Sheet of AAR CORP. and its subsidiaries as of February 29, 2020, the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss) for the three- and nine-month periods ended February 29/28, 2020 and 2019, the Condensed Consolidated Statements of Cash Flows for the nine-month periods ended February 29/28, 2020 and 2019, and the Condensed Consolidated Statement of Changes in Equity for the three- and nine-month periods ended February 29/28, 2020 and 2019. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

New Accounting Pronouncements Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* ("ASC 842"), which amended the existing accounting standards for lease accounting. ASC 842 requires lessees to recognize a right-of-use ("ROU") asset and lease liability on the balance sheet for most lease arrangements, including those classified as operating leases. In addition, ASC 842 requires new qualitative and quantitative disclosures about our leasing activities.

We adopted ASC 842 on June 1, 2019 using the modified retrospective transition approach. Under that approach, prior periods have not been restated and continue to be reported under the accounting standards in effect for those periods. A discussion of our revised accounting policy for leases is included in Note 10.

We have elected the package of practical expedients, which must be elected as a package and applied consistently to all leases. This package permits us to not reassess our prior conclusions about lease identification, lease classification and initial direct costs. In addition, we have elected the practical expedients to not separate lease and non-lease components for both lessee and lessor relationships and to not apply the recognition requirements to leases with terms of less than twelve months.

Upon adoption of ASC 842 on June 1, 2019, we recognized operating lease ROU assets of $123.2 million and operating lease liabilities of $116.8 million on our Condensed Consolidated Balance Sheet. These amounts included operating lease ROU assets of $26.6 million and operating lease liabilities of $25.3 million related to our discontinued operations. In addition, we recognized the remaining unamortized deferred gains of $2.5 million, net of tax, associated with sale-leaseback transactions as a cumulative effect adjustment to the opening balance of retained earnings as of June 1, 2019.

The adoption of ASC 842 did not have a material impact on the Condensed Consolidated Statements of Operations or Cash Flows.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

The impact of the adoption of ASC 842 on our Condensed Consolidated Balance Sheet was as follows:

	As of May 31, 2019	ASC 842 Adjustments	As of June 1, 2019
Assets of discontinued operations	$ 29.2	$ 26.6	$ 55.8
Other current assets	36.2	(0.5)	35.7
Intangible assets, net	22.2	(8.5)	13.7
Operating lease ROU assets	—	96.6	96.6
Other non-current assets	77.5	(1.8)	75.7
Accrued liabilities	140.5	10.0	150.5
Liabilities of discontinued operations	29.2	25.3	54.5
Operating lease liabilities	—	77.7	77.7
Other liabilities	28.3	(3.1)	25.2
Retained earnings	709.8	2.5	712.3

In February 2018, the FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU permits the reclassification of tax effects stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (the “Tax Reform Act”) to retained earnings. The FASB made the reclassification optional and we did not exercise the option to reclassify the stranded tax effects caused by the Tax Reform Act.

New Accounting Pronouncements Not Yet Adopted

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

Note 2 – Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated (“COCO”) business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented.

During fiscal 2019, we signed an agreement to sell our U.S. Department of Defense (“DoD”) contracts and certain assets of our COCO business. In conjunction with this agreement and other expected asset sales, we recognized an impairment charge in discontinued operations of $74.1 million during the third quarter of fiscal 2019 reflecting the expected net proceeds to be received upon the completion of the sale transactions.

In fiscal 2020, we signed an agreement to sell the remaining operating contract of the COCO business and recognized an impairment charge of $11.8 million in the first quarter of fiscal 2020 related to the disposal of the remaining COCO assets. The sale of the DoD contracts and related assets was completed in the second quarter of fiscal 2020 and the sale of the remaining operating contract was completed in the fourth quarter of fiscal 2020 shortly after government approval.

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

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Operating results for discontinued operations were comprised of the following:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Sales	$ 6.3	$ 26.6	$ 40.2	$ 68.8
Cost of sales	(6.5)	(31.3)	(44.9)	(79.0)
Asset impairments	—	(74.1)	(11.8)	(74.1)
Selling, general and administrative expenses	(0.1)	(2.7)	(7.3)	(7.5)
Operating loss from discontinued operations	(0.3)	(81.5)	(23.8)	(91.8)
Provision for income taxes (benefit)	—	(16.7)	(4.9)	(19.0)
Loss from discontinued operations	$ (0.3)	$ (64.8)	$ (18.9)	$ (72.8)

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

	February 29, 2020	May 31, 2019
Accounts receivable, net	$ 2.3	$ 16.2
Inventory, rotable assets, and equipment	—	7.5
Operating lease ROU assets	22.7	—
Other assets	1.3	5.5
Assets of discontinued operations	$ 26.3	$ 29.2
Accounts payable and accrued liabilities	$ 17.7	$ 29.2
Operating lease liabilities	22.7	—
Liabilities of discontinued operations	$ 40.4	$ 29.2

Note 3 – Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

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

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

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

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

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These adjustments relate to our long-term, power-by-the-hour (“PBH”) programs where we provide component inventory management and repair services and certain long-term government programs.

For the three-month period ended February 29, 2020, we recognized favorable and unfavorable cumulative catch-up adjustments of $4.2 million and $1.7 million, respectively. For the three-month period ended February 28, 2019, we recognized favorable cumulative catch-up adjustments of $0.8 million, respectively. When considering these adjustments on a net basis, we recognized net favorable adjustments of $2.5 million and $0.8 million in the three-month periods ended February 29/28, 2020 and 2019, respectively.

For the nine-month period ended February 29, 2020, we recognized favorable and unfavorable cumulative catch-up adjustments of $6.1 million and $1.7 million, respectively. For the nine-month period ended February 28, 2019, we recognized favorable and unfavorable cumulative catch-up adjustments of $4.6 million and $0.5 million, respectively. When considering these adjustments on a net basis, we recognized net favorable adjustments of $4.4 million and $4.1 million in the nine-month periods ended February 29/28, 2020 and 2019, respectively.

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

We have elected to use certain practical expedients permitted under ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASC 606”). Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in cost of sales in our Condensed Consolidated Statement of Operations, and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statement of Operations are net of any sales or related non-income taxes. We also utilize the “as invoiced” practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Contract Assets and Liabilities

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

(Dollars in millions, except per share amounts)

Net contract assets and liabilities are as follows:

	February 29, 2020	May 31, 2019	Change
Contract assets – current	$ 64.7	$ 59.2	$ 5.5
Contract assets – non-current	25.1	17.0	8.1
Deferred revenue – current	(13.4)	(12.6)	(0.8)
Deferred revenue on long-term contracts	(101.3)	(83.8)	(17.5)
Net contract liabilities	$ (24.9)	$ (20.2)	$ (4.7)

Contract assets – non-current is reported within Other non-current assets, and Contract liabilities – current is reported within Accrued liabilities on our Condensed Consolidated Balance Sheet. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers.

During the three-month period ended February 29, 2020, we terminated a contract with a commercial PBH customer and restructured contracts with two other PBH customers. After the restructuring, those two contracts were deemed loss contracts requiring the establishment of forward loss reserves for the total estimated costs that are in excess of the total estimated consideration over the remainder of the contracts. The impact from these actions resulted in a charge of $24.7 million during the three-month period ended February 29, 2020, which included a reduction in contract assets and revenue of $9.8 million and the establishment of forward loss reserves and other related charges of $14.9 million.

Changes in our deferred revenue, after adoption of ASC 606 on June 1, 2018, were as follows for the three- and nine-month periods ended February 29/28, 2020 and 2019:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Deferred revenue at beginning of period	$ (133.8)	$ (77.6)	$ (96.4)	$ (44.1)
Revenue deferred	(102.1)	(109.3)	(342.4)	(303.3)
Revenue recognized	121.7	91.3	326.0	247.8
Other	(0.5)	(1.7)	(1.9)	2.3
Deferred revenue at end of period	$ (114.7)	$ (97.3)	$ (114.7)	$ (97.3)

Remaining Performance Obligations

As of February 29, 2020, we had approximately $1.1 billion of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity (IDIQ) contracts. We expect that approximately 40% of this backlog will be recognized as revenue over the next 12 months with the majority of the remainder recognized over the next three years. The amount of remaining performance obligations, which is expected to be recognized as revenue beyond 12 months, primarily relates to our long-term, power-by-the-hour programs where we provide component inventory management and repair services.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Disaggregation of Revenue

Sales across the major customer markets for each of our operating segments for the three- and nine-month periods ended February 29/28, 2020 and 2019 were as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Aviation Services:				
Commercial	$ 353.7	$ 350.8	$ 1,053.8	$ 983.0
Government and defense	176.6	146.5	520.3	415.6
	$ 530.3	$ 497.3	$ 1,574.1	$ 1,398.6
Expeditionary Services:				
Commercial	$ 5.5	$ 6.8	$ 17.6	$ 23.3
Government and defense	17.3	25.4	63.8	67.2
	$ 22.8	$ 32.2	$ 81.4	$ 90.5

Sales by geographic region for the three- and nine-month periods ended February 29/28, 2020 and 2019 were as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Aviation Services:				
North America	$ 412.9	$ 373.7	$ 1,198.9	$ 1,024.9
Europe/Africa	85.1	80.9	273.1	245.4
Other	32.3	42.7	102.1	128.3
	$ 530.3	$ 497.3	$ 1,574.1	$ 1,398.6
Expeditionary Services:				
North America	$ 20.2	$ 30.2	$ 74.8	$ 85.1
Europe/Africa	2.6	1.5	6.2	4.2
Other	—	0.5	0.4	1.2
	$ 22.8	$ 32.2	$ 81.4	$ 90.5

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Note 4 – Accounts Receivable

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

	February 29, 2020	May 31, 2019
U.S. Government contracts:		
Trade receivables	$ 40.4	$ 28.7
Unbilled receivables	30.5	31.7
	70.9	60.4
All other customers:		
Trade receivables	117.3	92.5
Unbilled receivables	37.5	44.9
	154.8	137.4
	$ 225.7	$ 197.8

Included in the table above are past due receivables owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia, Peru, and Poland. Our past due receivables owed by these customers was $9.9 million as of February 29, 2020, which was net of allowance for doubtful accounts of $7.8 million.

Note 5 – Accounting for Stock-Based Compensation

Restricted Stock

In the three-month period ended August 31, 2019, as part of our annual long-term stock incentive compensation, we granted 52,475 shares of performance-based restricted stock and 56,535 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was $37.66 (the closing price on the grant date). In June 2019, we also granted 43,142 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of $30.60.

Expense charged to operations for restricted stock during the three-month periods ended February 29/28, 2020 and 2019 was $2.3 million and $2.7 million, respectively, and $7.2 million and $5.7 million during the nine-month periods ended February 29/28, 2020 and 2019.

Stock Options

In July 2019, as part of our annual long-term stock incentive compensation, we granted 414,460 stock options to eligible employees at an exercise price of $37.66 and weighted average fair value of $10.30. The fair value of stock options was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	1.9 %
Expected volatility of common stock	32.0 %
Dividend yield	0.8 %
Expected option term in years	4.5

The total intrinsic value of stock options exercised during the nine-month periods ended February 29/28, 2020 and 2019 was $6.2 million and $12.0 million, respectively. Expense charged to operations for stock options during the three-month periods ended

(Dollars in millions, except per share amounts)

February 29/28, 2020 and 2019 was $0.9 million and $1.0 million, respectively, and during the nine-month periods ended February 29/28, 2020 and 2019 was $3.1 million and $3.2 million, respectively.

Note 6 – Inventory

The summary of inventories is as follows:

	February 29, 2020	May 31, 2019
Aircraft and engine parts, components and finished goods	$ 553.0	$ 467.9
Raw materials and parts	50.2	41.8
Work-in-process	18.4	14.0
	$ 621.6	$ 523.7

Note 7 – Supplemental Cash Flow Information

	Nine Months Ended February 29/28,	
	2020	2019
Interest paid	$ 6.0	$ 6.7
Income taxes paid	14.0	5.3
Income tax refunds received	2.6	—

Note 8 – Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2021, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

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

During the nine-month period ended February 29/28, 2020 and 2019, we sold $588.8 million and $547.6 million, respectively, of receivables under the Purchase Agreement and remitted $589.4 million and $519.8 million, respectively, to the Purchaser on their behalf. As of February 29, 2020 and May 31, 2019, we had collected cash of $27.9 million and $19.8 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other expense, net on our Condensed Consolidated Statements of Operations. We incurred discounts on the sale of our receivables of $0.4 million and $0.6 million during the three-month periods ended February 29/28, 2020 and 2019, respectively, and $1.5 million and $1.6 million during the nine-month periods ended February 29/28, 2020 and 2019, respectively.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Note 9 – Financing Arrangements

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

	February 29, 2020	May 31, 2019
Revolving Credit Facility expiring September 25, 2024 with interest payable monthly	$ 185.0	$ 120.0
Term loan due November 1, 2021 with interest payable monthly	23.1	22.9
Total debt	208.1	142.9
Debt issuance costs, net	(2.1)	(1.2)
Long-term debt	$ 206.0	$ 141.7

At February 29, 2020, our variable rate debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

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

On September 25, 2019, we entered into an amendment to our Revolving Credit Facility that extended the maturity of the Revolving Credit Facility to September 25, 2024, increased the revolving credit commitment to $600 million, and modified certain other provisions. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million, not to exceed $900 million in total. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At February 29, 2020, we were in compliance with the financial and other covenants in our financing agreements.

Note 10 – Leases

We lease facilities, offices, vehicles, and equipment. We determine at inception whether an arrangement that provides us control over the use of an asset is a lease. ROU assets and lease liabilities are recognized on the Condensed Consolidated Balance Sheet at lease commencement date based on the present value of the future minimum lease payments over the lease term. Our lease agreements do not provide a readily determinable implicit rate nor is it available to us from our lessors. We estimate our incremental borrowing rate based on information available at lease commencement in order to discount lease payments to present value.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Our lease costs are allocated over the remaining lease term on a straight-line basis unless another systematic or rational basis is more representative of the pattern in which the underlying asset is expected to be used. ROU assets are evaluated for impairment in a manner consistent with the treatment of other long-lived assets.

Certain leases include options to renew or extend the terms of the lease, which are included in the determination of the ROU assets and lease liabilities when it is reasonably certain that the option will be exercised. Our leases may also include variable lease payments such as escalation clauses based on consumer price index rates, maintenance costs and utilities. Variable lease payments that depend on an index or a rate are included in the determination of ROU assets and lease liabilities using the index or rate at the lease commencement date, whereas variable lease payments that do not depend on an index or rate are recorded as lease expense in the period incurred. Our lease agreements do not contain any significant residual value guarantees or restrictive covenants.

The summary of our operating lease cost is as follows:

	Three Months Ended February 29, 2020	Nine Months Ended February 29, 2020
Operating lease cost	$ 4.9	$ 13.6
Short-term lease cost	1.4	4.0
Variable lease cost	1.5	4.3
	$ 7.8	$ 21.9

With the exception of a land lease for one of our airframe maintenance facilities that expires in 2108, our operating leases expire at various dates through 2039. Maturities of our operating lease payments as of February 29, 2020 are as follows:

2020 (excluding the nine months ended February 29, 2020)	$ 4.1
2021	16.9
2022	14.9
2023	13.1
2024	11.1
Thereafter	51.7
Total undiscounted payments	111.8
Less: Imputed interest	(17.9)
Present value of minimum lease payments	93.9
Less: Operating lease liabilities – current	(13.9)
Operating lease liabilities – non-current	$ 80.0

The current portion of operating lease liabilities are presented within Accrued expenses on our Condensed Consolidated Balance Sheet.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Prior to the adoption of ASC 842, our future minimum operating lease payments at May 31, 2019 were as follows:

2020	$ 21.6
2021	19.3
2022	16.5
2023	13.2
2024	11.0
Thereafter	39.9
	$ 121.5

As of February 29, 2020, the weighted average remaining lease term and discount rate for our operating leases were approximately 8.7 years and 3.6%, respectively.

Supplemental cash flow information related to leases for the three- and nine-month period ended February 29, 2020 was as follows:

	Three Months Ended February 29, 2020	Nine Months Ended February 29, 2020
Cash paid for amounts included in the measurement of lease liabilities	$ 2.4	$ 10.0
Operating lease liabilities arising from obtaining ROU assets	0.1	13.2

Note 11 – Investments in Joint Ventures

Our investments in joint ventures includes $6.1 million for our 40% ownership interest in a joint venture in India to develop and operate an airframe maintenance facility. Facility construction is expected to be completed in fiscal 2021.

The investment balance as of February 29, 2020 includes $4.6 million related to the guarantee liability recognized in conjunction with our guarantee of 40% of the Indian joint venture's debt. The Indian joint venture is accounted for using the equity method. In addition, each of the partners in the Indian joint venture have a loan to the joint venture proportionate to their equity ownership. Our loan to the Indian joint venture under this arrangement was $2.9 million as of February 29, 2020.

Note 12 – Earnings per Share

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

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

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

A reconciliation of the computations of basic and diluted earnings per share information for the three- and nine-month periods ended February 29/28, 2020 and 2019 is as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Basic and Diluted EPS:				
Income from continuing operations	$ 2.6	$ 27.4	$ 39.8	$ 57.5
Less income attributable to participating shares	—	(0.1)	(0.2)	(0.2)
Income from continuing operations attributable to common shareholders	2.6	27.3	39.6	57.3
Loss from discontinued operations attributable to common shareholders	(0.3)	(64.8)	(18.9)	(72.8)
Net income attributable to common shareholders for earnings per share	$ 2.3	$ (37.5)	$ 20.7	$ (15.5)
Weighted Average Shares:				
Weighted average common shares outstanding – basic	34.7	34.5	34.8	34.6
Additional shares from the assumed exercise of stock options	0.4	0.4	0.3	0.4
Weighted average common shares outstanding – diluted	35.1	34.9	35.1	35.0
Earnings per share – basic:				
Earnings from continuing operations	$ 0.08	$ 0.79	$ 1.14	$ 1.66
Loss from discontinued operations	(0.01)	(1.87)	(0.54)	(2.11)
Earnings per share – basic	$ 0.07	$ (1.08)	$ 0.60	$ (0.45)
Earnings per share – diluted:				
Earnings from continuing operations	$ 0.07	$ 0.78	$ 1.13	$ 1.63
Loss from discontinued operations	(0.01)	(1.86)	(0.54)	(2.08)
Earnings per share – diluted	$ 0.06	$ (1.08)	$ 0.59	$ (0.45)

The potential dilutive effect of 265,000 and 277,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for both the three- and nine-month periods ended February 29/28, 2020 and 2019 as the shares would have been anti-dilutive.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

Note 13 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for the three- and nine-month periods ended February 29/28, 2020 and 2019 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at December 1, 2019	$ (1.7)	$ (38.3)	$ (40.0)
Other comprehensive income before reclassifications	(0.1)	—	(0.1)
Amounts reclassified from AOCL	—	0.2	0.2
Total other comprehensive income (loss)	(0.1)	0.2	0.1
Balance at February 29, 2020	$ (1.8)	$ (38.1)	$ (39.9)
Balance at December 1, 2018	$ (0.8)	$ (31.8)	$ (32.6)
Other comprehensive loss before reclassifications	0.5	—	0.5
Amounts reclassified from AOCL	—	0.3	0.3
Total other comprehensive income	0.5	0.3	0.8
Balance at February 28, 2019	$ (0.3)	$ (31.5)	$ (31.8)

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2019	$ (2.1)	$ (38.8)	$ (40.9)
Other comprehensive income before reclassifications	0.3	—	0.3
Amounts reclassified from AOCL	—	0.7	0.7
Total other comprehensive income	0.3	0.7	1.0
Balance at February 29, 2020	$ (1.8)	$ (38.1)	$ (39.9)
Balance at June 1, 2018	$ 0.3	$ (32.3)	$ (32.0)
Other comprehensive loss before reclassifications	(0.6)	—	(0.6)
Amounts reclassified from AOCL	—	0.8	0.8
Total other comprehensive income (loss)	(0.6)	0.8	0.2
Balance at February 28, 2019	$ (0.3)	$ (31.5)	$ (31.8)

Note 14 – Business Segment Information

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

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

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2020
(Unaudited)
(Dollars in millions, except per share amounts)

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

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2019 except for our revised accounting policy for leases. On June 1, 2019, we adopted ASC 842 which amended the existing accounting standards for lease accounting. Prior periods have not been restated for ASC 842 and continue to be reported under the accounting standards in effect for those periods. A discussion of our revised accounting policy for leases is included in Note 10 to the Condensed Consolidated Financial Statements.

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

Selected financial information for each segment is as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Sales:				
Aviation Services	$ 530.3	$ 497.3	$ 1,574.1	$ 1,398.6
Expeditionary Services	22.8	32.2	81.4	90.5
	$ 553.1	$ 529.5	$ 1,655.5	$ 1,489.1

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Gross profit:				
Aviation Services	$ 65.2	$ 81.7	$ 230.9	$ 223.7
Expeditionary Services	0.1	3.6	1.9	11.1
	$ 65.3	$ 85.3	$ 232.8	$ 234.8

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

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2020	2019	2020	2019
Gross profit	$ 65.3	$ 85.3	$ 232.8	$ 234.8
Selling, general and administrative	(58.1)	(54.8)	(173.3)	(152.1)
Provision for doubtful accounts	(1.9)	(0.7)	(3.3)	(13.7)
Other income (expense), net	(0.2)	(0.6)	(0.6)	(0.4)
Interest expense	(2.4)	(2.6)	(6.5)	(7.2)
Interest income	0.1	0.2	0.3	0.8
Income from continuing operations before provision for income taxes	$ 2.8	$ 26.8	$ 49.4	$ 62.2

Note 15 – Legal Proceedings

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

Department of Justice Investigation

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

Airlift is cooperating with the DoJ investigation. In order to explore whether a negotiated resolution of the matter is possible, and in an effort to minimize continuing legal defense costs, Airlift has entered into settlement discussions with the DoJ. Airlift believes it has meritorious defenses and counter-arguments to the concerns raised by the DoJ; however, there is no assurance that any settlement will be achieved. If no settlement is reached, the DoJ and the qui tam plaintiff could pursue civil litigation under the FCA, which provides for the recovery of, among other amounts, treble damages and penalties.

While we believe that it is probable that we will incur a loss from this matter, we cannot yet reasonably estimate the maximum amount of potential loss, nor can we provide any assurance that the ultimate resolution of the remaining exposure for this matter will not be material.

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

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

Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)

General Overview

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

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

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

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

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2019 except for our revised accounting policy for leases. On June 1, 2019, we adopted ASC 842, which amended the existing accounting standards for lease accounting. Prior periods have not been restated for ASC 842 and continue to be reported under the accounting standards in effect for those periods. A discussion of our revised accounting policy for leases is included in Note 10 to the Condensed Consolidated Financial Statements.

Business Trends and Outlook

Consolidated sales for the first nine months of fiscal 2020 increased $166.4 million or 11.2% over the prior year primarily due to an increase in sales of $175.5 million or 12.5% in our Aviation Services segment. While we are uncertain of the magnitude and length of any impact from the coronavirus ("COVID-19") on the aviation industry, we expect to see continued strength in our Aviation Services segment over the long-term given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial aftermarket growth trends are favorable. However, our results of operations are affected by the amount of commercial aircraft flying and flight hours. The current COVID-19 pandemic has decreased the amount of commercial aircraft flying and flight hours, and has created economic disruption.

We believe the impact of COVID-19 will negatively affect our revenues and results of operations. However, in the fourth quarter, we will be taking actions to reduce our fixed costs and overhead by consolidating facilities with the goal to improve our operating efficiencies. Further, in response to the impact of COVID-19, we have taken actions including reducing executive compensation, freezing new hiring, reducing or eliminating all non-essential spend, furloughs and, unfortunately, reducing our workforce. We expect the cost of these fourth quarter actions to be approximately $15 to $20 million with the payback of these actions realized within one year. We remain prepared to take additional action as warranted to respond to the evolving airline demand environment.

Our cash on hand plus unused capacities on our Revolving Credit Facility was $432 million at February 29, 2020. In addition, we had availability of $92 million under our uncommitted accounts receivable financing program at that date.

Results of Operations

Three Month Period Ended February 29, 2020

Sales and gross profit for our two business segments for the three- and nine-months ended February 29, 2020 and 2019 were as follows:

	Three Months Ended February 29/28,			Nine Months Ended February 29/28,		
	2020	2019	% Change	2020	2019	% Change
Sales:						
Aviation Services						
Commercial	$ 353.7	$ 350.8	0.8 %	$ 1,053.8	$ 983.0	7.2 %
Government and defense	176.6	146.5	20.5 %	520.3	415.6	25.2 %
	$ 530.3	$ 497.3	6.6 %	$ 1,574.1	$ 1,398.6	12.5 %
Expeditionary Services						
Commercial	$ 5.5	$ 6.8	(19.1)%	$ 17.6	$ 23.3	(24.5)%
Government and defense	17.3	25.4	(31.9)%	63.8	67.2	(5.1)%
	$ 22.8	$ 32.2	(29.2)%	$ 81.4	$ 90.5	(10.1)%

	Three Months Ended February 29/28,			Nine Months Ended February 29/28,		
	2020	2019	% Change	2020	2019	% Change
Gross Profit (Loss):						
Aviation Services						
Commercial	$ 32.8	$ 52.5	(37.5)%	$ 143.1	$ 141.8	0.9 %
Government and defense	32.4	29.2	11.0 %	87.8	81.9	7.2 %
	$ 65.2	$ 81.7	(20.2)%	$ 230.9	$ 223.7	3.2 %
Expeditionary Services						
Commercial	$ (1.3)	$ 1.0	(230.0)%	$ (3.2)	$ 2.5	(228.0)%
Government and defense	1.4	2.6	(46.2)%	5.1	8.6	(40.7)%
	$ 0.1	$ 3.6	(97.2)%	$ 1.9	$ 11.1	(82.9)%

Three Month Period Ended February 29, 2020

Aviation Services Segment

Sales in the Aviation Services segment increased $33.0 million or 6.6% over the prior year period due to a $30.1 million or 20.5% increase in sales to government and defense customers. The increase in sales to government and defense customers was primarily attributable to growth from new contracts recently awarded.

During the third quarter of fiscal 2020, sales in this segment to commercial customers increased $2.9 million or 0.8% over the prior year period. Sales were reduced by $9.8 million related to the impact of restructuring actions, which included the exit of one customer contract and restructuring of two other customer contracts.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In the third quarter of fiscal 2020, we had net favorable cumulative catch-up adjustments of $2.5 million. In the third quarter of fiscal 2019, we recognized favorable cumulative catch-up adjustments of $0.8 million. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services and certain long-term government programs.

Cost of sales in Aviation Services increased $49.5 million or 11.9% over the prior year period primarily related to contract loss provisions and related costs of $14.9 million for the restructuring activities impacting certain contracts.

Gross profit in the Aviation Services segment decreased $16.5 million or 20.2% from the prior year period. Gross profit on sales to commercial customers decreased $19.7 million or 37.5% from the prior year period primarily due to the restructuring activities discussed above. The gross profit margin on sales to commercial customers decreased to 9.3% from 15.0% primarily from the contract restructuring costs of $14.9 million.

Gross profit on sales to government and defense customers increased $3.2 million or 11.0% over the prior year primarily driven by recently awarded government contracts. Gross profit margin on sales to government and defense customers decreased to 18.3% from 19.9% as the gross profit margin on these recent contract awards is lower than our existing government and defense activity.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $9.4 million or 29.2% from the prior year period primarily due to the timing of contract awards.

Gross profit in the Expeditionary Services segment decreased $3.5 million or 97.2% from the prior period primarily due to operational challenges impacting profitability in the current year period. Gross profit margin decreased to 0.4% from 11.2% to primarily as a result of these operational challenges.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $3.3 million over the prior year period. As a percent of sales, selling, general and administrative expenses increased to 10.5% from 10.3% in the prior year period. These increases are primarily attributable to increased costs over the prior year quarter for investigation and remediation compliance costs of $1.6 million.

Income Taxes

Our effective income tax rate for continuing operations was 7.1% for the third quarter of fiscal 2020 compared to an income tax benefit in the prior year period. The current year quarter included excess tax benefits from stock options exercises of $0.6 million which favorably impacted the effective tax rate. The prior year quarter included a tax benefit of $4.7 million related to the recognition of previously unrecognized uncertain tax positions and a tax benefit of $1.8 million related to tax provision to federal income tax return filing differences.

Nine Month Period Ended February 29, 2020

Aviation Services Segment

Sales in the Aviation Services segment increased $175.5 million or 12.5% over the prior year period primarily due to a $104.7 million or 25.2% increase in sales to government and defense customers. The increase in sales to government and defense customers was primarily attributable to new contracts awarded recently, including the $118 million contract for the procurement, modification and delivery of two C-40 aircraft we received in early fiscal 2020.

During the nine-month period ended February 29, 2020, sales in this segment to commercial customers increased $70.8 million or 7.2% over the prior year period. The increase was primarily due to higher volumes in our MRO activities as our actions to attract and retain the necessary skilled labor have allowed us to capture the customer demand for these services.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. During the nine-month period ended February 29, 2020, we had net favorable cumulative catch-up adjustments of $4.4 million. During the nine-month period ended February 28, 2019, we recognized net favorable and unfavorable cumulative catch-up adjustments of $4.1 million. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services and certain long-term government programs.

Cost of sales in Aviation Services increased $168.3 million or 14.3% over the prior year period, which was primarily related to the higher volumes in our MRO activities partially offset by the contract restructuring charges.

Gross profit in the Aviation Services segment increased $7.2 million or 3.2% over the prior year period. Gross profit on sales to government and defense customers increased $5.9 million or 7.2% over the prior year primarily driven by the new government contract awards. Gross profit margin on sales to government and defense customers decreased to 16.9% from 19.7% as the gross profit margin on these recent contract awards is lower than our existing government and defense activity.

Gross profit on sales to commercial customers increased $1.3 million or 0.9% over the prior year period primarily due to the increased volume and improved profitability in our MRO activities partially offset by the contract restructuring charges across three commercial program customers. The gross profit margin on sales to commercial customers decreased to 13.6% from 14.4% primarily from the increased profitability in our MRO activities partially offset by the reduced gross profit margin in our commercial program activities.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased $9.1 million or 10.1% from the prior year period primarily due to the timing of contract awards. Gross profit in the Expeditionary Services segment decreased $9.2 million or 82.9% from the prior period primarily due to operational challenges impacting profitability in the current year. Gross profit margin decreased to 2.3% from 12.3% primarily as a result of these operational challenges.

Provision for Doubtful Accounts

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $21.2 million or 13.9% over the prior year period. As a percent of sales, selling, general and administrative expenses increased to 10.5% from 10.2% in the prior year period. The increase as a percent of sales is primarily attributable to increased investigation and remediation compliance costs of $6.6 million.

Income Taxes

Our effective income tax rate for continuing operations was 19.4% for the nine-month period ended February 29, 2020 compared to 7.6% for the prior year period. The prior year period included a tax benefit of $4.7 million related to the recognition of previously unrecognized uncertain tax positions and a tax benefit of $1.8 million related to tax provision to federal income tax return filing differences.

Liquidity, Capital Resources and Financial Position

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

At February 29, 2020, our liquidity and capital resources included cash of $37.0 million and working capital of $672.8 million.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders. On September 25, 2019, we entered into an amendment to our Revolving Credit Facility which extended the maturity of the Revolving Credit Facility to September 25, 2024, increased the revolving credit commitment to $600 million, and modified certain other provisions. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the revolving credit commitment by an aggregate amount of up to $300 million.

Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 87.5 to 175 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 75 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at February 29, 2020 were $185.0 million and there were approximately $20.3 million of outstanding letters of credit, which reduced the availability of this facility to $394.7 million. There are no other terms or covenants limiting the availability of this facility. Subsequent to the end of the quarter, we elected to draw down on the Revolving Credit Facility in an amount equal to $165 million with the majority of that draw remaining in our cash accounts. We elected to borrow such amounts as a precautionary measure in light of economic and market uncertainty presented by COVID-19.

As of February 29, 2020, we also had other financing arrangements that did not limit our availability on the Revolving Credit Facility including outstanding letters of credit of $11.6 million and foreign lines of credit of $9.5 million.

We maintain a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2021, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

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

At February 29, 2020, we complied with all financial and other covenants under our financing arrangements.

Cash Flows from Operating Activities

Net cash used in operating activities–continuing operations was $0.5 million in the nine-month period ended February 29, 2020 compared to cash provided of $16.4 million in the prior year period. The decrease from the prior period of $16.9 million was primarily attributable to working capital changes, including customer invoice collection timing.

Cash Flows from Investing Activities

Net cash used in investing activities–continuing operations was $20.0 million during the nine-month period ended February 29, 2020 compared to $13.3 million in the prior year period. The increase from the prior period was primarily related to higher expenditures for property and equipment in the current year period.

Cash Flows from Financing Activities

Net cash provided from financing activities–continuing operations was $52.6 million during the nine-month period ended February 29, 2020 compared to cash used of $0.4 million in the prior year period. The increase was primarily related to additional borrowings in fiscal 2020 on our Revolving Credit Facility.

Critical Accounting Policies and Significant Estimates

We make a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our 2019 Form 10-K for a discussion of our critical accounting policies. There have been no significant changes to the application of our critical accounting policies during the third quarter of fiscal 2020.

Forward-Looking Statements

This report contains certain forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of our management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including those factors set forth under Part II, Item 1A of this Quarterly Report on Form 10-Q and under Part I, Item 1A in our Annual Report on Form 10-K for the year ended May 31, 2019. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended May 31, 2019 for a discussion of accounts receivable exposure.

Foreign Currency Risk. Revenues and expenses of our foreign operations are translated at average exchange rates during the period, and balance sheet accounts are translated at period-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders’ equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations for the quarter ended February 29, 2020.

Interest Rate Risk. Refer to the section Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended May 31, 2019. There were no significant changes during the quarter ended February 29, 2020.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of February 29, 2020. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and our Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of February 29, 2020 due to the material weaknesses in internal control over financial reporting that were disclosed in our Annual Report on Form 10-K for the year ended May 31, 2019.

Remediation

We have executed against the remediation plan previously disclosed in our Annual Report on Form 10-K for the year ended May 31, 2019 related to the material weakness related to our controls over inventory cycle counts. We have designed and implemented controls to ensure that all inventory stocking locations are counted within a reasonable timeframe. This remediation plan included our completion of physical counts in the first quarter of fiscal 2020 of all inventory stocking locations not previously counted in fiscal 2019. No material inventory adjustments were identified from these counts.

We continue to implement measures designed to remediate the internal control deficiencies related to information technology general controls and controls over changes to vendor data master files. These actions include additional training and expanded controls over end-user and privileged access to IT applications and files. We anticipate completing our remediation of the internal control deficiencies by the end of fiscal 2020.

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

Changes in Internal Control Over Financial Reporting

Effective June 1, 2019, we adopted ASC 842, which amended the existing accounting standards for lease accounting. We have implemented certain changes to our internal controls over financial reporting to support the reporting and disclosure requirements of the new lease standard. Other than changes related to our remediation efforts and the new accounting processes, systems, and controls for lease accounting, there were no other changes in our internal control over financial reporting during fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1 – Legal Proceedings

Our Condensed Consolidated Financial Statements for the quarter ended February 29, 2020 contained in this Quarterly Report on Form 10-Q includes information on legal proceedings in Note 15 that constitute material contingencies for financial reporting purposes that could have a material adverse effect on our consolidated financial position or liquidity if they were resolved in a manner that is adverse to us. This item should be read in conjunction with Note 15 for information regarding the following material legal proceedings

There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 15 to our Condensed Consolidated Financial Statements for the quarter ended February 29, 2020 contained in this Quarterly Report on Form 10-Q.

Item 1A — Risk Factors

There is no material change in the information reported under "Part I-Item 1A-Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2019 with the exception of the following:

The coronavirus pandemic could have a material adverse impact on the Company’s business, operating results, financial condition, and liquidity.

In December 2019, an outbreak of a novel strain of coronavirus (“COVID-19”) originated in Wuhan, China, and has since spread to a number of other countries, including the United States. In March 2020, the World Health Organization characterized COVID-19 as a pandemic. Several countries, including the United States, have taken steps to restrict air travel, and many companies have adopted policies prohibiting non-essential business travel by their employees. Even in the absence of formal restrictions and prohibitions, contagious illness and fear of contagion could adversely affect travel demand or travel behavior. Moreover, if the COVID-19 pandemic results in decreased worldwide commercial activity, it could also adversely affect the demand for airline cargo services. Reduced numbers of aircraft flying or flight hours negatively impacts the demand for our services, and any prolonged reduction could materially and adversely affect our business, operating results, financial condition, and liquidity.

In addition, we source parts and components for our business from various suppliers around the world. Disruptions to our supply chain and business operations, or to our suppliers’ or customers’ supply chains and business operations, could have adverse ripple effects on our ability to provide aftermarket support and services. Moreover, a prolonged epidemic or pandemic, or the threat thereof, could result in worker absences, lower productivity, voluntary closure of our offices and facilities, travel restrictions for our employees and other disruptions to our business. Any of these could have a material adverse effect on our business, financial condition or results of operations.

Item 6 — Exhibits

The exhibits to this report are listed on the following index:

Exhibit No.	Description		Exhibits
10.	Material Contracts	10.1*	Severance and Change in Control Agreement dated as of February 3, 2020 between AAR CORP. and Jessica Garascia (filed herewith).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1	Section 302 Certification dated March 24, 2020 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		31.2	Section 302 Certification dated March 24, 2020 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1	Section 906 Certification dated March 24, 2020 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		32.2	Section 906 Certification dated March 24, 2020 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2020, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at February 29, 2020 and May 31, 2019, (ii) Condensed Consolidated Statements of Operations for the three- and nine-months ended February 29/28, 2020 and 2019, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three- and nine-months ended February 29/28, 2020 and 2019, (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended February 29/28, 2020 and 2019, (v) Condensed Consolidated Statement of Changes in Equity for the three- and nine-months ended February 29/28, 2020 and 2019 (vi) Notes to Condensed Consolidated Financial Statements.**

* Management contract and compensatory arrangement.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AAR CORP.
(Registrant)

Date: March 24, 2020

/s/ SEAN M. GILLEN
Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer and officer duly authorized to sign on behalf of registrant)

/s/ ERIC S. PACHAPA
Eric S. Pachapa
Vice President, Controller and Chief Accounting Officer
(Principal Accounting Officer)

Exhibit 10.1

SEVERANCE AND CHANGE IN CONTROL AGREEMENT

This Severance and Change in Control Agreement (“Agreement”) is made and entered into as of the 3rd day of February, 2020, by and between AAR CORP., a Delaware corporation (the “Company”), and Jessica Garascia (“Employee”).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

7. **Change in Control**.

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

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

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

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

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

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

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

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

(c) For purposes of this Agreement

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

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

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

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

(ii) "Good Reason" means:

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

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

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

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

(iv) "Cause" means:

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

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

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

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

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

(Y) any action taken by Employee in connection with Employee's duties hereunder, or any failure to act, if Employee acted or failed to act in good faith and in a manner Employee reasonably believed to be in and not opposed to the best interest of the Company and Employee had no reasonable cause to believe Employee's conduct was unlawful; or

(Z) termination of Employee's employment for overall unsatisfactory performance (including, but not limited to, failure to meet financial goals).

Termination for Cause shall be limited to a good faith finding by resolution of the Compensation Committee of the Board, setting forth the particulars thereof. Any such action shall be taken at a regular or specially called meeting of the Compensation Committee of the Board, after a minimum ten (10) days' notice thereof to Employee, with termination of Employee's employment with the Company for Cause listed as an agenda item. Employee will be given a reasonable opportunity to be heard at such meeting with counsel present if Employee desires. Any such resolution shall be final and binding.

Upon termination of employment by Company for Cause, no further compensation or benefits shall accrue or be payable to Employee by the Company, except for any compensation, bonus or other benefits which have accrued to Employee prior to the date of any such termination.

Nothing herein shall be construed to prevent the Company from terminating Employee's employment at any time for any reason or for no reason.

(d) The Company will pay reasonable legal/attorney's fees (including court costs and other costs of litigation) incurred by Employee in connection with enforcement of any right or benefit under this Agreement.

(e) If in connection with the Change in Control or other event Employee would be or is subject to an excise tax under Section 4999 of the Internal Revenue Code (an "Excise Tax") with respect to any cash, benefits or other property received, or any acceleration of vesting of any benefit or award (the "Change in Control Benefits"), Employee may elect to have the Change in Control Benefits otherwise payable under this Agreement reduced to the largest amount payable without resulting in the imposition of such Excise Tax. Within 15 days after the occurrence of the event that triggers the Excise Tax, a nationally recognized accounting firm selected by the Company shall make a determination as to whether any Excise Tax would be reported with respect to the Change in Control Benefits and, if so, the amount of the Excise Tax, the total net after-tax amount of the Change in Control Benefits (after taking into account federal, state and local income and employment taxes and the Excise Tax) and the amount of reduction to the Change in Control Benefits necessary to avoid such Excise Tax. Any reduction to the Change in Control Benefits shall first be made from any cash benefits payable pursuant to this Agreement, if any, and thereafter, as determined by Employee, and the Company shall provide Employee with such information as is necessary to make such determination. The Company shall be responsible for all fees and expenses connected with the determinations by the accounting firm pursuant to this Section 10(e). Employee agrees to notify the Company in the event of any audit or other proceeding by the IRS or any taxing authority in which the IRS or other taxing authority asserts that any Excise Tax should be assessed against Employee and to cooperate with the Company in contesting any such proposed assessment with respect to such Excise Tax (a "Proposed Assessment"). Employee agrees not to settle any Proposed Assessment without the consent of the Company. If the Company does not consent to allow Employee to settle the Proposed Assessment, within 30 days following such demand therefor, the Company shall indemnify and hold harmless Employee with respect to any additional taxes, interest and/or penalties that Employee is required to pay by reason of the delay in finally resolving Employee's tax liability (such indemnification to be made as soon as practicable, but in no event later than the end of the calendar year following the calendar year in which Employee makes such remittance).

8. **Changes in Business**. The Company, acting through its Board of Directors, will at all times have complete control over the Company's business and retirement and other employee health and welfare benefit plans ("Plans"). Without limiting the generality of the foregoing, the Company may at any time or times change or discontinue any or all of its present or future operations or Plans (subject to their terms), may close or move any one or more of its divisions or offices, may undertake any new servicing or sales operation, may sell any one or more of its divisions or offices to any company not controlled, directly or indirectly, by the Company or may take any and all other steps which its Board of Directors, in its exclusive judgment, shall deem desirable, and Employee shall have no claim or recourse against the Company, its officers, directors or employees by reason of such action except for enforcement of the provisions of Sections 5 and 7 of this Agreement.

9. **Severance Payment as Sole Obligation**. Except as expressly provided in Sections 5 and 7 above, no further compensation, payments, liabilities or benefits shall accrue or be payable to Employee upon or as a result of termination of Employee's employment for any reason whatsoever except for any compensation, bonus or other benefits which accrued to Employee prior to the date of employment termination.

   The amounts paid to the Employee under Section 5 and 7 of this Agreement shall be considered severance pay in consideration of past services Employee has rendered to the Company and in consideration of Employee's continued service from the date hereof to entitlement to those payments.

10. **Notices**. Any notice or other instrument or thing required or permitted to be given, served or delivered to any of the parties hereto shall be delivered personally, or via United States mail, overnight delivery or facsimile transmission to the addresses listed below:

    (a) If to the Company, to:

AAR CORP.
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
Attention: Chief Executive Officer

With a copy to:

AAR CORP.
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
Attention: General Counsel
Fax No.: 630-227-2058

(b) If to Employee, to:

Jessica Garascia
1218 South State Street
Chicago, Illinois 60605

or to such other address as either party may from time to time designate by notice to the other. Each notice shall be effective when such notice and any required copy are delivered to the applicable address.

11. **Non-Assignment**.

(a) The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of Employee, and any attempted unpermitted assignment shall be null and void and without further effect; provided, however, that, upon the sale or transfer of all or substantially all of the assets of the Company, or upon the merger by the Company into or the combination with another corporation or other business entity, or upon the liquidation or dissolution of the Company, this Agreement will inure to the benefit of and be binding upon the person, firm or corporation purchasing such assets, or the corporation surviving such merger or consolidation, or the shareholder effecting such liquidation or dissolution, as the case may be. After any such transaction, the term Company in this Agreement shall refer to the entity which conducts the business now conducted by the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the estate and beneficiaries of Employee and upon and to the benefit of the permitted successors and assigns of the parties hereto.

(b) The Employee agrees on behalf of Employee, Employee’s heirs, executors and administrators, and any other person or person claiming any benefit under Employee by virtue of this Agreement, that this Agreement and all rights, interests and benefits hereunder shall not be assigned, transferred, pledged or hypothecated in any way by the Employee or by any beneficiary, heir, executor, administrator or other person claiming under the Employee by virtue of this Agreement and shall not be subject to execution, attachment or similar process. Any attempted assigned, transfer, pledge or hypothecation or any other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provisions or the levy or any execution, attachment or similar process thereon shall be null and void and without further effect.

12. **Severability**. If any term, clause or provision contained herein is declared or held invalid by any court of competent jurisdiction, such declaration or holding shall not affect the validity of any other term, clause or provision herein contained.

13. **Construction.** Careful scrutiny has been given to this Agreement by the Company, Employee, and their respective legal counsel. Accordingly, the rule of construction that the ambiguities of the contract shall be resolved against the party which caused the contract to be drafted shall have no application in the construction or interpretation of this Agreement or any clause or provision hereof.

14. **Entire Agreement**. This Agreement as amended and restated herein and the other agreements referred to herein set forth the entire understanding of the parties and supersede all prior agreements, arrangements and communications, whether oral or written, pertaining to the subject matter hereof.

15. **Waiver**. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing signed by Employee and an authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

16. **Governing Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Illinois without regard to its conflicts of law principles.

17. **Execution**. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and which shall constitute but one and the same Agreement.

18. **Provisions Regarding Code §409A**.

(a) If at the time of Employee’s termination of employment for reasons other than death he is a “Key Employee” as determined in accordance with the procedures set forth in Treas. Reg. § 1.409A-1(i), any amounts payable to Employee pursuant to this Agreement that are subject to Section 409A of the Internal Revenue Code shall not be paid or commence to be paid until six months following Employee’s termination of employment, or if earlier, Employee’s subsequent death.

(b) Reimbursements or in-kind benefits provided under this Agreement that are subject to Section 409A of the Internal Revenue Code are subject to the following restrictions: (i) the amount of expenses eligible for reimbursements, or in-kind benefits provided, to Employee during a calendar year shall not affect the expenses eligible for reimbursement or the in-kind benefits provided in any other calendar year, and (ii) reimbursement of an eligible expense shall be made as soon as practicable, but in no event later than the last day of the calendar year following the calendar year in which the expense was incurred.

(c) Employee's right to receive installment payments pursuant to this Agreement shall be treated as the right to receive a series of separate and distinct payments.

WITNESS the due execution of this Agreement by the parties hereto as of the day and year first above written.

Employer:

AAR CORP.

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

Employee:

/s/ Jessica Garascia
Jessica Garascia

SECTION 302
CERTIFICATION

I, John M. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AAR CORP. (the "Registrant") for the quarterly period ended February 29, 2020;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: March 24, 2020

/s/ JOHN M. HOLMES
John M. Holmes
President and Chief Executive Officer

Exhibit 31.2

SECTION 302
CERTIFICATION

I, Sean M. Gillen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AAR CORP. (the “Registrant”) for the quarterly period ended February 29, 2020;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

DATE: March 24, 2020

/s/ SEAN M. GILLEN
Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the AAR CORP. (the “Company") quarterly report on Form 10-Q for the period ended February 29, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report"), I, John M. Holmes, President and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 24, 2020

/s/ JOHN M. HOLMES
John M. Holmes
President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the AAR CORP. (the "Company") quarterly report on Form 10-Q for the period ended February 29, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean M. Gillen, Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 24, 2020

/s/ SEAN M. GILLEN
Sean M. Gillen
Vice President and Chief Financial Officer
(Principal Financial Officer)