
**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 August 31, 2021

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:

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See 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 August 31, 2021 there were 35,471,158 shares of the registrant's Common Stock, \$1.00 par value per share, outstanding.

[Table of Contents](#)

AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended August 31, 2021
Table of Contents

	<u>Page</u>
<u>Part I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Operations</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	6
<u>Condensed Consolidated Statements of Cash Flows</u>	7
<u>Condensed Consolidated Statements of Changes in Equity</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4. Controls and Procedures</u>	25
<u>Part II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	26
<u>Item 1A. Risk Factors</u>	26
<u>Item 6. Exhibits</u>	27
<u>Exhibit Index</u>	27
<u>Signatures</u>	29

PART I – FINANCIAL INFORMATION**Item 1 – Financial Statements**

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of August 31, 2021 and May 31, 2021
(In millions, except share data)

ASSETS

	<u>August 31,</u> <u>2021</u>	<u>May 31,</u> <u>2021</u>
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 48.8	\$ 51.8
Restricted cash	3.8	8.4
Accounts receivable, less allowances of \$16.9 and \$16.4, respectively	180.8	166.7
Contract assets	74.6	71.9
Inventories	525.8	540.6
Rotable assets and equipment on or available for short-term lease	52.3	50.4
Assets of discontinued operations	19.2	19.5
Prepaid expenses and other current assets	39.6	27.7
Total current assets	<u>944.9</u>	<u>937.0</u>
Property, plant and equipment, net of accumulated depreciation of \$270.2 and \$260.2 respectively	<u>109.1</u>	<u>120.0</u>
Other assets:		
Goodwill and intangible assets, net	122.1	123.8
Operating lease right-of-use assets, net	73.6	75.8
Rotable assets supporting long-term programs	178.0	184.3
Other non-current assets	108.0	98.8
	<u>481.7</u>	<u>482.7</u>
	<u>\$ 1,535.7</u>	<u>\$ 1,539.7</u>

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 August 31, 2021 and May 31, 2021
(In millions, except share data)

LIABILITIES AND EQUITY

	August 31, 2021 (Unaudited)	May 31, 2021
Current liabilities:		
Accounts payable	\$ 144.2	\$ 127.2
Accrued liabilities	159.8	174.2
Liabilities of discontinued operations	20.2	35.4
Total current liabilities	<u>324.2</u>	<u>336.8</u>
Long-term debt	127.6	133.7
Operating lease liabilities	58.0	59.9
Deferred revenue on long-term programs	7.7	5.4
Other liabilities	30.0	29.5
	<u>223.3</u>	<u>228.5</u>
Equity:		
Preferred stock, \$1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, \$1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	479.9	479.8
Retained earnings	753.2	741.7
Treasury stock, 9,829,628 and 9,925,551 shares at cost, respectively	(271.6)	(274.1)
Accumulated other comprehensive loss	(18.6)	(18.3)
Total equity	<u>988.2</u>	<u>974.4</u>
	<u>\$ 1,535.7</u>	<u>\$ 1,539.7</u>

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 Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions, except share data)

	Three Months Ended August 31,	
	2021	2020
Sales:		
Sales from products	\$ 262.1	\$ 236.3
Sales from services	193.0	164.5
	<u>455.1</u>	<u>400.8</u>
Cost and operating expenses:		
Cost of products	217.6	204.5
Cost of services	172.9	147.7
Selling, general and administrative	49.3	45.3
	<u>439.8</u>	<u>397.5</u>
Loss from joint ventures	(0.2)	(0.1)
Operating income	15.1	3.2
Loss on sale of business	—	(19.5)
Other income, net	0.7	0.2
Interest expense	(0.7)	(1.7)
Interest income	—	0.1
Income (Loss) from continuing operations before provision for income taxes	15.1	(17.7)
Provision for income taxes (benefit)	3.9	(3.8)
Income (Loss) from continuing operations	11.2	(13.9)
Income (Loss) from discontinued operations, net of tax	0.3	(0.6)
Net income (loss)	<u>\$ 11.5</u>	<u>\$ (14.5)</u>
Earnings (Loss) per share – basic:		
Earnings (Loss) from continuing operations	\$ 0.32	\$ (0.40)
Earnings (Loss) from discontinued operations	0.01	(0.02)
Earnings (Loss) per share – basic	<u>\$ 0.33</u>	<u>\$ (0.42)</u>
Earnings (Loss) per share – diluted:		
Earnings (Loss) from continuing operations	\$ 0.31	\$ (0.40)
Earnings (Loss) from discontinued operations	0.01	(0.02)
Earnings (Loss) per share – diluted	<u>\$ 0.32</u>	<u>\$ (0.42)</u>

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 Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions)

	Three Months Ended	
	August 31,	
	2021	2020
Net income (loss)	\$ 11.5	\$ (14.5)
Other comprehensive income (loss), net of tax expense (benefit):		
Currency translation adjustments	(0.6)	1.2
Pension and other post-retirement plans:		
Amortization of actuarial loss and prior service cost included in net income, net of tax of \$0.1 and \$0.1	0.3	0.3
Other comprehensive income (loss), net of tax	(0.3)	1.5
Comprehensive income (loss)	<u>\$ 11.2</u>	<u>\$ (13.0)</u>

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 Three Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions)

	Three Months Ended August 31,	
	2021	2020
Cash flows provided from (used in) operating activities:		
Net income (loss)	\$ 11.5	\$ (14.5)
Less: (Income) Loss from discontinued operations	(0.3)	0.6
Income (Loss) from continuing operations	11.2	(13.9)
Adjustments to reconcile income (loss) from continuing operations to net cash provided from operating activities:		
Depreciation and intangible amortization	8.9	9.0
Stock-based compensation	3.1	2.7
Deferred tax provision	0.2	1.4
Loss from joint ventures	0.2	0.1
Loss on sale of business	—	19.5
Customer contract termination costs	—	2.2
Impairment charges	2.3	5.8
Changes in certain assets and liabilities:		
Accounts receivable	(14.5)	2.7
Contract assets	(2.8)	(0.1)
Inventories	14.4	18.8
Prepaid expenses and other current assets	(4.9)	15.8
Rotable assets supporting long-term programs	0.9	1.0
Accounts payable	17.3	(9.9)
Accrued and other liabilities	(14.4)	(15.2)
Payroll Support Program deferred credit	—	40.8
Deferred revenue on long-term programs	(2.0)	(17.9)
Other	(2.4)	(23.0)
Net cash provided from operating activities - continuing operations	17.5	39.8
Net cash used in operating activities - discontinued operations	(14.6)	(0.9)
Net cash provided from operating activities	2.9	38.9
Cash flows used in investing activities:		
Property, plant and equipment expenditures	(2.2)	(3.3)
Other	(2.7)	1.6
Net cash used in investing activities - continuing operations	(4.9)	(1.7)
Cash flows used in financing activities:		
Short-term borrowings, net	(5.0)	(355.0)
Proceeds from Payroll Support Program note	—	8.7
Cash dividends	—	(0.1)
Stock compensation activity	(0.5)	(1.5)
Net cash used in financing activities - continuing operations	(5.5)	(347.9)
Effect of exchange rate changes on cash	(0.1)	0.1
Decrease in cash and cash equivalents	(7.6)	(310.6)
Cash, cash equivalents, and restricted cash at beginning of period	60.2	424.7
Cash, cash equivalents, and restricted cash at end of period	\$ 52.6	\$ 114.1

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 Three Months Ended August 31, 2021 and 2020
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2021	\$ 45.3	\$ 479.8	\$ 741.7	\$ (274.1)	\$ (18.3)	\$ 974.4
Net income	—	—	11.5	—	—	11.5
Stock option activity	—	1.1	—	0.2	—	1.3
Restricted stock activity	—	(1.0)	—	2.3	—	1.3
Other comprehensive income, net of tax	—	—	—	—	(0.3)	(0.3)
Balance, August 31, 2021	<u>\$ 45.3</u>	<u>\$ 479.9</u>	<u>\$ 753.2</u>	<u>\$ (271.6)</u>	<u>\$ (18.6)</u>	<u>\$ 988.2</u>

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2020	\$ 45.3	\$ 478.6	\$ 706.0	\$ (282.7)	\$ (44.6)	\$ 902.6
Net loss	—	—	(14.5)	—	—	(14.5)
Cash dividends	—	—	(0.1)	—	—	(0.1)
Stock option activity	—	0.5	—	0.5	—	1.0
Restricted stock activity	—	(6.0)	—	6.1	—	0.1
Other comprehensive income, net of tax	—	—	—	—	1.5	1.5
Balance, August 31, 2020	<u>\$ 45.3</u>	<u>\$ 473.1</u>	<u>\$ 691.4</u>	<u>\$ (276.1)</u>	<u>\$ (43.1)</u>	<u>\$ 890.6</u>

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
August 31, 2021
(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,” or “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, 2021 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 August 31, 2021, the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income (Loss) for the three-month periods ended August 31, 2021 and 2020, the Condensed Consolidated Statements of Cash Flows for the three-month periods ended August 31, 2021 and 2020, and the Condensed Consolidated Statement of Changes in Equity for the three-month periods ended August 31, 2021 and 2020. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

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. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations.

In the fourth quarter of fiscal 2020, we completed the sale of the last operating contract of the COCO business shortly after government approval. Our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of this contract. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use assets and lease-related liabilities.

Note 3 – Sale of Composites Business

On August 31, 2020, we completed the sale of our aerostructures and aerospace products operations located in Clearwater, Florida and Sacramento, California (“Composites”). The Composites business was formerly included in our Expeditionary Services segment. The sale of Composites is consistent with our multi-year strategy to focus our portfolio on our core services offerings and the transaction has allowed us to further prioritize our efforts in our principal businesses.

We recognized a loss on the sale of the Composites business of \$19.5 million in the first quarter of fiscal 2021. In the fourth quarter of fiscal 2021, the post-closing working capital adjustment was finalized resulting in an additional loss of \$0.7 million. The sale also included contingent consideration of up to \$6.5 million based on the achievement of sales targets over the next two years. The fair value of the earn-out consideration is \$1.3 million as of August 31, 2021.

Note 4 – 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. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

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, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

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

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

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services is 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. For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

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

For the three-month period ended August 31, 2021, we recognized an unfavorable cumulative catch-up adjustment of \$1.0 million. For the three-month period ended August 31, 2020, we recognized favorable cumulative catch-up adjustments of \$0.3 million.

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.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

We have elected to use certain practical expedients permitted under ASU No. 2014-09, *Revenue from Contracts with Customers*. 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 on our Condensed Consolidated Statements of Income, and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the “as invoiced” practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

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 costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Net contract assets and liabilities are as follows:

	August 31, 2021	May 31, 2021	Change
Contract assets – current	\$ 74.6	\$ 71.9	\$ 2.7
Contract assets – non-current	25.9	21.6	4.3
Contract liabilities:			
Deferred revenue – current	(25.3)	(25.9)	0.6
Deferred revenue on long-term contracts	(7.7)	(5.4)	(2.3)
Net contract assets	<u>\$ 67.5</u>	<u>\$ 62.2</u>	<u>\$ 5.3</u>

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 Sheets. 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 August 31, 2020, we terminated a commercial power-by-the-hour (“PBH”) customer contract which resulted in a charge of \$2.2 million.

One of our PBH customers notified us in June 2021 that the customer would terminate its contract with us earlier than we originally anticipated. In conjunction with the early termination, we recognized a charge of \$5.2 million in the three-month period ended August 31, 2021, which included a reduction in contract assets and revenue of \$1.0 million and the establishment of loss reserves of \$4.2 million.

During fiscal 2020, we established forward loss reserves for a certain PBH contract where total estimated costs are in excess of the total estimated consideration over the remainder of the contract. As of August 31, 2021, our Condensed Consolidated Balance Sheet included remaining forward loss reserves of \$2.3 million classified in Accrued liabilities.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

To support our PBH customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement included certain minimum repair volume guarantees, which we have not met due to the impact of COVID-19 on commercial passenger aircraft flight hours. During fiscal 2021, we recognized a \$4.5 million charge to reflect our estimated obligation over the remainder of the agreement for not achieving the minimum volume guarantees. During the three-month period ended August 31, 2021, we recognized a \$1.7 million charge to increase the obligation reflecting the revised estimated shortfall on the minimum volume guarantee. As of August 31, 2021, our Consolidated Balance Sheet included remaining loss reserves of \$4.6 million with \$1.5 million classified as current in Accrued liabilities and \$3.1 million classified as long-term in Other liabilities.

Changes in our deferred revenue were as follows for the three-month periods ended August 31, 2021 and 2020:

	Three Months Ended August 31,	
	2021	2020
Deferred revenue at beginning of period	\$ (31.3)	\$ (99.2)
Revenue deferred	(50.1)	(72.2)
Revenue recognized	46.4	88.5
Other	2.0	(2.5)
Deferred revenue at end of period	<u>\$ (33.0)</u>	<u>\$ (85.4)</u>

Remaining Performance Obligations

As of August 31, 2021, we had approximately \$760 million 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 50% of this backlog will be recognized as revenue over the next 12 months with approximately 50% of the remainder recognized over the next three years. The amount of remaining performance obligations that are expected to be recognized as revenue beyond 12 months, primarily relates to our long-term programs where we provide component inventory management and/or repair services.

Disaggregation of Revenue

Sales across the major customer markets for each of our reportable segments for the three-month periods ended August 31, 2021 and 2020 were as follows:

	Three Months Ended August 31,	
	2021	2020
Aviation Services		
Commercial	\$ 267.2	\$ 169.6
Government and defense	168.4	194.0
	<u>\$ 435.6</u>	<u>\$ 363.6</u>
Expeditionary Services		
Commercial	\$ 0.1	\$ 5.7
Government and defense	19.4	31.5
	<u>\$ 19.5</u>	<u>\$ 37.2</u>

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Sales by geographic region for the three-month periods ended August 31, 2021 and 2020 were as follows:

	Three Months Ended August 31,	
	2021	2020
Aviation Services		
North America	\$ 347.6	\$ 294.8
Europe/Africa	62.0	51.0
Other	26.0	17.8
	<u>\$ 435.6</u>	<u>\$ 363.6</u>
Expeditionary Services		
North America	\$ 19.3	\$ 34.9
Europe/Africa	0.2	2.2
Other	—	0.1
	<u>\$ 19.5</u>	<u>\$ 37.2</u>

Note 5 – 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:

	August 31, 2021	May 31, 2021
U.S. Government contracts:		
Trade receivables	\$ 23.0	\$ 24.1
Unbilled receivables	21.2	25.2
	44.2	49.3
All other customers:		
Trade receivables	120.5	104.9
Unbilled receivables	16.1	12.5
	136.6	117.4
	<u>\$ 180.8</u>	<u>\$ 166.7</u>

We currently have past due accounts receivable owed by former commercial program customers primarily related to our exit from customer contracts in certain geographies, including Colombia and Peru. Our past due accounts receivable owed by these customers was \$2.2 million as of August 31, 2021, which was net of allowance for doubtful accounts of \$5.0 million.

Note 6 – Restructuring and Impairment Costs

During the three-month period ended August 31, 2020, we incurred severance and furlough-related costs of \$6.0 million, which were included as a component of Cost of sales and Selling, general and administrative on our Condensed Consolidated Statements of Operations.

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

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

In light of declines in commercial airline volumes and commercial program contract terminations in fiscal 2020 and 2021, we evaluated future cash flows related to certain rotatable assets supporting long-term programs and recognized asset impairment charges of \$5.8 million in the three-month period ended August 31, 2020.

In conjunction with the early termination notice we received in June 2021 from one of our PBH customers, we evaluated future cash flows related to the rotatable assets supporting that fleet type and recognized asset impairment charges of \$2.3 million in the three-month period ended August 31, 2021.

Note 7 – Accounting for Stock-Based Compensation

Restricted Stock

In the three-month period ended August 31, 2021, as part of our annual long-term stock incentive compensation, we granted 43,010 shares of performance-based restricted stock and 50,845 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was \$37.74 (the closing price on the grant date). We also granted 32,307 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of \$42.56 (the closing price on the grant date).

Expense charged to operations for restricted stock during each of the three-month periods ended August 31, 2021 and 2020 was \$1.9 million and \$1.9 million, respectively.

Stock Options

In July 2021, as part of our annual long-term stock incentive compensation, we granted 143,745 stock options to eligible employees at an exercise price of \$37.74 and grant date fair value of \$13.36. The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	0.8 %
Expected volatility of common stock	41.6 %
Dividend yield	0.8 %
Expected option term in years	5.3

The total intrinsic value of stock options exercised during the three-month periods ended August 31, 2021 and 2020 was \$0.1 million and \$0.1 million, respectively. Expense charged to operations for stock options during the three-month periods ended August 31, 2021 and 2020 was \$1.2 million and \$0.8 million, respectively.

Note 8 – Inventories

The summary of inventories is as follows:

	August 31, 2021	May 31, 2021
Aircraft and engine parts, components and finished goods	\$ 450.2	\$ 468.4
Raw materials and parts	57.2	53.0
Work-in-process	18.4	19.2
	<u>\$ 525.8</u>	<u>\$ 540.6</u>

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Note 9 – Supplemental Cash Flow Information

	Three Months Ended August 31,	
	2021	2020
Interest paid	\$ 0.3	\$ 1.6
Income taxes paid	5.3	0.7
Income tax refunds received	0.2	0.1

Note 10 – 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, 2022, 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 three-month periods ended August 31, 2021 and 2020, we sold \$87.5 million and \$129.0 million, respectively, of receivables under the Purchase Agreement and remitted \$95.9 million and \$147.6 million, respectively, to the Purchaser on their behalf. As of August 31, 2021 and May 31, 2021, we had collected cash of \$3.8 million and \$8.4 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 Income. We incurred discounts on the sale of our receivables of \$0.1 million and \$0.1 million during the three-month periods ended August 31, 2021 and 2020, respectively.

Note 11 – Government Subsidies

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was enacted in the U.S. in response to the COVID-19 pandemic. The CARES Act includes provisions relating to refundable payroll tax credits, deferral of the employer portion of certain payroll taxes, net operating loss carrybacks, and other areas. The payroll tax deferral requires that the deferred payroll taxes be paid over two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. As of August 31, 2021, we have deferred payroll taxes of \$12.4 million of which \$6.2 million are included in Accrued Liabilities and \$6.2 million in Other liabilities on our Condensed Consolidated Balance Sheet.

During the three-month period ended August 31, 2020, we received \$57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a \$48.5 million cash grant which is to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain maintenance, repair, and overhaul (“MRO”) facilities. The grant was recognized as contra-expense on our Condensed Consolidated Statement of Income as the eligible wages, salaries and benefits were incurred. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses of \$47.5 million and \$1.0 million, respectively.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

The remaining funding of \$8.7 million was a low interest 10-year senior unsecured promissory note (“Promissory Note”) which included interest at a rate per annum equal to the sum of (i) 1.0% for the first five years, and the applicable secured overnight financing rate plus 2.0% in years six through ten plus (ii) in kind interest of 3.0% for the first five years and increasing by 1.0% each year over the remaining term. The Promissory Note was pre-payable at par at any time and we re-paid the Promissory Note in full during the fourth quarter of fiscal 2021. Certain corporate restrictions continue to apply to us which include restrictions on dividends, stock repurchases, employee compensation, and certain workforce actions.

Other countries have enacted legislation similar to the CARES Act to provide relief and stimulus measures to assist companies in mitigating the financial impact from COVID-19 and supporting their employees. During the three-month periods ended August 31, 2021 and 2020, respectively, our foreign subsidiaries recognized employment subsidies of \$0.3 million and \$3.3 million from foreign governments which have been deducted from the related expenses on our Condensed Consolidated Statements of Operations.

Note 12 – Financing Arrangements

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

	August, 2021	May 31, 2021
Revolving Credit Facility expiring September 25, 2024 with interest payable monthly	\$ 104.5	\$ 109.5
Term loan due November 1, 2021 with interest payable monthly	24.5	25.7
Total debt	129.0	135.2
Debt issuance costs, net	(1.4)	(1.5)
Long-term debt	\$ 127.6	\$ 133.7

At August 31, 2021, our 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 MRO facilities in Canada from Premier Aviation. This term loan is due in full at the expiration of the Credit Agreement on November 1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers’ Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan.

We maintain a Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of \$600 million and matures on September 25, 2024. 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.

Borrowings outstanding under the Revolving Credit Facility at August 31, 2021 were \$104.5 million and there were approximately \$12.6 million of outstanding letters of credit, which reduced the availability under this facility to \$482.9 million as of August 31, 2021.

The term loan under the Credit Agreement that matures on November 1, 2021 has been classified as a long-term liability due to our intent and ability to refinance this loan on a long-term basis using borrowings under our Revolving Credit Facility.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

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 August 31, 2021, we were in compliance with the financial and other covenants in our financing agreements.

Note 13 – Other Non-current Assets

Investments in Joint Ventures

Our investments in joint ventures include \$10.8 million for our 40% ownership interest in a joint venture in India to develop and operate an airframe maintenance facility. The facility received certain regulatory approvals and commenced airframe maintenance operations in the second quarter of fiscal 2022.

The investment balance as of August 31, 2021 includes \$9.5 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 has a loan to the joint venture proportionate to its equity ownership. Our loan to the Indian joint venture under this arrangement was \$3.1 million as of August 31, 2021.

License Fees

In June 2011, we entered into a ten-year agreement with Unison Industries ("Unison") to be the exclusive worldwide aftermarket distributor for Unison's electrical components, sensors, switches and other systems for aircraft and industrial uses. In June 2020, we entered into an extension and expansion of our agreement with Unison including a new termination date of December 31, 2031, an initial \$25.0 million license fee paid in June 2020 to Unison, and annual license fees at a fixed percentage of our net sales of Unison products. The June 2020 payment of \$25.0 million was capitalized and is being amortized on a straight-line basis over the term of the new agreement.

Note 14 – 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
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

A reconciliation of the computations of basic and diluted earnings per share information for the three-month periods ended August 31, 2021 and 2020 is as follows:

	Three Months Ended August 31,	
	2021	2020
Basic and Diluted EPS:		
Income (Loss) from continuing operations	\$ 11.2	\$ (13.9)
Less income attributable to participating shares	(0.1)	—
Income (Loss) from continuing operations attributable to common shareholders	11.1	(13.9)
Income (Loss) from discontinued operations attributable to common shareholders	0.3	(0.6)
Net income (loss) attributable to common shareholders for earnings per share	<u>11.4</u>	<u>\$ (14.5)</u>
Weighted Average Shares:		
Weighted average common shares outstanding—basic	35.1	34.9
Additional shares from assumed exercise of stock options	0.6	0.1
Weighted average common shares outstanding—diluted	<u>35.7</u>	<u>35.0</u>
Earnings (Loss) per share – basic:		
Earnings (Loss) from continuing operations	\$ 0.32	\$ (0.40)
Loss from discontinued operations	0.01	(0.02)
Earnings (Loss) per share - basic	<u>\$ 0.33</u>	<u>\$ (0.42)</u>
Earnings (Loss) per share – diluted:		
Earnings (Loss) from continuing operations	\$ 0.31	\$ (0.40)
Loss from discontinued operations	0.01	(0.02)
Earnings (Loss) per share - diluted	<u>\$ 0.32</u>	<u>\$ (0.42)</u>

The potential dilutive effect of 793,000 and 1,750,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for the three-month periods ended August 31, 2021 and 2020, respectively, as the shares would have been anti-dilutive.

Note 15 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss (“AOCL”) by component for the three-month periods ended August 31, 2021 and 2020 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2021	\$ 3.9	\$ (22.2)	\$ (18.3)
Other comprehensive income before reclassifications	(0.6)	—	(0.6)
Amounts reclassified from AOCL	—	0.3	0.3
Total other comprehensive loss	(0.6)	0.3	(0.3)
Balance at August 31, 2021	<u>\$ 3.3</u>	<u>\$ (21.9)</u>	<u>\$ (18.6)</u>
Balance at June 1, 2020	\$ (2.0)	\$ (42.6)	\$ (44.6)
Other comprehensive loss before reclassifications	1.2	—	1.2
Amounts reclassified from AOCL	—	0.3	0.3
Total other comprehensive income	1.2	0.3	1.5
Balance at August 31, 2020	<u>\$ (0.8)</u>	<u>\$ (42.3)</u>	<u>\$ (43.1)</u>

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

Note 16 – Business Segment Information

Consistent with how our chief operating decision making officer (our Chief Executive Officer) evaluates performance and the way we are organized internally, we report our activities in two reportable 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.

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. 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, 2021.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our 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 August 31,		
	2021	2020	
Net sales:			
Aviation Services	\$ 435.6	\$ 363.6	
Expeditionary Services	19.5	37.2	
	<u>\$ 455.1</u>	<u>\$ 400.8</u>	
		Three Months Ended August 31,	
		2021	2020
Gross profit:			
Aviation Services	\$ 60.9	\$ 44.6	
Expeditionary Services	3.7	4.0	
	<u>\$ 64.6</u>	<u>\$ 48.6</u>	

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2021
(Unaudited)
(Dollars in millions, except per share amounts)

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

	Three Months Ended August 31,	
	2021	2020
Segment gross profit	\$ 64.6	\$ 48.6
Selling, general and administrative	(49.3)	(45.3)
Loss from joint ventures	(0.2)	(0.1)
Loss on sale of business	—	(19.5)
Other income, net	0.7	0.2
Interest expense	(0.7)	(1.7)
Interest income	—	0.1
Income (Loss) from continuing operations before provision for income taxes	<u>\$ 15.1</u>	<u>\$ (17.7)</u>

Note 17 – 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

As previously reported, the U.S. Department of Justice (“DoJ”), acting through the U.S. Attorney’s Office for the Southern District of Illinois, conducted 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 related to Airlift’s performance of several contracts awarded by the U.S. Transportation Command (“TRANSCOM”) 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.

In June 2021, Airlift and the DoJ reached an agreement to settle the FCA investigation and related matters for approximately \$11.5 million which concluded the DoJ investigation into Airlift’s contracts with TRANSCOM and the U.S. Navy. As part of the settlement, Airlift and AAR did not admit any wrongdoing.

We recognized charges of \$11.0 million in discontinued operations in fiscal 2021 related to this agreement and related matters. As of May 31, 2021, our reserve was \$12.7 million and payment for the entire matter was made in the first quarter of fiscal 2022.

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, in fiscal 2019, 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 reportable 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. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead.

Our chief operating decision making officer (our Chief Executive Officer) evaluates performance based on our 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, 2021.

Business Trends and Outlook

Consolidated sales for the first quarter of fiscal 2022 increased \$54.3 million or 13.5% over the prior year quarter primarily due to an increase in sales of \$72.0 million or 19.8% in our Aviation Services segment. Consolidated sales to commercial customers increased \$92.0 million or 52.5% over the prior year quarter due to the partial recovery in commercial passenger air traffic. Our consolidated sales to government customers decreased \$37.7 million or 16.7% primarily due to less volume across certain U.S. Government contracts.

Over the long-term, we expect to see strength in our Aviation Services segment given its offerings of value-added services to both commercial and government and defense customers. We believe long-term commercial and government growth trends are favorable. As we continue to experience recovery and growth in our operations, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in those markets.

Both our commercial and government businesses are subject to the economic environment, impact of COVID-19, public policy decisions or other factors that could adversely impact our business, financial condition or results of operations in the future. A recent example of this was the U.S. Government’s decision to withdraw its presence in Afghanistan. In conjunction with the U.S. exit from Afghanistan, we have concluded our activities in country under our WASS and U.S. Department of Defense contracts. The operations related to our activities in Afghanistan contributed revenue of \$67 million in fiscal 2021.

Results of Operations

Three-Month Periods Ended August 31, 2021

Sales and gross profit for our two business segments for the three-months ended August 31, 2021 and 2020 were as follows:

	<u>Three Months Ended August 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Sales:			
Aviation Services			
Commercial	267.2	\$ 169.6	57.5 %
Government and defense	168.4	194.0	(13.2)%
	<u>435.6</u>	<u>\$ 363.6</u>	19.8 %
Expeditionary Services			
Commercial	0.1	\$ 5.7	nm
Government and defense	19.4	31.5	(38.4)%
	<u>19.5</u>	<u>\$ 37.2</u>	(47.6)%
Gross Profit:			
Aviation Services			
Commercial	\$ 30.5	\$ 16.3	87.1 %
Government and defense	30.4	28.3	7.4 %
	<u>\$ 60.9</u>	<u>\$ 44.6</u>	36.5 %
Expeditionary Services			
Commercial	\$ —	\$ (1.3)	nm
Government and defense	3.7	5.3	(30.2)%
	<u>\$ 3.7</u>	<u>\$ 4.0</u>	(7.5)%

nm – Percentage change is not meaningful.

Aviation Services Segment

Sales in the Aviation Services segment increased \$72.0 million or 19.8%, over the prior year period due to a \$97.6 million, or 57.5% increase in sales to commercial customers. The increase in sales to commercial customers was attributable to increased sales of \$38.7 million in our MRO activities as commercial passenger air traffic continues to recover from the impact of COVID-19. In addition, sales increased \$30.9 million in our aftermarket parts trading activities which included whole asset sales of \$22.0 million during the first quarter of fiscal 2022 compared to \$14.0 million in the prior year.

During the first quarter of fiscal 2022, sales in this segment to government and defense customers decreased \$25.6 million or 13.2%, from the prior year period. The prior year quarter include sales of \$19.8 million related to the installation of engines on the C-40 aircraft we are delivering to the Naval Air Systems Command in support of the U.S. Marine Corps. No engine installation activities occurred in the first quarter of fiscal 2022.

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 first quarter of fiscal 2022, we had an unfavorable cumulative catch-up adjustment of \$1.0 million. In the first quarter of fiscal 2021, we had net favorable cumulative catch-up adjustments of \$0.3 million. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Cost of sales in Aviation Services increased \$55.7 million, or 17.5%, over the prior year period which was in line with the sales increase discussed above.

[Table of Contents](#)

Gross profit in the Aviation Services segment increased \$16.3 million, or 36.5%, over the prior year period. Gross profit on sales to commercial customers increased \$14.2 million, or 87.1%, over the prior year period primarily due to the COVID-19 recovery discussed above. The gross profit margin on sales to commercial customers increased to 11.4% from 9.6% in the prior year period, primarily from our actions to reduce both our fixed and variable cost structure.

Gross profit on sales to government and defense customers increased \$2.1 million over the prior year period. Gross profit margin on sales to government and defense customers increased to 18.1% from 14.6% in the prior year period, primarily as a result of the mix of products and services sold.

Expeditionary Services Segment

Sales in the Expeditionary Services segment decreased \$17.7 million from the prior year period. The decrease was primarily due to strong volumes in the prior year quarter on the contract award from the U.S. Air Force to produce and repair 463L cargo pallets within our Mobility business. In addition, our composites manufacturing business, which was divested in the first quarter of fiscal 2021, contributed sales of \$6.7 million in the prior year quarter.

Gross profit in the Expeditionary Services segment decreased \$0.3 million from the prior period, primarily due to the lower sales volumes in our Mobility business. Gross profit margin increased to 19.0% from 10.8% in the prior year period, primarily as a result of the divestiture of our composites manufacturing business as it was not profitable in the prior year quarter.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased \$4.0 million, or 8.8%, over the prior year period. As a percent of sales, selling, general and administrative expenses decreased to 10.8% from 11.3% in the prior year period reflecting the favorable impact from our cost reduction actions.

Income Taxes

Our effective income tax rate for continuing operations was 25.8% for the income in the first quarter of fiscal 2022 compared to 21.5% for the loss in the prior year period. The prior year quarter included excess tax expense from stock option exercises of \$0.9 million, which reduced the effective income tax rate.

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 August 31, 2021, our liquidity and capital resources included working capital of \$620.7 million inclusive of cash of \$48.8 million.

We maintain an unsecured Revolving Credit Facility with various financial institutions, as lenders, and Bank of America, N.A., as administrative agent for the lenders, which provides the Company an aggregate revolving credit commitment of \$600 million and matures on September 25, 2024. Under certain circumstances, we have the ability to request, but our lenders are not required to grant, an increase to the credit commitment under the Revolving Credit Facility 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.

[Table of Contents](#)

Borrowings outstanding under the Revolving Credit Facility at August 31, 2021 were \$104.5 million and there were approximately \$12.6 million of outstanding letters of credit, which reduced the availability under this facility to \$482.9 million as of August 31, 2021. There are no other terms or covenants limiting the availability of this facility.

In the first quarter of fiscal 2021, we received \$57.2 million from the U.S. Treasury Department through the Payroll Support Program under the CARES Act. This funding included a \$48.5 million cash grant, which is to be used exclusively for the continuation of payment of employee wages, salaries and benefits for employees of certain MRO facilities, and a low interest 10-year senior unsecured promissory note of \$8.7 million. In fiscal 2021, we recognized the full amount of the grant as contra-expense within Cost of sales and Selling, general and administrative expenses. The Promissory Note was re-paid in full during the fourth quarter of fiscal 2021.

As of August 31, 2021, 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 \$10.1 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, 2022, 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 under 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 three-month periods ended August 31, 2021 and 2020, we sold \$87.5 million and \$129.0 million, respectively, of receivables under the Purchase Agreement and remitted \$95.9 million and \$147.6 million, respectively, to the Purchaser on their behalf. As of August 31, 2021 and May 31, 2021, we had collected cash of \$3.8 million and \$8.4 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.

At August 31, 2021, we were in compliance with all financial and other covenants under our financing arrangements.

Cash Flows from Operating Activities

Net cash provided by operating activities—continuing operations was \$17.5 million in the three-month period ended August 31, 2021 compared to \$39.8 million in the prior year period. The decrease from the prior period of \$22.3 million was primarily attributable to the proceeds of a \$48.5 million grant in the prior period from the Payroll Support Program of the CARES Act partially offset by a \$25 million license fee paid to Unison Industries in the prior period for our expanded and extended exclusive distribution agreement.

Net cash used in operating activities—discontinued operations was \$14.6 million in the three-month period ended August 31, 2021 compared to \$0.9 million in the prior year period. The decrease from the prior period of \$13.7 million was primarily attributable to the payment of the settlement with the U.S. Department of Justice for their False Claims Act investigation.

Cash Flows from Investing Activities

Net cash used in investing activities—continuing operations was \$4.9 million during the three-month period ended August 31, 2021 compared to \$1.7 million in the prior year period. The increase over the prior period was primarily related to investments in joint ventures of \$2.7 million in the current year period.

Cash Flows from Financing Activities

Net cash used in financing activities—continuing operations was \$5.5 million during the three-month period ended August 31, 2021 compared to \$347.9 million in the prior year period. The decrease was primarily related to the repayment in the prior year period of our additional draw down on our Revolving Credit Facility. These funds were originally drawn in late fiscal 2020 as a precautionary measure in light of the economic and market uncertainty presented by COVID-19.

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 2021 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 first quarter of fiscal 2022.

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 I, Item 1A in our Annual Report on Form 10-K for the year ended May 31, 2021. 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, 2021 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 August 31, 2021.

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, 2021. There were no significant changes during the quarter ended August 31, 2021.

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 August 31, 2021. 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 are effective as of August 31, 2021, ensuring that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported in a timely manner.

There were no changes in our internal control over financial reporting during the quarter ended August 31, 2021 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

The information in Note 17 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference. 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 17 to our Condensed Consolidated Financial Statements for the quarter ended August 31, 2021 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, 2021.

[Table of Contents](#)

Item 6 — Exhibits

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

Exhibit No.	Description	Exhibits
10.	Material Contracts	10.1* Form of AAR CORP. Fiscal 2022 Short-Term Incentive Plan (filed herewith).
		10.2* Form of AAR CORP. Fiscal 2022 Non-Qualified Stock Option Agreement (filed herewith).
		10.3* Form of AAR CORP. Fiscal 2022 Restricted Stock Agreement (filed herewith).
		10.4* Form of AAR CORP. Fiscal 2022 Performance Restricted Stock Agreement (filed herewith)
		10.5* Form of Fiscal 2022 Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.6 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended May 31, 2021).
		10.6* Deferred Cash Award Agreement dated July 12, 2021 between AAR CORP. and John M. Holmes (incorporated by reference to Exhibit 10.1 to the Registrant’s Current Report on Form 8-K dated July 16, 2021).
		10.7* Amendment dated July 13, 2021 to the Post-Retirement Agreement dated May 24, 2018 between AAR CORP. and David P. Storch (incorporated by reference to Exhibit 10.18 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended May 31, 2021).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1 Section 302 Certification dated September 23, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		31.2 Section 302 Certification dated September 23, 2021 of Sean M. Gillen, Vice President and Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1 Section 906 Certification dated September 23, 2021 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).
		32.2 Section 906 Certification dated September 23, 2021 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 August 31, 2021, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at August 31, 2021 and May 31, 2021, (ii) Condensed Consolidated Statements of Operations for the three-months ended August 31, 2021 and 2020, (iii) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three-months ended August 31, 2021 and 2020, (iv) Condensed Consolidated Statements of Cash Flows for the three months ended August 31, 2021 and 2020, (v) Condensed Consolidated Statement of Changes in Equity for the three-months ended August 31, 2021 and 2020 (vi) Notes to Condensed Consolidated Financial Statements.**
104.	Cover Page Interactive Data File	104 Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

* Management contract and compensatory arrangement.

[Table of Contents](#)

** 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.

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: September 23, 2021

/s/ SEAN M. GILLEN

Sean M. Gillen

Vice President and Chief Financial Officer

(Principal Financial Officer)

/s/ ERIC S. PACHAPA

Eric S. Pachapa

Vice President, Controller and Chief Accounting Officer

(Principal Accounting Officer)

AAR CORP.
Fiscal 2022 Short-Term Incentive Plan

1. Purpose.

The purpose of the AAR CORP. 2022 Short-Term Incentive Plan (“STIP”) is to provide an incentive for selected senior executives of AAR CORP. (the “Company”) and its subsidiaries to achieve the Company’s short-term performance goals by providing them with an annual cash incentive payment based on the financial and operating success of the Company. The STIP payment for the fiscal year ending May 31, 2022 (“Fiscal 2022”) will be based on Earnings Per Share, Working Capital Turns and Strategic Objectives.

2. Definitions.

- (a) “Board” means the Board of Directors of the Company.
 - (b) “Bonus” means the annual cash incentive paid to a Participant under this STIP for Fiscal 2022.
 - (c) “Cause” means the Participant’s unsatisfactory performance or conduct detrimental to the Company and its subsidiaries, as solely determined by the Company.
 - (d) “Committee” means the Compensation Committee of the Board (the “Committee”).
 - (e) “Company” means AAR CORP.
 - (f) “Disability” means the inability of the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.
 - (g) “Earnings Per Share” means adjusted diluted earnings per share from continuing operations as disclosed by the Company in its periodic reports filed with the Securities and Exchange Commission, excluding non-GAAP items included on the Company’s quarterly earnings releases, special charges or unusual or infrequent items incurred during the performance period, and as may be adjusted for changes in generally accepted accounting principles.
 - (h) “Fiscal 2022” means the Company’s fiscal year ending May 31, 2022.
 - (i) “Participant” means any active executive of the Company or subsidiary who has been selected by the Committee as eligible to earn a Bonus under the STIP.
 - (j) “Retirement” means the Participant’s voluntary termination of his employment, or his termination of employment by the Company or a subsidiary without Cause, when he has (i) attained age 65 or (ii) attained age 55 and his age plus the number of his consecutive years of service with the Company and subsidiaries is at least 75.
 - (k) “Salary” means a Participant’s base annual salary earned during Fiscal 2022 while a Participant.
 - (l) “STIP” means this AAR CORP. 2022 Short-Term Incentive Plan.
-

- (m) “Strategic Objectives” means the qualitative performance goals set by the Committee, which for Fiscal 2022 include (i) identify and secure opportunities to deploy capital for organic and inorganic growth and (ii) drive an environmental, social and corporate governance program that addresses key areas of focus.
- (n) “Working Capital Turns” means net sales from continuing operations divided by average working capital, where working capital is defined as net accounts receivable plus net inventories minus accounts payable, excluding non-GAAP items included on the Company’s quarterly earnings releases, special charges or unusual or infrequent items incurred during the performance period, including changes in the Company’s accounts receivable financing program, and as may be adjusted for changes in generally accepted accounting practices.

3. Administration.

The STIP shall be administered by the Committee. The Committee has full authority to select the senior executives eligible to participate in the STIP and determine when the senior executive’s participation in the STIP will begin and end. Subject to the express provisions of the STIP, the Committee shall be authorized to interpret the STIP and to establish, amend and rescind any rules and regulations relating to the STIP and to make all other determinations deemed necessary or advisable for the proper administration of the STIP. The determinations of the Committee in the proper administration of the STIP shall be conclusive and binding.

4. Eligibility and Participation.

Participation in the STIP is limited to those senior executives of the Company or a subsidiary who the Committee designates as Participants. When the Committee selects an executive to become a Participant under the STIP, it shall designate the date as of which the executive’s participation shall begin.

5. Annual Bonus Awards.

- (a) Determination of Participants, Performance Goals and Target Bonus Amounts. In the beginning of Fiscal 2022, the Committee shall (i) determine the Participants for Fiscal 2022, (ii) establish threshold, target and maximum Earnings Per Share and Working Capital Turns performance goals, and (iii) approve the target Bonus payment for each Participant expressed as a percentage of the Participant’s Salary.
- (b) Bonus Payment. As soon as reasonably practicable after the end of Fiscal 2022, the Committee shall determine the extent to which each of the Earnings Per Share and Working Capital Turns targets and the Strategic Objectives were attained for Fiscal 2022. The Bonus payable to each Participant will be equal to the sum of (i) 60% of the Participant’s target Bonus multiplied by the applicable Earnings Per Share Multiplier Percentage, (ii) 20% of the Participant’s target Bonus multiplied by the Working Capital Turns Multiplier Percentage and (iii) 20% of the Participant’s target Bonus multiplied by the applicable Strategic Objectives Multiplier Percentage as determined by the Committee in its discretion (except in each case for such lower amounts as otherwise determined by the Committee in its discretion):

Earnings Per Share (60%)		Working Capital Turns (20%)	
Percentage Achievement Level	Multiplier Percentage	Percentage Achievement Level	Multiplier Percentage
Below Threshold (<75%)	0 %	Below Threshold (<75%)	0 %
Threshold (75%)	50 %	Threshold (75%)	50 %
Target (100%)	100 %	Target (100%)	100 %
Maximum (125%)	200 %	Maximum (125%)	200 %

Achievement of Earnings Per Share and Working Capital Turns targets between established ranges will be paid out on a straight-line basis within the targeted payout ranges, up to the maximum 200% payout. The Committee shall use its discretion to determine the Multiplier Percentage and payout range for achievement of the Strategic Objectives, up to a maximum 200% payout.

6. STIP Limitations.

Notwithstanding Section 5, (a) the Committee retains full discretion to determine whether any Bonus will be payable for Fiscal 2022, regardless of performance results and (b) no Bonus shall be paid under the STIP to a Participant whose employment with the Company and all subsidiaries terminates during Fiscal 2022 unless the termination is due to death, Disability or Retirement, or as otherwise approved by the Committee. If the Participant terminates during Fiscal 2022 due to death, Disability or Retirement, the Participant shall be entitled to a pro rata portion of the Bonus the Participant would have earned under the STIP had the Participant remained employed through the end of Fiscal 2022. Such Bonus will be paid at the same time Bonuses are paid to active Participants, unless otherwise directed by the Committee.

7. Payment of Bonuses.

A Participant's Bonus for Fiscal 2022 shall be paid in cash to the Participant, or to the Participant's beneficiary (or beneficiaries) in the event of the Participant's death, within three months after the end of Fiscal 2022, unless the Participant has previously elected to have all or a portion of the Bonus deferred in accordance with the AAR CORP. Supplemental Key Executive Retirement Plan. The Company shall deduct all taxes required by law to be withheld from all Bonus payments.

8. No Assignment.

Except in the event of a Participant's death, the rights and interests of a Participant under the STIP shall not be assigned, encumbered or transferred.

9. Termination of Participation.

The Committee reserves the right to cancel a Participant's participation in the STIP at any time.

10. Employment Rights.

Nothing contained in the STIP shall be construed as conferring a right upon any Participant to continue in the employment of the Company or any subsidiary.

11. Amendment/Termination.

The Board may either amend or terminate the STIP at any time, without the consent of the Participants and without the approval of the stockholders of the Company; provided, that such modification or elimination shall not affect the obligation of the Company to pay any Bonus after it has been determined by the Committee under the STIP.

AAR CORP.

Non-Qualified Stock Option Agreement
(“Agreement”)

Subject to the provisions set forth herein and the terms and conditions of the AAR CORP. 2013 Stock Plan and the Long-Term Incentive Plan for Fiscal 2022 (together, the “Plan”), the terms of which are hereby incorporated by reference, and in consideration of the agreements of the Grantee herein provided, AAR CORP., a Delaware corporation (“Company”), hereby grants to the Grantee an option, effective July 12, 2021 (“Date of Grant”) entitling the Grantee to purchase from the Company common stock of the Company, par value \$1.00 per share (“Common Stock”), at an exercise price of \$37.74 per share, and in the number of shares set forth in the Company’s notification of option grant letter to the Grantee and incorporated herein by reference (“Option”), subject to the terms and conditions set forth herein:

1. Acceptance by Grantee. The exercise of the Option is conditioned upon the acceptance by the Grantee of the terms and conditions of the Option as set forth in this Agreement. The Grantee must confirm acceptance of the Option and this Agreement on Morgan Stanley’s web site (www.stockplanconnect.com). If the Grantee does not accept the Option and this Agreement within 30 days from the date of the notification of the Option, the Option grant referenced herein shall expire unless the acceptance date is extended in writing signed by the Company.

2. Vesting Provisions. Subject to the provisions of paragraph 3 below, the Option shall vest 33 $\frac{1}{3}$ % on each of July 31, 2022, July 31, 2023 and July 31, 2024, except as follows:

(a) *In General.* If the Grantee’s employment with the Company and all Subsidiaries of the Company is terminated for any reason other than for Retirement, death, Disability or Cause, the unvested portion of the Grantee’s Option shall expire on the date of such termination of employment and the vested portion of the Grantee’s Option shall continue to be exercisable until the earlier of (i) three months after such termination of employment or (ii) the date the Option expires in accordance with its terms.

(b) *Retirement.* If the Grantee’s employment with the Company and all Subsidiaries of the Company is terminated by reason of Retirement, the Option shall continue to vest and become exercisable in accordance with its terms and may be exercised by the retired Grantee in the same manner and to the same extent as if the Grantee had continued employment during that period; provided, however, that (i) if the Grantee dies within three months following Retirement but before the Option expires, paragraph 2(c)(ii) shall apply and (ii) if the Grantee dies later than three months following Retirement but before the Option expires, the then unvested portion of the Option shall expire on the date of such death and the vested portion of the Option shall continue to be exercisable by the Grantee’s Successor until the date that the Option expires by its terms. For this purpose, “Retirement” means the Grantee’s voluntary termination of employment, or his termination of employment by the Company or a Subsidiary without Cause, when he has (i) attained age 65 or (ii) attained age 55 and his age plus the number of his consecutive years of service with the Company and Subsidiaries is at least 75.

(c) *Death.* If (i) the Grantee's employment with the Company and all Subsidiaries of the Company is terminated by reason of death or (ii) the Grantee dies within three months after the termination of employment with the Company and all Subsidiaries for reasons other than Cause, the unvested portion of the Option shall expire on the date of such death and the vested portion of the Option shall continue to be exercisable until the earlier of (i) one year after the Grantee's death or (ii) the date the Option expires in accordance with its terms.

(d) *Disability.* If the Grantee's employment with the Company and all Subsidiaries is terminated by reason of Disability, the Option shall continue to vest and become exercisable until the earlier of (i) one year after such termination of employment or (ii) the date the Option expires in accordance with its terms, and during such period the Option may be exercised by the disabled Grantee; provided, however, that if the Grantee dies after termination of employment but prior to the date the Option expires, the unvested portion of the Option shall expire on the date of such death and the vested portion of the Option shall continue to be exercisable as described herein. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(e) *Cause.* If the Grantee's employment is terminated by the Company or any Subsidiary of the Company for Cause, the Option shall expire immediately upon such termination of employment and no portion of the Option shall be exercisable thereafter. For this purpose, "Cause" means (i) the Grantee's dishonesty, fraud or breach of trust, gross negligence or substantial misconduct in the performance of, or substantial nonperformance of, his assigned duties or willful violation of Company policy, (ii) any act or omission by the Grantee that is a substantial cause for a regulatory body with jurisdiction over the Company to request or recommend the suspension or removal of the participant or to impose sanctions upon the Company or the Grantee, or (iii) a material breach by the Grantee of any applicable employment agreement between him and the Company. The Company shall have the sole discretion to determine whether a Grantee's termination of employment is for Cause.

(f) *Restrictive Covenant.* If at any time prior to the expiration of the Option, the Grantee, without the Company's express written consent, directly or indirectly, alone or as a member of a partnership, group or joint stock venture or as an employee, officer, director, or greater than 1% stockholder of any corporation, or in any capacity engages in any activity which is competitive with any of the businesses conducted by the Company or its affiliated companies any time during the Grantee's term of employment, (i) the Option shall immediately expire and become unexercisable, (ii) the Grantee shall forfeit and return all shares of Common Stock acquired and then held by the Grantee pursuant to the exercise of any portion of this Option, and (iii) the Grantee shall immediately pay to the Company an amount equal to the appreciation realized on any shares of Common Stock acquired and sold or otherwise disposed of in connection with the exercise of this Option, as of the date sold.

3. Change in Control. In the event a Change in Control occurs, and within two years following such Change in Control, either the Grantee's employment is terminated by the Company or a Subsidiary of the Company without Cause, or the Grantee terminates his employment with the Company and all Subsidiaries for Good Reason, then notwithstanding any

conditions or restrictions contained in this Agreement, the outstanding Option shall become immediately exercisable on the date of such termination of employment with respect to all shares of Common Stock covered thereby, whether vested or not and shall remain exercisable until the Option expires. For this purpose, (a) "Cause" shall have the meaning set forth in Section 2(e) above and (b) "Good Reason" means (i) a material reduction in the nature or scope of the Grantee's duties, responsibilities, authority, power or functions from those enjoyed by the Grantee immediately prior to the Change in Control, or a material reduction in the Grantee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control, or (ii) a relocation of the Grantee's primary place of employment of at least 100 miles.

4. Change in Outstanding Shares. Any increase or decrease in the number of outstanding shares of Common Stock of the Company occurring through stock splits, stock dividends, stock consolidations, spin-offs, other distributions of assets to stockholders or assumption or conversion of outstanding Options due to an acquisition after the Date of Grant of the Option shall be reflected proportionately in the number of shares of Common Stock subject to the Option, and a proportionate reduction or increase, as applicable, shall be made in the Option Price Per Share hereunder. Any fractional shares resulting from such adjustment shall be eliminated. If changes in capitalization other than those considered above shall occur, the Board shall make such adjustment in the number or class of shares purchasable upon exercise of the Option and in the Option Price Per Share as the Board in its discretion may consider appropriate, and all such adjustments shall be conclusive upon all persons.

5. Exercise of Option. Notice of an election to exercise any portion of the Option, specifying the portion thereof being exercised and the exercise date, shall be given by the Grantee, or the Grantee's personal representative in the event of the Grantee's death or Disability necessitating a Court approved personal representative, by notifying Morgan Stanley pursuant to the on-line exercise procedures set forth on the AAR 2013 Stock Benefit Plan online exercise web site (www.stockplanconnect.com).

6. Payment of Exercise Price and Withholding. Upon any exercise of the Option, an amount necessary to pay the exercise price and to satisfy applicable tax withholding requirements, including those arising under federal, state and local income tax laws, will be due and payable at the time of exercise prior to the issuance of any shares of Common Stock pursuant to such exercise. The Grantee may pay the exercise price and satisfy the minimum withholding requirements by one or more of the following methods: (a) in cash, (b) in cash received from a broker-dealer to whom the Grantee has submitted an exercise notice and irrevocable instructions to deliver the purchase price and amount of tax withholding to the Company from the proceeds of the sale of shares of Common Stock subject to the Option, (c) by delivery to the Company of other Common Stock owned by the Grantee that is acceptable to the Company, valued at its fair market value on the date of exercise, (d) by certifying to ownership by attestation of such previously owned Common Stock, or (e) by having shares withheld from the Common Stock otherwise distributable to the Grantee upon exercise of the Option. A Grantee's election pursuant to the preceding sentence must be made at the time of exercise of such Option and must be irrevocable. Payment shall be made pursuant to the online procedures set forth on the AAR 2013 Stock Benefit Plan online website through Morgan Stanley (www.stockplanconnect.com).

7. Option Not Transferable. The Option may be exercised only by the Grantee during the Grantee's lifetime and may not be transferred other than by will, the applicable laws of descent or distribution, or an assignment subject to and meeting the requirements of the Plan and made in accordance with Company procedures in effect from time to time for approval by the Company and consummation of the assignment (copies of procedures and forms are available from the Corporate Secretary upon request). The Option shall not otherwise be transferred, assigned, pledged or hypothecated for any purpose whatsoever and is not subject, in whole or in part, to execution, attachment, or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of the Option, other than in accordance with the terms set forth herein, shall be void and of no effect.

8. No Rights as a Stockholder. Neither the Grantee nor any other person entitled to exercise the Option under the terms hereof shall be, or have any of the rights or privileges of, a stockholder of the Company in respect of any of the shares of Common Stock issuable on exercise of the Option, unless and until such shares shall have been actually issued.

9. Recoupment. Notwithstanding any other provision of this Agreement, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of an Option (including by forfeiture of the then outstanding and unexercised portion of the Option (whether vested or unvested) or by the Grantee's remittance to the Company of Common Stock acquired on exercise of the Option or of a cash payment for the value thereof). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Grantee.

10. Miscellaneous.

(a) In the event the Option shall be exercised in whole or in part, the number of Shares of Common Stock subject to the Option shall be reduced accordingly.

(b) When the Option expires, such expiration shall occur at the Company's close of business on the date of expiration.

(c) The Option shall be exercised only in accordance with such Company administrative procedures as may be in effect from time to time.

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

(e) Capitalized terms used herein and not defined herein will have the meanings set forth in the Plan or the notification of grant letter.

(f) Nothing in the Option shall confer on the Grantee any right to be or to continue in the employ of the Company or any of its Subsidiaries or shall interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment of the Grantee at any time for any reason or no reason.

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

(h) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein; provided, however, that this Agreement, including paragraph 2, shall be subject to the provisions of any written employment or severance agreement that has been or may be executed by the Grantee and the Company, and the provisions in such employment or severance agreement concerning the Option shall supercede any inconsistent or contrary provision of this Agreement. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

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

Questions concerning the provisions of this Agreement should be directed to the Company's General Counsel: 630/227-2060; fax 630/227-2058.

AAR CORP.

Restricted Stock Agreement
("Agreement")

Subject to the provisions of the AAR CORP. 2013 Stock Plan and the Long-Term Incentive Plan for Fiscal 2022 (together, the "Plan"), the terms of which are hereby incorporated by reference, and in consideration of the agreements of the Grantee herein provided, AAR CORP. a Delaware corporation ("Company"), hereby grants to Grantee a restricted stock award ("Award"), effective July 12, 2021 ("Date of Award"), for the number of shares of common stock ("Common Stock") of the Company, \$1.00 par value ("Award Shares") set forth in the Company's notification of Award grant letter to the Grantee, and incorporated herein by reference, subject to the forfeiture and nontransferability provisions hereof and the other terms and conditions set forth herein:

1. **Acceptance by Grantee.** The Award is conditioned upon the acceptance by the Grantee of the terms and conditions of the Award as set forth in this Agreement. The Grantee must confirm acceptance of the Award and this Agreement on Morgan Stanley's web site (www.stockplanconnect.com). If the Grantee does not accept the Award and this Agreement within 30 days from the date of the notification of the Award, the Award referenced herein shall expire unless the acceptance date is extended in writing by the Company.

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

3. **Release of Restrictions.** Subject to the provisions of paragraph 4 below, the restrictions described in paragraph 2 above shall be released with respect to 100% of the Award Shares on July 31, 2024, except as follows:

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

(b) *Retirement.* If the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of Retirement prior to the last day of the Restrictive Period, the Restrictive Period shall terminate on July 31, 2024.

For this purpose, "Retirement" means the Grantee's voluntary termination of employment, or his termination of employment by the Company or a Subsidiary without Cause (as defined in Section 4 below), when he has (i) attained age 65 or (ii) attained age 55 and his age plus the number of his consecutive years of service with the Company and Subsidiaries is at least 75.

(c) *Death or Disability.* If the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of death or Disability occurring on or after

the Date of Award and on or before July 31, 2024, the Restrictive Period shall terminate as to a pro-rata share of Award Shares determined by multiplying the number of Award Shares by a fraction, the numerator of which is the number of full months that have elapsed from the Date of Award to the date of death or Disability, and the denominator of which is 36 (the number of full months in the Restrictive Period). The remaining shares shall be forfeited and returned to the Company. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

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

4. Change in Control. In the event of a Change in Control of the Company, and within two years following such Change in Control, either the Grantee's employment is terminated by the Company or a Subsidiary of the Company without Cause, or the Grantee terminates his employment with the Company and all Subsidiaries for Good Reason, then notwithstanding any conditions or restrictions contained in this Agreement, the Restrictive Period shall terminate as to all Award Shares not previously released. For this purpose, (a) "Cause" means (i) the Grantee's dishonesty, fraud or breach of trust, gross negligence or substantial misconduct in the performance of, or substantial nonperformance of, his assigned duties or willful violation of Company policy, (ii) any act or omission by the Grantee that is a substantial cause for a regulatory body with jurisdiction over the Company to request or recommend the suspension or removal of the participant or to impose sanctions upon the Company or the Grantee, or (iii) a material breach by the Grantee of any applicable employment agreement between him and the Company, and in each case, the Company shall have the sole discretion to determine whether a Grantee's termination of employment is for Cause; and (b) "Good Reason" means (i) a material reduction in the nature or scope of the Grantee's duties, responsibilities, authority, power or functions from those enjoyed by the Grantee immediately prior to the Change in Control, or a material reduction in the Grantee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control, or (ii) a relocation of the Grantee's primary place of employment of at least 100 miles.

5. Change in Outstanding Shares. In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, the Award Shares shall be treated in the same manner in any such transaction as other shares of Common Stock. Any additional shares of stock received by Grantee with respect to the Award Shares in any such transaction shall be subject to the same restrictions as are then applicable to those Award Shares for which the additional shares have been issued.

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

7. Shares. In aid of the restrictions set forth in paragraph 2, the Grantee will be required to execute a stock power in favor of the Company, which will be cancelled upon release of restrictions with respect to Award Shares released. Award Shares shall be held by the Company in electronic book entry form on the records of the Company's Transfer Agent, together with the executed stock power, for the account of the Grantee until such restrictions are released pursuant to the terms hereof, or such Award Shares are forfeited to the Company as provided by the Plan or this Agreement. The Grantee shall be entitled to the Award Shares as to which such restrictions have been released, and the Company agrees to issue such Award Shares in electronic form on the records of the Transfer Agent. Upon request by the Grantee, the Transfer Agent will transfer such released Award Shares in electronic form to the Grantee's broker for the Grantee's account or issue certificates in the name of the Grantee representing the Award Shares for which restrictions have been released.

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

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

10. Withholding Taxes. The Grantee shall pay to the Company an amount sufficient to satisfy all minimum tax withholding requirements, including those arising under federal, state and local income tax laws, prior to the delivery of any Award Shares. Payment of the minimum withholding requirement may be made by one or more of the following methods: (a) in cash, (b) in cash received from a broker-dealer to whom the Grantee has submitted irrevocable instructions to deliver the amount of withholding tax to the Company from the proceeds of the sale of shares of Common Stock subject to the Award, (c) by delivery to the Company of other Common Stock owned by the Grantee that is acceptable to the Company, valued at its fair market value on the date of payment, (d) by certifying to ownership by attestation of such previously owned Common Stock, or (e) by having shares of Common Stock withheld from the Award Shares otherwise distributable to the Grantee. Payment shall be made pursuant to the on-line procedures set forth on the AAR 2013 Stock Benefit Plan online web site through Morgan Stanley (www.stockplanconnect.com).

11. Postponement of Distribution. Notwithstanding anything herein to the contrary, the distribution of any portion of the Award Shares shall be subject to action by the Board taken at any time in its sole discretion (a) to effect, amend or maintain any necessary registration of the Plan or the Award Shares distributable in satisfaction of this Award under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (b) to permit any action to

be taken in order to (i) list such Award Shares on a stock exchange if the Common Stock is then listed on such exchange or (ii) comply with restrictions or regulations incident to the maintenance of a public market for its Shares of Common Stock, including any rules or regulations of any stock exchange on which the Award Shares are listed, or (c) to determine that such Award Shares and the Plan are exempt from such registration or that no action of the kind referred to in (b)(ii) above needs to be taken; and the Company shall not be obligated by virtue of any terms and conditions of this Award or any provision of this Agreement or the Plan to issue or release the Award Shares in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof.

Any such postponement shall not shorten the term of any restriction attached to the Award Shares and neither the Company nor its directors or officers shall have any obligation or liability to the Grantee or to any other person as to which issuance under the Award Shares was delayed.

12. Recoupment. Notwithstanding any other provision of this Agreement, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of an Award (including by forfeiture of any outstanding Award Shares or by the Grantee's remittance to the Company of Award Shares pursuant to which the restrictions previously lapsed or of a cash payment equal to Award Shares pursuant to which the restrictions previously lapsed). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Grantee.

13. Miscellaneous.

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

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

(c) Nothing in the Award shall confer on the Grantee any right to be or to continue in the employ of the Company or any of its Subsidiaries or shall interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment of the Grantee at any time for any reason or no reason.

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

(e) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein; provided, however, that this Agreement, including paragraph 3, shall be subject to the provisions of any written employment or severance agreement

that has been or may be executed by the Grantee and the Company, and the provisions in such employment or severance agreement concerning the Award shall supercede any inconsistent or contrary provision of this Agreement. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

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

Questions concerning the provisions of this Agreement should be directed to the Company's Corporate Secretary: 630/227-2060; fax 630/227-2058.

AAR CORP.

Performance Restricted Stock Agreement
(“Agreement”)

Subject to the provisions of the AAR CORP. 2013 Stock Plan and the Long-Term Incentive Plan for Fiscal 2022 (together, the “Plan”), the terms of which are hereby incorporated by reference, and in consideration of the agreements of the Grantee herein provided, AAR CORP., a Delaware corporation (“Company”), hereby grants to the Grantee a performance restricted stock award (“Award”), effective July 13, 2021 (“Date of Award”), for the number of shares of common stock (“Common Stock”) of the Company, \$1.00 par value (“Award Shares”) set forth in the Company’s notification of Award grant letter to the Grantee and incorporated herein by reference, subject to the forfeiture and nontransferability provisions hereof and the other terms and conditions set forth herein:

1. **Acceptance By Grantee.** The Award is conditioned upon the acceptance by the Grantee of the terms and conditions of the Award as set forth in this Agreement. The Grantee must confirm acceptance of the Award and this Agreement on Morgan Stanley’s web site (www.stockplanconnect.com). If the Grantee does not accept the Award and this Agreement within 30 days from the date of the notification of the Award, the Award referenced herein shall expire unless the acceptance date is extended in writing signed by the Company.

2. **Performance Condition.** The Award is conditioned upon the Company meeting the income from continuing operations, return on invested capital and relative total stockholder return performance goal targets for the three-year performance period beginning June 1, 2021 and ending May 31, 2024, as set forth in the Plan. If the Company does not meet these performance goal targets at the threshold level set forth in the Plan, the Grantee shall forfeit to the Company all Award Shares. If the Company meets these performance goal targets at or above the threshold level but less than the target level, the Grantee shall forfeit that number of Award Shares as determined under the Plan. If the Company meets these performance goal targets at or above the target level, the number of Award Shares granted shall be as determined under the Plan.

3. **Restrictions.** The Grantee represents that he is accepting the Award Shares without a view toward distribution of said Award Shares and that he will not sell, assign, transfer, pledge or otherwise encumber the Award Shares during the period commencing on the Date of Award and ending on the date the restrictions applicable to such Award Shares are released pursuant to paragraph 4 of this Agreement (“Restrictive Period”).

4. **Release of Restrictions.** Subject to the provisions of paragraphs 2 and 5, the restrictions described in paragraph 3 above shall be released with respect to 100% of the Award Shares on July 31, 2024, except as follows:

(a) *In General.* Subject to the provisions of paragraph 2, if the Grantee’s employment with the Company and all Subsidiaries of the Company terminates prior to the last day of the Restrictive Period for any reason other than Retirement, death or Disability, the

Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 3 hereof.

(b) *Retirement.* Subject to the provisions of paragraph 2, if the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of Retirement prior to the last day of the Restrictive Period, the Restrictive Period shall terminate on July 31, 2024.

For this purpose, "Retirement" means the Grantee's voluntary termination of employment, or his termination of employment by the Company or a Subsidiary without Cause (as defined in Section 5 below), when he has (A) attained age 65 or (B) attained age 55 and his age plus the number of his consecutive years of service with the Company and Subsidiaries is at least 75.

(c) *Death or Disability.* Subject to the provisions of paragraph 2, if the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of death or Disability occurring on or after the Date of Award and on or before July 31, 2024, the Restrictive Period shall terminate as to a pro-rata share of Award Shares determined by multiplying the number of Award Shares by a fraction, the numerator of which is the number of full months that have elapsed from the Date of Award to the date of death or Disability, and the denominator of which is 36 (the number of full months in the Restrictive Period). The remaining shares shall be forfeited and returned to the Company. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(d) *Restrictive Covenant.* If at any time prior to the Award Shares' release from the restrictions hereunder, the Grantee, without the Company's express written consent, directly or indirectly, alone or as a member of a partnership, group, or joint venture or as an employee, officer, director, or greater than 1% stockholder of any corporation, or in any capacity engages in any activity which is competitive with any of the businesses conducted by the Company or its affiliated companies at any time during the Grantee's term of employment, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 3 hereof.

5. Change in Control. In the event of a Change in Control of the Company, and within two years following such Change in Control, either the Grantee's employment is terminated by the Company or a Subsidiary of the Company without Cause, or the Grantee terminates his employment with the Company and all Subsidiaries for Good Reason, then notwithstanding any conditions or restrictions contained in this Agreement, the Grantee shall be entitled to that number of Award Shares that would be available if the cumulative net income performance goal were met at the target level, and the Restrictive Period shall terminate as to all such Award Shares. For this purpose, (a) "Cause" means (i) the Grantee's dishonesty, fraud or breach of trust, gross negligence or substantial misconduct in the performance of, or substantial nonperformance of, his assigned duties or willful violation of Company policy, (ii) any act or omission by the Grantee that is a substantial cause for a regulatory body with jurisdiction over the Company to request or recommend the suspension or removal of the participant or to impose

sanctions upon the Company or the Grantee, or (iii) a material breach by the Grantee of any applicable employment agreement between him and the Company, and in each case, the Company shall have the sole discretion to determine whether a Grantee's termination of employment is for Cause; and (b) "Good Reason" means (i) a material reduction in the nature or scope of the Grantee's duties, responsibilities, authority, power or functions from those enjoyed by the Grantee immediately prior to the Change in Control, or a material reduction in the Grantee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control, or (ii) a relocation of the Grantee's primary place of employment of at least 100 miles.

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

7. Rights of Grantee. As the holder of the Award Shares, the Grantee is entitled to all of the rights of a stockholder of AAR CORP. with respect to any of the Award Shares, when issued, including, but not limited to, the right to receive dividends declared and payable since the Date of Award; provided, however, that such dividends shall be accumulated and held by the Company until the performance condition described in paragraph 2 is met, or if earlier, as described in paragraph 5, at which time such accumulated dividends shall be paid to the Grantee in cash to the extent the performance condition is met or if applicable, as described in Section 5. Any accumulated or unpaid dividends relating to Award Shares that are forfeited shall also be forfeited.

8. Shares. In aid of the restrictions set forth in paragraph 3, the Grantee will be required to execute a stock power in favor of the Company which will be cancelled upon release of restrictions with respect to Award Shares released. Award Shares shall be held by the Company in electronic book entry form on the records of the Company's Transfer Agent, together with the executed stock power, for the account of the Grantee until such restrictions are released pursuant to the terms hereof, or such Award Shares are forfeited to the Company as provided by the Plan or this Agreement. The Grantee shall be entitled to the Award Shares as to which such restrictions have been released, and the Company agrees to issue such Award Shares in electronic form on the records of the Transfer Agent. Upon request by the Grantee, the Transfer Agent will transfer such released Award Shares in electronic form to the Grantee's broker for the Grantee's account or issue certificates in the name of the Grantee representing the Award Shares for which restrictions have been released.

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

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

11. Withholding Taxes. The Grantee shall pay to the Company an amount sufficient to satisfy all minimum tax withholding requirements, including those arising under federal, state and local income tax laws, prior to the delivery of any Award Shares. Payment of the minimum withholding requirement may be made by one or more of the following methods: (a) in cash, (b) in cash received from a broker-dealer to whom the Grantee has submitted irrevocable instructions to deliver the amount of withholding tax to the Company from the proceeds of the sale of shares of Common Stock subject to the Award, (c) by delivery to the Company of other Common Stock owned by the Grantee that is acceptable to the Company, valued at its fair market value on the date of payment, (d) by certifying to ownership by attestation of such previously owned Common Stock, or (e) by having shares of Common Stock withheld from the Award Shares otherwise distributable to the Grantee. Payment shall be made pursuant to the on-line procedures set forth on the AAR 2013 Stock Benefit Plan online web site through Morgan Stanley (www.stockplanconnect.com).

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

13. Recoupment. Notwithstanding any other provision of this Agreement, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of an Award (including by forfeiture of any outstanding Award Shares or by the Grantee's remittance to the Company of Award Shares pursuant to which the restrictions previously lapsed or of a cash payment equal to Award Shares pursuant to which the restrictions previously lapsed). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as

permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Grantee.

14. Miscellaneous.

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

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

(c) Nothing in the Award shall confer on the Grantee any right to be or to continue in the employ of the Company or any of its Subsidiaries or shall interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment of the Grantee at any time for any reason or no reason.

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

(e) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein; provided, however, that this Agreement, including paragraph 4, shall be subject to the provisions of any written employment or severance agreement that has been or may be executed by the Grantee and the Company, and the provisions in such employment or severance agreement concerning the Award shall supercede any inconsistent or contrary provision of this Agreement. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

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

Questions concerning the provisions of this Agreement should be directed to the Company's Corporate Secretary: 630/227-2060; fax 630/227-2058.

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 August 31, 2021;
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: September 23, 2021

/s/ JOHN M. HOLMES

John M. Holmes

President and Chief Executive Officer

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 August 31, 2021;
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: September 23, 2021

/s/ SEAN M. GILLEN

Sean M. Gillen

Vice President and Chief Financial Officer

(Principal Financial Officer)

**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 August 31, 2021 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: September 23, 2021

/s/ JOHN M. HOLMES

John M. Holmes

President and Chief Executive Officer

**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 August 31, 2021 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: September 23, 2021

/s/ SEAN M. GILLEN

Sean M. Gillen

Vice President and Chief Financial Officer

(Principal Financial Officer)
