

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
FORM 10-K

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

FOR THE FISCAL YEAR ENDED MAY 31, 2000 COMMISSION FILE NUMBER 1-6263

AAR CORP.  
(Exact Name of Registrant as Specified in its Charter)

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

36-2334820  
(I. R. S. Employer  
Identification No.)

ONE AAR PLACE, 1100 N. WOOD DALE ROAD, WOOD DALE, ILLINOIS  
(Address of Principal Executive Offices)

60191  
(Zip Code)

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

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

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
COMMON STOCK, \$1.00 PAR VALUE	NEW YORK STOCK EXCHANGE CHICAGO STOCK EXCHANGE
COMMON STOCK PURCHASE RIGHTS	NEW YORK STOCK EXCHANGE CHICAGO STOCK EXCHANGE

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /X/

At July 31, 2000, the aggregate market value of the Registrant's voting stock held by nonaffiliates was approximately \$287,579,232 (based upon the closing price of the Common Stock at July 31, 2000 as reported on the New York Stock Exchange). The calculation of such market value has been made for the purposes of this report only and should not be considered as an admission or conclusion by the Registrant that any person is in fact an affiliate of the Registrant.

On July 31, 2000, there were 26,856,636 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the Registrant's Annual Meeting of Stockholders, to be held October 11, 2000, is incorporated by reference in Part III to the extent described therein.

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PART I

ITEM 1. BUSINESS (IN THOUSANDS, EXCEPT PERCENTAGE AND EMPLOYEE DATA)

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR" or the "Company," unless the context indicates otherwise. The Company was organized in 1955 as the successor to a business founded in 1951 and was reincorporated in Delaware in 1966. The Company is a worldwide leader in supplying aftermarket products and services to the global aviation/aerospace industry.

Certain of the Company's aviation-related activities and products are subject to licensing, certification and other requirements imposed by the Federal Aviation Administration (FAA) and other regulatory agencies, both domestic and foreign. The Company believes that it has all licenses and certifications that are material to the conduct of its business.

The Company reports its activities in one business segment: Aviation Services. Three classes of similar products and services are included within this segment: (i) Aircraft and Engines, (ii) Airframe and Accessories and (iii) Manufacturing.

The Company's Aircraft and Engines activities include (i) the purchase, sale and lease of used commercial jet aircraft, (ii) the purchase, sale and lease of a wide variety of new, overhauled and repaired engines and engine products for the aviation aftermarket, including a broad range of spare engines and engine parts and other engine components and accessories, and (iii) the overhaul, repair and exchange of a wide range of engine parts and components and other engine support services for its commercial and military customers. The Company also provides customized inventory supply and management programs for engine parts and components in support of customer maintenance activities. The Company has two FAA licensed repair stations in the U.S. to perform engine component overhaul services which cover a broad range of internal engine parts and components. The Company also provides turbine engine overhaul and parts supply services to industrial gas and steam turbine operators. The Company's primary sources of aviation products for its Aircraft and Engine activities are domestic and foreign airlines, independent aviation service companies, aircraft leasing companies and original equipment manufacturers.

The Company's Airframe and Accessories activities consist of (i) the purchase, sale and lease of new, overhauled and repaired airframe parts and accessories for the aviation aftermarket, and (ii) the overhaul, repair and exchange of a wide variety of airframe and accessory parts and components for its commercial, military and general aviation customers. The Company also provides customized inventory supply and management programs for certain airframe parts and components in support of customer maintenance activities. The Company's primary sources of airframe parts for its Airframe and Accessories activities are domestic and foreign airlines, independent aviation service companies, aircraft leasing companies and original equipment manufacturers. The Company is also an authorized distributor for more than 150 leading aviation/aerospace product manufacturers.

The Company's Airframe and Accessories overhaul and repair capabilities include most commercial aircraft landing gear, a wide variety of avionics, instruments, electrical, electronic, fuel, hydraulic and pneumatic components and a broad range of internal airframe components. AAR also operates an aircraft maintenance facility providing maintenance, modification, special equipment installation, painting services and aircraft terminal services for various models of commercial, military, regional, business and general aviation aircraft. AAR's overhaul and repair of parts and components also support the sale, lease and inventory management activities of the Company. AAR has nine FAA-licensed repair stations in the U.S. and two in Europe to perform airframe/component overhaul services.

The Company's Manufacturing activities include (i) the design, manufacture and installation of in-plane cargo loading and handling systems for commercial and military aircraft and helicopters,

(ii) the design and manufacture of advanced composite materials for commercial, business and military aircraft, (iii) the manufacture and repair of a wide array of containers, pallets and shelters in support of military and humanitarian rapid deployment activities, (iv) the design and manufacture of a line of specialized protective transport cases that are used to transport sensitive and calibrated tools and instruments, and a variety of vacuum storage containers that protect machinery and equipment during long-term storage.

The Company furnishes aviation products and services primarily through its own employees. The principal customers for the Company's products and services are domestic and foreign commercial airlines, regional/commuter airlines, business aircraft operators, aviation original equipment manufacturers, aircraft leasing companies, domestic and foreign military organizations and independent aviation support companies. Sales of aviation products and services to commercial airlines are generally affected by such factors as the number, type and average age of aircraft in service, the levels of aircraft utilization (e.g., frequency of schedules), the number of airline operators and the level of sales of new and used aircraft.

Competition in the worldwide aviation/aerospace aftermarket is based on quality, ability to provide a broad range of products and services, speed of delivery and price. Competitors in the parts supply business include the original equipment manufacturers, commercial airlines, and other independent suppliers of parts and services. In certain of its leasing and commercial jet aircraft trading activities, the Company faces competition from financial institutions, syndicators, commercial and specialized leasing companies and other entities that provide financing. AAR also competes with various repair and overhaul organizations, which include the service arms of original equipment manufacturers, the maintenance departments or divisions of large commercial airlines (some of which also offer maintenance services to third parties) and independent organizations. AAR's pallet, container and shelter manufacturing activities compete with several modest-sized private companies, and its cargo systems competitors include a number of divisions of large corporations. Although certain of the Company's competitors have substantially greater financial and other resources than the Company, the Company believes that it has maintained a satisfactory competitive position through its responsiveness to customer needs, its attention to quality and its unique combination of trading expertise, technical capabilities and financial strength.

At May 31, 2000, backlog believed to be firm was approximately \$84,800 compared to \$83,600 at May 31, 1999. An additional \$4,100 of unfunded government options on awarded contracts also existed at May 31, 2000. It is expected that approximately \$84,600 of the May 31, 2000 backlog will be shipped in fiscal 2001.

Sales to the U.S. Government, its agencies and its contractors were approximately \$132,048 (12.9% of total sales), \$98,954 (9.4% of total sales) and \$83,114 (9.7% of total sales) in fiscal years 2000, 1999, and 1998, respectively. Because such sales are subject to competitive bidding and government funding, no assurance can be given that such sales will continue at levels previously experienced. The majority of the Company's government contracts are for aviation products and services used for ongoing routine military logistic support activities; unlike weapons systems and other high-technology military requirements, these products and services are less likely to be affected by reductions in defense spending. The Company's contracts with the U.S. Government and its agencies are typically firm agreements to provide aviation products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government agency. Although the Company's government contracts are subject to termination at the election of the government, in the event of such a termination the Company would be entitled to recover from the government all allowable costs incurred by the Company through the date of termination.

At May 31, 2000, the Company employed approximately 2,900 persons worldwide.

For additional information concerning the Company's business segment activities, including classes of similar products and services, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." For information concerning export sales, see "Business Segment Information" in Note 11 of Notes to Consolidated Financial Statements.

#### ITEM 2. PROPERTIES

The Company's principal aircraft and engine sales and leasing activities as well as engine and airframe components and aftermarket parts distribution activities are conducted from one building, which is owned by the Company, in Wood Dale, Illinois. In addition to warehouse space, the facility includes executive, sales and administrative offices. The Company also owns and operates one building in Elk Grove Village, Illinois for the purpose of the distribution of new aviation parts. Warehouse facilities are leased in Petropolis, Brazil; Hannover, Germany; Nantgarw, Wales; and Brussels, Belgium for the purpose of aviation parts distribution.

Aviation overhaul facilities are located in The Netherlands near Schiphol International Airport in a building owned by the Company; Garden City, New York in a building owned by the Company; Frankfort, New York (subject to an industrial revenue bond to the Company until 2001, at which time the Company expects to purchase the facility for nominal consideration); Windsor, Connecticut in a building owned by the Company; Miami, Florida in leased facilities; Roswell, New Mexico in leased facilities; London, England in leased facilities, and Oklahoma City, Oklahoma in facilities leased from airport authorities. The Company's experience indicates that lease renewal is available on reasonable terms consistent with its business needs.

The Company's principal manufacturing activities are conducted at owned facilities in Clearwater, Florida (subject to an industrial revenue bond); Port Jervis, New York; and Cadillac and Livonia, Michigan.

The Company believes that its owned and lease facilities are suitable and adequate for its existing business.

#### ITEM 3. LEGAL PROCEEDINGS

The Company is not a party to any material, pending legal proceedings (including any governmental or environmental proceedings) other than routine litigation incidental to its existing business.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

SUPPLEMENTAL ITEM:

EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning each executive officer of the Company is set forth below:

NAME	AGE	PRESENT POSITION WITH THE COMPANY
David P. Storch.....	47	President and Chief Executive Officer; Director
Philip C. Slapke.....	47	Executive Vice President
Howard A. Pulsifer.....	57	Vice President; General Counsel; Secretary
Timothy J. Romenesko.....	43	Vice President and Chief Financial Officer
Michael J. Sharp.....	38	Vice President and Controller; Chief Accounting Officer

Mr. Storch has been President of the Company since 1989 and Chief Executive Officer since 1996. Previously, he was Chief Operating Officer from 1989 to 1996 and a Vice President of the Company from 1988 to 1989. Mr. Storch joined the Company in 1979 and was President of a major subsidiary from 1984 to 1988. Mr. Storch has been a director of the Company since 1989. Mr. Storch is Ira A. Eichner's son-in-law. Mr. Eichner is Chairman of the Board and a Director of the Company.

Mr. Slapke was elected Executive Vice President of the Company in 1999. From 1994 to 1999, he was a Vice President of the Company. He is also President of a major subsidiary, a position he has held since 1989, and has been with the Company in various positions since 1981.

Mr. Pulsifer joined the Company as General Counsel in 1987 and has been a Vice President since 1989 and Secretary since 1990. He was previously with United Airlines, Inc. for 14 years, most recently as Senior Counsel.

Mr. Romenesko has been Vice President and Chief Financial Officer since 1994. Previously he served as Controller of the Company from 1991 to 1995 and in various other positions since joining the Company in 1981.

Mr. Sharp has been Vice President and Controller, Chief Accounting Officer since 1999. Previously he served as Controller of the Company from 1996 to 1999. Prior to joining the Company he was with Kraft Foods from 1994 to 1996, and with KPMG LLP from 1984 to 1994, most recently as audit senior manager.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS  
(IN THOUSANDS, EXCEPT PER SHARE INFORMATION, PERCENTAGE DATA AND NUMBER OF STOCKHOLDERS)

The Company's Common Stock is traded on the New York Stock Exchange and the Chicago Stock Exchange. On June 30, 2000, there were approximately 11,000 holders of the Common Stock of the Company, including participants in security position listings.

Certain of the Company's debt agreements contain provisions restricting the payment of dividends or repurchase of its shares. See Note 2 of Notes to Consolidated Financial Statements included herein. Under the most restrictive of these provisions, the Company may not pay dividends (other than stock dividends) or acquire its capital stock if, after giving effect to the aggregate amounts paid on or after June 1, 1995, such amounts exceed the sum of \$20,000 plus 50% of Consolidated Net Income of the Company after June 1, 1994. At May 31, 2000 unrestricted consolidated retained earnings available for payment of dividends and purchase of the Company's shares totaled approximately \$19,504. At June 1, 2000, unrestricted consolidated retained earnings increased to \$37,086, due to inclusion of 50% of Consolidated Net Income of the Company for fiscal 2000.

The table below sets forth for each quarter of the fiscal year indicated the reported high and low market prices of the Company's Common Stock on the New York Stock Exchange and the quarterly dividends declared.

PER COMMON SHARE ----- QUARTER -----	FISCAL 2000 ----- MARKET PRICES -----			FISCAL 1999 ----- MARKET PRICES -----		
	HIGH ---	LOW ---	QUARTERLY DIVIDENDS -----	HIGH ---	LOW ---	QUARTERLY DIVIDENDS -----
First.....	23 1/4	18 3/8	\$.085	29 15/16	22 1/8	\$.085
Second.....	21 15/16	15 15/16	.085	25 3/8	17 3/4	.085
Third.....	26 7/8	15 13/16	.085	25 3/8	15	.085
Fourth.....	23 5/8	13 7/8	.085	21 9/16	15 3/8	.085
			----- \$.340 =====			----- \$.340 =====

ITEM 6. SELECTED FINANCIAL DATA  
(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

	FOR THE YEAR ENDED MAY 31,				
	2000	1999	1998	1997	1996
<b>RESULTS OF OPERATIONS</b>					
Sales.....	\$ 957,525	\$ 918,036	\$782,123	\$589,328	\$504,990
Pass through sales(1).....	66,808	132,572	74,514	44,225	44,977
Total sales.....	1,024,333	1,050,608	856,637	633,553	549,967
Gross profit.....	172,853	173,259	148,406	108,541	90,765
Operating income.....	70,658	77,381	64,716	42,890	32,442
Interest expense.....	23,431	18,567	14,494	10,786	10,616
Income before provision for income taxes.....	49,526	59,786	51,157	32,975	22,782
Net income.....	35,163	41,671	35,657	23,025	16,012
Share data:(2)					
Earnings per share -- basic.....	\$ 1.30	\$ 1.51	\$ 1.29	\$ .92	\$ .67
Earnings per share -- diluted.....	\$ 1.28	\$ 1.49	\$ 1.27	\$ .91	\$ .66
Cash dividends per share.....	\$ .34	\$ .34	\$ .33	\$ .32	\$ .32
Average common shares outstanding -- basic.....	27,103	27,549	27,588	25,026(4)	23,967
Average common shares outstanding -- diluted.....	27,415	28,006	28,174	25,399(4)	24,248
<b>FINANCIAL POSITION</b>					
Working capital.....	\$ 347,451	\$ 334,600	\$319,252(3)	\$314,119(4)	\$258,627
Total assets.....	740,998	726,630	670,559	529,584(4)	437,846
Short-term debt.....	26,314	420	237(3)	1,474	1,474
Long-term debt.....	180,447	180,939	177,509(3)	116,818	118,292
Total debt.....	206,761	181,359	177,746(3)	118,292	119,766
Stockholders' equity.....	339,515	326,035	300,850	269,259(4)	204,635
Number of shares outstanding at end of year(2).....	26,865	27,381	27,717	27,306(4)	23,997
Book value per share of common stock(2).....	\$ 12.64	\$ 11.91	\$ 10.85	\$ 9.86	\$ 8.53

Notes:

- (1) In connection with certain long-term inventory management programs, the Company purchases factory-new products on behalf of its customers from original equipment manufacturers. These products are purchased from the manufacturer and "passed through" to the Company's customers at the Company's cost. Beginning with the third quarter of fiscal 2000, the Company began reporting "pass through" sales on the Income Statement.
- (2) All share and per share information reflects the three-for-two stock split on February 23, 1998.
- (3) In December 1997, the Company sold \$60,000 of unsecured 6.875% Notes due December 15, 2007.
- (4) In February 1997, the Company sold three million shares of its common stock for \$50,075, net of expenses.



ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PERCENTAGE DATA)

RESULTS OF OPERATIONS

The Company reports its activities in one business segment: Aviation Services. The table below sets forth net sales for the Company's classes of similar products and services within this segment for each of the last three fiscal years ended May 31.

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
Sales:			
Aircraft and Engines.....	\$ 440,502	\$ 416,196	\$ 339,299
Airframe and Accessories.....	397,090	376,259	333,283
Manufacturing.....	119,933	125,581	109,541
	957,525	918,036	782,123
Pass through sales.....	66,808	132,572	74,514
	<u>\$1,024,333</u>	<u>\$1,050,608</u>	<u>\$ 856,637</u>

THREE-YEAR SALES SUMMARY

Over the last three fiscal years, consolidated sales, before pass through sales, increased from \$782,123 in fiscal 1998 to \$957,525 in fiscal 2000. Total sales, which include pass through sales, increased from \$856,637 in fiscal 1998 to \$1,024,333 in fiscal 2000. The growth in sales was the result of the growing demand for the Company's broad line of products and services in the aviation/aerospace market, whose rate of growth declined slightly the last two fiscal years. In fiscal 1998, most of the world's major airlines, excluding those in Asia, reported record or near record operating earnings driven by strong revenue growth and their various initiatives to control costs. In 1999 and 2000, however, many of the world's airlines experienced lower operating earnings compared to 1998 reflecting slower revenue growth and higher expenses. Certain domestic aviation/aerospace original equipment manufacturers also experienced lower operating earnings during the latter half of the three-year period reflecting the overall softening aviation/aerospace market. In addition, during the latter part of the three-year period, many airlines replaced older aircraft, such as the 727 and DC-9, powered by the JT8D engine family, and older 747s, generally powered by the JT9D engine family, in favor of newer aircraft, such as the 737-300, 747-400, 777, A320 and A330/A340. The Company continues to develop new repair and overhaul capabilities and other support programs for the newer generation aircraft and engines.

During fiscal 1998 and 1999, the Company's sales before pass through sales benefited from the aggressive pursuit of market opportunities in the relatively strong aviation/aerospace market. Sales in Aircraft and Engines benefited from new inventory management programs and higher sales of its aircraft and engine sales and leasing products. Sales in Airframe and Accessories increased as a result of greater demand for the Company's repair and overhaul services and the impact from the acquisition of a new aircraft parts distribution company during 1998. Sales in Manufacturing increased in 1999 compared to 1998 from strong demand of the Company's products supporting U.S. deployment needs.

During fiscal 2000, sales, before pass through sales, increased due to greater demand for the Company's repair and overhaul services, as well as the Company's aircraft and engine sales and leasing products. Sales in Aircraft and Engines during fiscal 2000 were negatively impacted by lower engine part sales reflecting fewer shop visits at a main customer's engine overhaul facilities. Sales in Manufacturing during fiscal 2000 were lower mainly as a result of the divestiture of the Company's

floor maintenance products manufacturing facility which occurred in the second quarter of fiscal 1999.

Pass through sales increased in fiscal 1999 compared to 1998 mainly as a result of new engine parts inventory management programs, but declined in fiscal 2000 primarily as a result of the aforementioned fewer shop visits at a certain customer's engine overhaul facilities.

The Company believes that its established global market position, its ability to respond to changes in the industry, including technological changes, and its diverse customer base, position the Company to take advantage of future opportunities in the aviation/aerospace market.\*

#### FISCAL 2000 COMPARED WITH FISCAL 1999

Consolidated sales in fiscal 2000, before pass through sales, increased 4.3% to \$957,525 from \$918,036 in fiscal 1999. This increase was attributable to higher demand for the Company's aircraft and engine sales and leasing products, as well as strong demand for the Company's repair and overhaul services. Sales in Aircraft and Engines increased \$24,306 or 5.8%, as the Company experienced strong demand for its whole engine and aircraft products, partially offset by a continued decrease in sales from engine parts inventory management programs. This decrease is primarily the result of reduced demand by a major customer for certain engine parts due principally to significantly fewer engine shop visits to this customer for the engine types the Company supports. The Company is working to resolve pending issues with this customer, but no assurance can be given that sales to this customer will continue at historical levels in the future. The Company is aggressively pursuing inventory management programs with other customers and building its engine parts manufacturing capabilities to offset potential future reduced sales to this customer.\* Sales in Airframe and Accessories increased \$20,831 or 5.5%, reflecting increased demand for the Company's aircraft maintenance and landing gear and small component overhaul and repair services. These increases were partially offset by lower new aircraft parts sales to general aviation customers. Sales in Manufacturing declined \$5,648 or 4.5%, as a result of the divestiture of the Company's floor maintenance products manufacturing subsidiary in November 1998, partially offset by higher sales of the Company's products supporting U.S. deployment needs. Pass through sales were \$66,808 compared to \$132,572 in the prior year. As certain of the Company's inventory management programs have matured, pass through sales have declined as the Company has sourced more of its customer's parts requirements with used, serviceable parts, rather than with factory-new parts. The reduction in pass through sales during the current fiscal year is attributable to the maturation of the Company's existing long-term inventory management programs, as well as a decline in the number of shop visits for the engine types the Company supports at certain long-term inventory management programs.

Consolidated gross profit was essentially even with the prior fiscal year. The fiscal 2000 consolidated gross profit margin, excluding the impact from pass through sales, was 18.1% in the current fiscal year, compared to 18.9% in the prior year. The reduction in the consolidated gross profit margin was primarily due to the unfavorable impact of the mix of inventories sold. Selling, general and administrative expenses increased \$6,317 or 6.6% as a result of a \$4,000 fourth quarter charge to increase bad debts reserve in response to the Company's accounts receivable exposure, which included two airlines that filed for bankruptcy protection during fiscal 2000, as well as increased information technology costs incurred as a result of the Company's e-business activities. Interest expense increased \$4,864 principally as a result of increased average short-term borrowings outstanding during fiscal year 2000 as compared to prior year, and interest income increased \$1,327 as a result of an increase in average outstanding interest-bearing notes receivable during the current year compared to prior year.

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\* This section contains forward-looking statements which are identified with an asterisk (\*). Please see comments on forward-looking statement risk factors in the "Forward-Looking Statements" section on page 12.

Consolidated net income declined \$6,508 or 15.6% from the prior year as a result of the above factors.

#### FISCAL 1999 COMPARED WITH FISCAL 1998

Consolidated sales in fiscal 1999, before pass through sales, increased 17.4% to \$918,036 from \$782,123 in fiscal 1998. This increase was attributable to continued strong demand for the Company's broad range of products and services and, among other things, full-year sales from businesses acquired in fiscal 1998. Aircraft and Engines sales increased \$76,897 or 22.7%, resulting from higher sales of engine parts, driven primarily from strength in inventory management programs, and increased aircraft sales and leasing revenues. These increases were partially offset by the impact of certain engine parts sales which were recorded by Turbine Engine Asset Management L.L.C. (an unconsolidated joint venture company) during fiscal 1999, but were recorded by Aircraft and Engines during the first half of fiscal 1998. Airframe and Accessories sales increased \$42,976 or 12.9%, driven primarily by the impact of full-year sales from the new-parts distribution companies acquired during fiscal 1998, as well as increased demand for aircraft maintenance and landing gear overhaul repair capabilities. Manufacturing sales increased \$16,040 or 14.6%, due to increased sales of products supporting the U.S. Government's rapid deployment program, the inclusion of full-year sales from AAR Composites (acquired in fiscal 1998) and higher sales of cargo handling systems. These gains were partially offset by the unfavorable impact on sales as a result of the divestiture of the Company's floor maintenance products manufacturing subsidiary in November 1998. Pass through sales were \$132,572 compared to \$74,514 in the prior year. The increase in pass through sales in the current year as compared to the prior year was attributable to the addition of new inventory management programs during fiscal 1999 and late fiscal 1998.

Consolidated gross profit increased \$24,853 or 16.7%, due to increased consolidated net sales. The fiscal 1999 consolidated gross profit margin of 18.9%, excluding the impact from pass through sales, is slightly less than the consolidated gross profit margin of 19.0% of the prior year. Consolidated operating income increased \$12,665 or 19.6% over the prior year on the strength of increased sales, partially offset by increased selling, general and administrative expenses. Selling, general and administrative expenses were lower as a percentage of consolidated net sales; however, total expenses increased due to the impact from companies acquired during fiscal 1998, as well as increased marketing support and information technology costs, which include Year 2000 compliance costs. Interest expense increased \$4,073 or 28.1% over the prior year primarily due to the full-year effect of the \$60,000 of unsecured 6.875% Notes issued in December 1997.

Consolidated net income increased \$6,014 or 16.9% over the prior year as a result of the above-noted factors.

#### FISCAL 1998 COMPARED WITH FISCAL 1997

Consolidated net sales, before pass through sales, increased \$192,795 or 32.7% over the prior fiscal year, reflecting strong demand for the Company's broad range of products and services and the effect of acquisitions during fiscal 1998. Acquisitions, net of prior year dispositions, contributed \$77,234 to the sales increase over the prior year. Aircraft and Engines sales increased \$76,225 or 29.0%, resulting from higher sales in its engine and engine parts businesses, as well as increased aircraft sales. Airframe and Accessories sales increased \$111,850 or 50.5%, driven primarily by sales from the new-parts distribution companies, which were acquired in fiscal 1998, and increased demand for the Company's aircraft maintenance and aircraft component overhaul and repair capabilities. Sales in Manufacturing increased \$4,720 or 4.5%, reflecting increased cargo loading and handling system sales and the inclusion of sales from ATR (AAR Composites), which was acquired in October 1997, partially offset by lower sales from products supporting the U.S. Government's rapid

deployment program. Pass through sales were \$74,514 compared to \$44,225 reflecting strong demand of engine parts in the Company's inventory management programs.

Consolidated gross profit increased \$39,865 or 36.7%, due to increased consolidated net sales and an increase in the consolidated gross profit margin to 19.0%, excluding the impact from pass through sales, from 18.4% in the prior year. The increase in the consolidated gross profit margin during fiscal 1998 reflected the favorable mix of inventories sold and improved margins in certain manufactured products.

Consolidated operating income increased \$21,826 or 50.9% over the prior fiscal year as a result of the increase in net sales and the higher gross profit margin, partially offset by increased selling, general and administrative expenses. Selling, general and administrative expenses were lower as a percentage of consolidated net sales; however, total expenses increased principally due to the inclusion of recently acquired companies and increased personnel costs. Interest expense increased \$3,708 or 34.4% over the prior year, principally due to the impact of the Company's sale of \$60,000 of unsecured 6.875% Notes in December 1997.

Consolidated net income increased \$12,632 or 54.9% over the prior year as a result of the factors previously discussed.

#### LIQUIDITY AND CAPITAL RESOURCES

At May 31, 2000, the Company's liquidity and capital resources included cash and cash equivalents of \$1,241 and working capital of \$347,451. At May 31, 2000, the Company's long-term debt-to-capitalization ratio was 34.7% compared to 35.7% at May 31, 1999, and the Company's total debt-to-capitalization ratio was 37.8% at May 31, 2000, compared to 35.7% at May 31, 1999. The Company continues to maintain its external sources of financing with \$153,326 of unused available bank lines and a shelf registration statement on file with the Securities and Exchange Commission under which up to \$200 million of common stock, preferred stock or medium- or long-term debt securities may be issued or sold subject to market conditions.

During fiscal 2000, the Company generated \$10,051 of cash flow from operations compared to \$28,525 and \$22,823 during fiscal 1999 and 1998, respectively. The reduction in cash flow generated from operations was principally due to a reduction in accounts and notes payable and accrued liabilities during the current fiscal year.

During fiscal 2000, the Company's investing activities used \$23,209, primarily reflecting the Company's investment in property, plant and equipment of \$22,344.

During fiscal 2000, the Company's financing activities generated \$6,029 of cash, reflecting proceeds from short-term borrowings of \$25,885, partially offset by the purchase of the Company's stock of \$10,530 and the payment of cash dividends of \$9,218.

The Company believes that its liquidity and available sources of capital will continue to provide the Company with the ability to meet its ongoing working capital requirements, make anticipated capital expenditures, meet contractual commitments and pay dividends.\*

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\* This section contains forward-looking statements which are identified with an asterisk (\*). Please see comments on forward-looking statement risk factors in the "Forward-Looking Statements" section on page 12.

A summary of key indicators of financial condition and lines of credit follows:

DESCRIPTION	MAY 31,	
	2000	1999
Working capital.....	\$347,451	\$334,600
Current ratio.....	3.1:1	2.9:1
Bank credit lines:		
Borrowings outstanding.....	\$ 25,885	\$ --
Available but unused lines.....	153,326	178,800
Total credit lines.....	\$179,211	\$178,800
	=====	=====
Long-term debt, less current maturities.....	\$180,447	\$180,939
Ratio of long-term debt to capitalization.....	34.7%	35.7%
Ratio of total debt to capitalization.....	37.8%	35.7%

#### FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis of Financial Condition and Results of Operations contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995 and are identified by an asterisk(\*). These forward-looking statements are based on beliefs of Company management, as well as assumptions and estimates based on information currently available to the Company, 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: ability to acquire inventory at favorable prices; integration of acquisitions; marketplace competition; economic and aviation/aerospace market stability and Company profitability. Should one or more of these risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk is limited to fluctuating interest rates under its unsecured bank credit agreements and foreign exchange rates. During fiscal 2000 and 1999, the Company did not utilize derivative financial instruments to offset these risks.

At May 31, 2000, \$65,300 was available under credit lines with domestic banks, \$84,115 was available under revolving credit and term loan agreements with domestic banks, and \$3,911 was available under credit agreements with foreign banks (credit facilities). Interest on amounts borrowed under the credit facilities is based on an overnight bid rate. As of May 31, 2000, the outstanding balance under these agreements was \$25,885. A hypothetical 10 percent increase to the average interest rate under the credit facilities would not have had a material impact on the results of operations for the Company during fiscal 2000.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS  
OF AAR CORP.:

We have audited the accompanying consolidated balance sheets of AAR CORP. and subsidiaries as of May 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended May 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AAR CORP. and subsidiaries as of May 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended May 31, 2000 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Chicago, Illinois  
June 27, 2000

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AAR CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
	(000S OMITTED EXCEPT PER SHARE DATA)		
Sales.....	\$ 957,525	\$ 918,036	\$782,123
Pass through sales.....	66,808	132,572	74,514
	-----	-----	-----
	1,024,333	1,050,608	856,637
	-----	-----	-----
Costs and operating expenses:			
Cost of sales.....	851,480	877,349	708,231
Selling, general and administrative.....	102,195	95,878	83,690
	-----	-----	-----
	953,675	973,227	791,921
	-----	-----	-----
Operating income.....	70,658	77,381	64,716
Interest expense.....	(23,431)	(18,567)	(14,494)
Interest income.....	2,299	972	935
	-----	-----	-----
Income before provision for income taxes.....	49,526	59,786	51,157
Provision for income taxes.....	14,363	18,115	15,500
	-----	-----	-----
Net income.....	\$ 35,163	\$ 41,671	\$ 35,657
	=====	=====	=====
Earnings per share of common stock--basic.....	\$ 1.30	\$ 1.51	\$ 1.29
	=====	=====	=====
Earnings per share of common stock--diluted.....	\$ 1.28	\$ 1.49	\$ 1.27
	=====	=====	=====

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



AAR CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS

	MAY 31,	
	2000	1999
	(000S OMITTED)	
Current assets:		
Cash and cash equivalents.....	\$ 1,241	\$ 8,250
Accounts receivable.....	128,348	164,302
Inventories.....	275,817	270,654
Equipment on or available for short-term leases.....	60,201	33,845
Deferred tax assets, deposits and other.....	45,660	31,135
	-----	-----
Total current assets.....	511,267	508,186
	-----	-----
Property, plant and equipment, at cost:		
Land.....	6,331	6,331
Buildings and improvements.....	68,387	66,123
Equipment, furniture and fixtures.....	127,879	111,718
	-----	-----
	202,597	184,172
Accumulated depreciation.....	(92,594)	(80,160)
	-----	-----
	110,003	104,012
	-----	-----
Other assets:		
Investment in leveraged leases.....	34,487	34,053
Cost in excess of underlying net assets of acquired companies, net.....	38,840	40,093
Other.....	46,401	40,286
	-----	-----
	119,728	114,432
	-----	-----
	\$740,998	\$726,630
	=====	=====

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

AAR CORP. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	MAY 31,	
	2000	1999
	(000S OMITTED)	
Current liabilities:		
Short-term debt.....	\$ 25,885	\$ --
Current maturities of long-term debt.....	429	420
Accounts and trade notes payable.....	107,879	129,703
Accrued liabilities.....	26,596	36,803
Accrued taxes on income.....	3,027	6,660
	-----	-----
Total current liabilities.....	163,816	173,586
	-----	-----
Long-term debt, less current maturities.....	180,447	180,939
Deferred tax liabilities.....	56,020	44,870
Retirement benefit obligation.....	1,200	1,200
	-----	-----
	237,667	227,009
	-----	-----
Stockholders' equity:		
Preferred stock, \$1.00 par value, authorized 250 shares; none issued.....	--	--
Common stock, \$1.00 par value, authorized 100,000 shares; issued 29,168 and 28,998, respectively.....	29,168	28,998
Capital surplus.....	146,557	144,095
Retained earnings.....	210,474	184,529
Treasury stock, 2,303 and 1,617 shares at cost, respectively.....	(37,236)	(25,463)
Accumulated other comprehensive income (loss) -- cumulative translation adjustments.....	(9,448)	(6,124)
	-----	-----
	339,515	326,035
	-----	-----
	\$740,998	\$726,630
	=====	=====

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

## AAR CORP. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE THREE YEARS ENDED MAY 31, 2000

	COMMON STOCK		TREASURY STOCK		CAPITAL SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	COMPREHENSIVE INCOME (LOSS)
	SHARES	AMOUNT	SHARES	AMOUNT				
	(000S OMITTED)							
Balance, May 31, 1997.....	18,932	\$18,932	728	\$(13,365)	\$141,016	\$125,694	\$(3,018)	
Net income.....	--	--	--	--	--	35,657	--	\$35,657
Cash dividends.....	--	--	--	--	--	(9,118)	--	--
Issuance of common stock.....	--	--	(93)	1,699	1,158	--	--	--
Treasury stock.....	--	--	126	(4,804)	--	--	--	--
Three-for-two stock split.....	9,589	9,589	367	--	(9,589)	--	--	--
Exercise of stock options and stock awards.....	311	311	--	--	8,313	--	--	--
Adjustment for net translation loss.....	--	--	--	--	--	--	(1,625)	(1,625)
Comprehensive income for fiscal 1998.....								\$34,032
Balance, May 31, 1998.....	28,832	\$28,832	1,128	\$(16,470)	\$140,898	\$152,233	\$(4,643)	
Net income.....	--	--	--	--	--	41,671	--	\$41,671
Cash dividends.....	--	--	--	--	--	(9,375)	--	--
Treasury stock.....	--	--	489	(8,993)	--	--	--	--
Exercise of stock options and stock awards.....	166	166	--	--	3,197	--	--	--
Adjustment for net translation loss.....	--	--	--	--	--	--	(1,481)	(1,481)
Comprehensive income for fiscal 1999.....								\$40,190
Balance, May 31, 1999.....	28,998	\$28,998	1,617	\$(25,463)	\$144,095	\$184,529	\$(6,124)	
Net income.....	--	--	--	--	--	35,163	--	\$35,163
Cash dividends.....	--	--	--	--	--	(9,218)	--	--
Treasury stock.....	--	--	686	(11,773)	--	--	--	--
Exercise of stock options and stock awards.....	170	170	--	--	2,462	--	--	--
Adjustment for net translation loss.....	--	--	--	--	--	--	(3,324)	(3,324)
Comprehensive income for fiscal 2000.....								\$31,839
Balance, May 31, 2000.....	29,168	\$29,168	2,303	\$(37,236)	\$146,557	\$210,474	\$(9,448)	

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

AAR CORP. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
	(000S OMITTED)		
Cash flows from operating activities:			
Net income.....	\$ 35,163	\$ 41,671	\$ 35,657
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation and amortization.....	18,373	17,063	14,283
Deferred taxes.....	9,570	10,970	3,780
Change in certain assets and liabilities:			
Accounts receivable.....	31,532	(6,991)	(14,922)
Inventories.....	(6,644)	(46,212)	(34,706)
Equipment on or available for short-term leases.....	(26,593)	3,214	6,664
Accounts and trade notes payable.....	(21,536)	24,659	2,730
Accrued liabilities and taxes on income.....	(13,786)	(3,933)	16,936
Other.....	(16,028)	(11,916)	(7,599)
Net cash provided from operating activities.....	10,051	28,525	22,823
Cash flows from investing activities:			
Property, plant and equipment expenditures, net.....	(22,344)	(36,131)	(17,495)
Acquisitions, less cash acquired.....	--	(15,175)	(28,148)
Proceeds from sale of business.....	--	11,685	--
Investment in equipment on long-term leases and leveraged leases.....	(434)	23,369	(33,538)
Notes receivable and other.....	(431)	(6,641)	(19,948)
Net cash used in investing activities.....	(23,209)	(22,893)	(99,129)
Cash flows from financing activities:			
Proceeds from issuance of long-term notes payable.....	--	--	59,347
Proceeds from short-term debt.....	25,885	--	--
Change in borrowings.....	(484)	2,053	(10,170)
Cash dividends.....	(9,218)	(9,375)	(9,118)
Purchases of treasury stock.....	(10,530)	(7,558)	--
Proceeds from exercise of stock options and other.....	376	278	1,642
Net cash provided from (used in) financing activities...	6,029	(14,602)	41,701
Effect of exchange rate changes on cash.....	120	(2)	122
(Decrease) in cash and cash equivalents.....	(7,009)	(8,972)	(34,483)
Cash and cash equivalents, beginning of year.....	8,250	17,222	51,705
Cash and cash equivalents, end of year.....	\$ 1,241	\$ 8,250	\$ 17,222
	=====	=====	=====

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

AAR CORP. (the Company) supplies a variety of products and services to the worldwide aviation/aerospace industry. Products and services are sold primarily to commercial, domestic and foreign airlines; business aircraft operators; aviation original equipment manufacturers; aircraft leasing companies; domestic and foreign military agencies and independent aviation support companies.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany accounts and transactions.

The Company conducts portions of its business through joint venture investments accounted for under the equity method. These equity affiliates are primarily engaged in the distribution of certain engine parts and aircraft rotatable spares to worldwide aviation customers. The financial position and results of operations for the joint ventures during fiscal 2000 and 1999 are not material.

REVENUE RECOGNITION

Sales and related cost of sales are recognized primarily upon shipment of products and performance of services. Lease revenue is recognized as earned.

In connection with certain long-term inventory management programs, the Company purchases factory-new products on behalf of its customers from original equipment manufacturers. These products are purchased from the manufacturer and "passed through" to the Company's customer at the Company's cost. Previously, the Company disclosed these "pass through" sales in the notes to the consolidated financial statements and excluded these transactions from sales and cost of sales.

During the third quarter of fiscal 2000, the SEC issued Staff Accounting Bulletin (SAB) No. 101 summarizing the SEC's view in applying generally accepted accounting principles to revenue recognition. As a result of SAB No. 101, the Company now believes that pass through sales should be included in sales. Prior to issuance of SAB No. 101, the Company believed that excluding pass through sales from sales was appropriate given the limited nature of the services provided for these transactions. Beginning with the third quarter Form 10-Q, the Company reported pass through sales and the related cost of sales on the Consolidated Income Statement. This change has no impact on the current period or historical net income, earnings per share, condensed consolidated balance sheets, statements of cash flows or comprehensive income.

SEGMENT INFORMATION

SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" establishes standards for public companies to report financial and descriptive information about reportable operating segments in annual financial statements and interim financial reports issued to stockholders. The Company operates in one segment: Aviation Services. The Company's determination of its reportable segment is based on the commonalities among the products and services within its Aviation Services segment, and is consistent with the manner in which the Company's management reviews and evaluates operating performance.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)  
NEW ACCOUNTING STANDARDS

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" is effective for fiscal years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments and for certain hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company is evaluating the new Statement's provisions to determine the impact, if any, and will adopt SFAS No. 133 in its first quarter of fiscal 2002.

## CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. At May 31, 2000 and 1999, cash equivalents of approximately \$122 and \$116, respectively, represent investments in funds holding high-quality commercial paper, Eurodollars and U.S. Government agency-issued securities. The carrying amount of cash equivalents approximates fair value at May 31, 2000 and 1999, respectively.

## TRANSFER OF FINANCIAL ASSETS

During fiscal 1998, the Company adopted SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which requires the Company to recognize the financial and servicing assets it controls and the liabilities it has incurred, and to derecognize financial assets when control has been surrendered.

The Company has an agreement to sell, on a revolving basis, an interest in a defined pool of trade accounts receivable up to \$35,000. The Company, as agent for the purchaser of the accounts receivable, retains collection and administrative responsibilities for the participating interests of accounts receivable. Accounts receivable sold under this arrangement were \$29,359 and \$25,300 at May 31, 2000 and 1999, respectively.

## FOREIGN CURRENCY

Gains and losses on foreign currency translation and foreign exchange contracts are determined in accordance with the method of accounting prescribed by SFAS No. 52. All balance sheet accounts of foreign and certain domestic subsidiaries transacting business in currencies other than the Company's functional currency are translated at year-end or historical exchange rates. Revenues and expenses are translated at average exchange rates during the year. Translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive income (loss).

## FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF MARKET OR CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of market or credit risk consist principally of trade receivables. While the Company's trade receivables are diverse based on the number of entities and geographic regions, the majority are in the aviation/aerospace industry. The Company performs evaluations of customers' financial condition prior to extending credit privileges and performs ongoing credit evaluations of payment experience, current financial condition and

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

risk analysis. The Company typically requires collateral in the form of security interest in assets, letters of credit, and/or obligation guarantees from financial institutions, or sells its receivables, usually on a nonrecourse basis, for transactions other than normal trade terms.

SFAS No. 107 "Disclosures about Fair Value of Financial Instruments" requires disclosure of the fair value of certain financial instruments. Cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and accrued liabilities are reflected in the consolidated financial statements at fair value because of the short-term maturity of these instruments. The carrying value of noncurrent notes receivable and long-term debt bearing a variable interest rate approximates fair market value.

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

## INVENTORIES

Inventories are priced at the lower of cost or market. Cost is determined by either the specific identification, average cost or first-in, first-out method.

The following is a summary of inventories:

	MAY 31,	
	2000	1999
	-----	-----
Raw materials and parts.....	\$ 44,235	\$ 50,352
Work-in-process.....	12,318	12,733
Purchased aircraft, parts, engines and components held for sale.....	219,264	207,569
	-----	-----
	\$275,817	\$270,654
	=====	=====

## EQUIPMENT UNDER OPERATING LEASES

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

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

## PROPERTY, PLANT AND EQUIPMENT

Depreciation is computed on the straight-line method over useful lives of 10-40 years for buildings and improvements and 3-10 years for equipment, furniture and fixtures and capitalized software.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the applicable lease.

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

## LEVERAGED LEASES

The Company acts as an equity participant in leveraged lease transactions. The equipment cost in excess of equity contribution is financed by third parties in the form of secured debt. Under the lease agreements, the third parties have no recourse against the Company for nonpayment of the obligations. The third-party debt is collateralized by the lessees' rental obligations and the leased equipment.

The Company has ownership rights to the leased assets and is entitled to the investment tax credits and benefits of tax deductions for depreciation on the leased assets and for interest on the secured debt financing.

## COST IN EXCESS OF UNDERLYING NET ASSETS OF ACQUIRED COMPANIES

The cost in excess of underlying net assets of acquired companies is being amortized over a period of 40 years. Amortization expense was \$1,213, \$802, and \$565 in fiscal 2000, 1999 and 1998, respectively. Accumulated amortization is \$6,188 and \$4,975 at May 31, 2000 and 1999, respectively. The Company evaluates the existence of impairment on the basis of whether the cost in excess of underlying net assets of acquired companies is fully recoverable from projected, undiscounted net cash flows.

## INCOME TAXES

Income taxes are determined in accordance with SFAS No. 109.

The benefits of investment tax credits are recognized for financial reporting purposes under the deferral method of accounting for leveraged leases. The investment tax credits are recognized in the year earned for income tax purposes.

## STATEMENTS OF CASH FLOWS

Supplemental information on cash flows follows:

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
Interest paid.....	\$22,800	\$18,800	\$11,600
Income taxes paid.....	11,300	4,400	6,200
Income tax refunds and interest received.....	500	900	6,000



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)  
USE OF ESTIMATES

Management of the Company has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

## RECLASSIFICATION

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year's presentation.

## 2. FINANCING ARRANGEMENTS

Term loans consisted of:

	MAY 31,		
	2000	1999	1998
Current maturities of long-term debt.....	\$429	\$420	\$237
	====	====	====

Short-term borrowing activity was as follows:

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
Maximum amount borrowed.....	\$127,600	\$92,300	\$59,200
Average daily borrowings.....	94,881	45,455	20,689
Average interest rate during the year.....	5.9%	5.4%	6.0%
	=====	=====	=====

At May 31, 2000, aggregate unsecured bank credit arrangements were \$179,211. Of this amount, \$65,300 was available under credit lines with domestic banks, \$84,115 was available under revolving credit and term loan agreements with domestic banks and \$3,911 was available under credit agreements with foreign banks. There are no compensating balance requirements in connection with domestic or foreign lines of credit. Borrowings under domestic bank lines bear interest at or below the corporate base rate.

The Company may borrow a maximum of \$110,000 (available through February 9, 2002) under revolving credit and term loan agreements with domestic banks. Revolving credit borrowings may, at the Company's option, be converted to term loans payable in equal quarterly installments over five years. Interest is based on the corporate base rate or quoted Eurodollar or multicurrency rates during the revolving credit period and one-half percent over the corporate base rate or quoted Eurodollar rate thereafter. Borrowings outstanding under these agreements at May 31, 2000 were \$25,885. There are no compensating balance requirements on any of the committed lines, but the Company is required to pay a commitment fee. There are no restrictions on the withdrawal or use of these funds.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 2. FINANCING ARRANGEMENTS -- (CONTINUED)

Long-term debt was as follows:

	MAY 31,	
	2000	1999
Notes payable due November 1, 2001 with interest of 9.5% payable semi-annually on May 1 and November 1.....	\$ 65,000	\$ 65,000
Notes payable due October 15, 2003 with interest of 7.25% payable semi-annually on April 15 and October 15.....	50,000	50,000
Notes payable due December 15, 2007 with interest of 6.875% payable semi-annually on June 15 and December 15.....	60,000	60,000
Industrial revenue bonds due in quarterly installments to 2011 with weighted average interest of approximately 4.60% at May 31, 2000 (secured by trust indentures on property, plant and equipment).....	2,158	2,358
Industrial revenue bonds due in installments to 2002 with weighted average interest of approximately 7.47% at May 31, 2000 (secured by trust indentures on property, plant and equipment).....	84	141
Industrial revenue bonds due in monthly installments to 2019 with interest of 5.65% (secured by trust indentures on property, plant and equipment).....	2,171	2,235
Note payable due in annual installments to October 2003 with interest of 6.5%.....	1,463	1,625
	-----	-----
	180,876	181,359
Current maturities.....	(429)	(420)
	-----	-----
	\$180,447	\$180,939
	=====	=====

The Company is subject to a number of covenants under the revolving credit and term loan agreements, including restrictions which relate to the payment of cash dividends, maintenance of minimum net working capital and tangible net worth levels, sales of assets, additional financing, purchase of the Company's shares and other matters. The Company is in compliance with all restrictive financial provisions of the agreements. At May 31, 2000, unrestricted consolidated retained earnings available for payment of dividends and purchase of the Company's shares was approximately \$19,504. Effective June 1, 2000, unrestricted consolidated retained earnings increased to \$37,086 due to inclusion of 50% of the consolidated net income of the Company for fiscal 2000. The aggregate amount of long-term debt maturing during each of the next five fiscal years is \$429 in 2001, \$65,411 in 2002, \$394 in 2003, \$51,407 in 2004 and \$284 in 2005. The Company's long-term debt was estimated to have a fair value of approximately \$172,426 at May 31, 2000 and was based on estimates using discounted future cash flows at an assumed rate for borrowings currently prevailing in the marketplace for similar instruments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 3. INCOME TAXES

The provision for income taxes included the following components:

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
Current			
Federal.....	\$ 4,070	\$ 6,045	\$ 9,950
Foreign.....	--	--	720
State.....	723	1,100	1,050
	-----	-----	-----
	\$ 4,793	\$ 7,145	\$11,720
Deferred.....	9,570	10,970	3,780
	-----	-----	-----
	\$14,363	\$18,115	\$15,500
	=====	=====	=====

The deferred tax provisions result primarily from differences between financial reporting and tax income arising from depreciation and leveraged leases.

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

	MAY 31,	
	2000	1999
Deferred tax liabilities:		
Depreciation.....	\$28,710	\$16,920
Leveraged leases.....	27,120	27,440
Other.....	630	620
	-----	-----
Total deferred tax liabilities.....	\$56,460	\$44,980
	=====	=====
Deferred tax assets-current:		
Inventory costs.....	\$ 3,160	\$ 3,090
Employee benefits.....	2,980	2,410
Alternative minimum tax.....	1,090	--
Other.....	240	390
	-----	-----
Total deferred tax assets-current.....	\$ 7,470	\$ 5,890
	-----	-----
Deferred tax assets-noncurrent:		
Postretirement benefits.....	\$ 440	\$ 110
	-----	-----
Total deferred tax assets-noncurrent.....	440	110
	-----	-----
Total deferred tax assets.....	\$ 7,910	\$ 6,000
	=====	=====
Net deferred tax liabilities.....	\$48,550	\$38,980
	=====	=====

The Company has determined that the realization of deferred tax assets is more likely than not, and that a valuation allowance is not required based upon the Company's history of prior operating

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 3. INCOME TAXES -- (CONTINUED)

earnings, its expectations for continued future earnings and the scheduled reversal of deferred tax liabilities, primarily related to leveraged leases, which exceed the amount of the deferred tax assets.

The provision for income taxes differs from the amount computed by applying the U.S. Federal statutory income tax rate of 35% for fiscal 2000, 1999 and 1998, for the following reasons:

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
Provision for income taxes at the Federal statutory rate.....	\$17,330	\$20,925	\$17,905
Tax benefits on exempt earnings from export sales....	(3,815)	(3,690)	(3,100)
State income taxes, net of Federal benefit and refunds.....	900	900	900
Amortization of goodwill.....	298	280	200
Differences between foreign tax rates and the U.S. Federal statutory rate.....	--	--	(200)
Other, net.....	(350)	(300)	(205)
Provision for income taxes as reported.....	\$14,363	\$18,115	\$15,500
Effective income tax rate.....	29.0%	30.3%	30.3%

## 4. COMMON STOCK AND STOCK OPTION PLANS

The Company has established stock option plans for officers and key employees of the Company. Stock option awards typically expire ten years from the date of grant or earlier upon termination of employment, become exercisable in five equal increments on successive grant anniversary dates at the New York Stock Exchange closing stock price on the date of grant and are accompanied by reload features and, for certain individuals, stock rights exercisable in the event of a change in control of the Company.

The Company accounts for these plans under APB No. 25, under which no compensation cost has been recognized. Proforma information regarding net income and earnings per share is required by SFAS No. 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value of each option grant, including reloads, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	STOCK OPTIONS GRANTED IN FISCAL YEAR		
	2000	1999	1998
Risk-free interest rate.....	6.57%	5.74%	5.97%
Expected volatility of common stock.....	38.7%	31.6%	25.5%
Dividend yield.....	1.6%	1.8%	2.0%
Expected option term in years.....	4.0	4.0	4.0

The fair value weighted average per share of stock options granted during fiscal 2000, 1999 and 1998 was \$7.81, \$5.20 and \$5.04, respectively. Had compensation cost for stock options awarded under

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 4. COMMON STOCK AND STOCK OPTION PLANS -- (CONTINUED)

the plans been determined in accordance with SFAS No. 123, the Company's net income and earnings per share would have been changed to the following proforma amounts:

		2000	1999	1998
		-----	-----	-----
Net income:	As reported	\$35,163	\$41,671	\$35,657
	Proforma	33,097	40,403	34,478
Earnings per share -- basic:	As reported	1.30	1.51	1.29
	Proforma	1.22	1.47	1.25
Earnings per share -- diluted:	As reported	1.28	1.49	1.27
	Proforma	1.21	1.44	1.22

A summary of changes in stock options granted to officers, key employees and non-employee directors under stock option plans for the three years ended May 31, 2000 follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----
Outstanding, May 31, 1997 (664 exercisable).....	1,978	\$12.48
Granted.....	891	23.57
Exercised.....	(339)	11.32
Surrendered/expired/cancelled.....	(46)	16.17
	-----	
Outstanding, May 31, 1998 (785 exercisable).....	2,484	\$16.54
Granted.....	827	19.41
Exercised.....	(71)	11.95
Surrendered/expired/cancelled.....	(64)	18.53
	-----	
Outstanding, May 31, 1999 (1,148 exercisable).....	3,176	\$17.36
Granted.....	519	22.48
Exercised.....	(105)	12.40
Surrendered/expired/cancelled.....	(164)	20.05
	-----	
Outstanding, May 31, 2000 (1,508 exercisable).....	3,426	\$18.16
	=====	

The following table provides additional information regarding options outstanding as of May 31, 2000:

OPTION EXERCISE PRICE RANGE	OPTIONS OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE OF OPTIONS(YEARS)	NUMBER OF OPTIONS EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE OF OPTIONS EXERCISABLE
-----	-----	-----	-----	-----
\$6.13 - 12.25	649	4.1	582	\$ 9.74
\$12.26 - 18.38	1,253	6.7	619	15.65
\$18.39 - 24.50	1,435	7.9	226	22.61
\$24.51 - 30.63	89	4.6	81	27.09
	-----		-----	
	3,426	6.6	1,508	\$14.98
	=====		=====	

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 4. COMMON STOCK AND STOCK OPTION PLANS -- (CONTINUED)

The AAR CORP. Stock Benefit Plan also provides for the grant of restricted stock awards. Restrictions are released at the end of applicable restricted periods. The number of shares and the restricted period, which varies from two to ten years, are determined by the Compensation Committee of the Board of Directors. The market value of the award on the date of grant is recorded as a deferred expense, Common stock and Capital surplus. The deferred expense is included in results of operations over the vesting period. The expense relating to outstanding restricted stock awards was \$1,354, \$1,667 and \$1,400 in fiscal 2000, 1999 and 1998, respectively.

The AAR CORP. Employee Stock Purchase Plan is open to employees of the Company (other than officers, directors or participants in other stock option plans of the Company) and permits employees to purchase common stock in periodic offerings by payroll deductions.

The numbers of options and awards outstanding and available for grant or issuance for each of the Company's stock plans are as follows:

	MAY 31, 2000		
	----- OUTSTANDING -----	AVAILABLE -----	TOTAL -----
Stock Benefit Plan (officers, directors and key employees).....	3,751	1,314	5,065
Employee Stock Purchase Plan.....	29	133	162

Pursuant to a shareholder rights plan adopted in 1997, each outstanding share of the Company's common stock carries with it a Right to purchase one and one half additional shares at a price of \$83.33 per share (adjusted to reflect the February 23, 1998 stock split and subject to further antidilution adjustments). The Rights become exercisable (and separate from the shares) when certain specified events occur, including the acquisition of 15% or more of the common stock by a person or group (an "Acquiring Person") or the commencement of a tender or exchange offer for 15% or more of the common stock.

In the event that an Acquiring Person acquires 15% or more of the common stock, or if the Company is the surviving corporation in a merger involving an Acquiring Person or if the Acquiring Person engages in certain types of self-dealing transactions, each Right entitles the holder to purchase, for \$83.33 per share (or the then-current exercise price), shares of the Company's common stock having a market value of \$166.66 (or two times the exercise price), subject to certain exceptions. Similarly, if the Company is acquired in a merger or other business combination or 50% or more of its assets or earning power is sold, each Right entitles the holder to purchase at the then-current exercise price that number of shares of common stock of the surviving corporation having a market value of two times the exercise price. The Rights, which do not entitle the holder thereof to vote or to receive dividends, replace the common stock purchase rights which were initially distributed to the Company's shareholders in 1987 and which expired by their own terms on August 6, 1997. The Rights will expire on August 6, 2007, and may be redeemed by the Company for \$.01 per Right under certain circumstances.

On September 21, 1990, the Board of Directors authorized the Company to purchase up to 1,500 shares (adjusted for the three-for-two stock split) of the Company's common stock on the open market

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 4. COMMON STOCK AND STOCK OPTION PLANS -- (CONTINUED)

or through privately negotiated transactions. On October 13, 1999, the Board of Directors authorized the Company to purchase up to 1,500 additional shares of the Company's common stock. As of May 31, 2000, the Company had purchased 1,701 shares of its common stock on the open market under these programs at an average price of \$14.12 per share.

## 5. EARNINGS PER SHARE

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is based on the weighted average number of common shares outstanding during the year plus, when their effect is dilutive, common stock equivalents consisting of shares subject to stock options. The following table provides a reconciliation of the computations of basic and diluted earnings per share information for each of the years in the three-year period ended May 31, 2000.

	MAY 31,		
	2000	1999	1998
Basic EPS			
Net income.....	\$35,163	\$41,671	\$35,657
Average common shares outstanding.....	27,103	27,549	27,588
Earnings per share-basic.....	\$ 1.30	\$ 1.51	\$ 1.29
	=====	=====	=====
Diluted EPS			
Net income.....	\$35,163	\$41,671	\$35,657
Average common shares outstanding.....	27,103	27,549	27,588
Additional shares due to hypothetical exercise of stock options.....	312	457	586
Earnings per share -- diluted.....	\$ 1.28	\$ 1.49	\$ 1.27
	=====	=====	=====

In January 1998, the Board of Directors declared a three-for-two stock split, which was effected in the form of a stock dividend on February 23, 1998 to shareholders of record February 2, 1998, and a quarterly cash dividend of 8.5 cents per share on the increased shares, which effectively increased the cash dividend payment by 6.25%.

## 6. EMPLOYEE BENEFIT PLANS

The Company has defined contribution or defined benefit plans covering substantially all full-time domestic employees and certain employees in The Netherlands.

## DEFINED BENEFIT PLANS

Prior to January 1, 2000, the pension plan for domestic salaried employees had benefit formulas primarily based on years of service and compensation. Effective January 1, 2000, the Company converted its existing defined benefit plan for substantially all domestic salaried employees to a cash balance pension plan. Under the cash balance pension plan, the retirement benefit is expressed as a

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 6. EMPLOYEE BENEFIT PLANS -- (CONTINUED)

dollar amount in an account that grows with annual pay-based credits and interest on the account balance. The pension benefit for hourly employees is generally based on a fixed amount per year of service. The Company follows the provisions of SFAS No. 87 "Employers' Accounting for Pensions" and SFAS No. 132 "Employer's Disclosures about Pension and Other Postretirement Benefits" for all pension and postretirement plans.

The Company's funding policy for domestic plans is to contribute annually, at a minimum, an amount which is deductible for Federal income tax purposes and that is sufficient to meet actuarially computed pension benefits. Contributions are intended to provide for benefits attributed to service to date and for benefits expected to be earned in the future. The assets of the pension plans are invested primarily in mutual funds, common stocks, investment grade bonds and U.S. Government obligations.

Certain foreign operations of domestic subsidiaries also have pension plans. In most cases, the plans are defined benefit in nature. Assets of the plans are comprised of insurance contracts. Benefit formulas are based generally on years of service and compensation. It is the policy of these subsidiaries to fund at least the minimum amounts required by local law and regulation.

The following table sets forth the plans' funded status, including the change in plan assets, and the amount recognized in the Company's Consolidated Balance Sheets.

	MAY 31,	
	2000	1999
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year.....	\$50,154	\$46,384
Service cost.....	2,647	2,315
Interest cost.....	3,791	3,334
Plan participants' contributions.....	220	171
Amendments.....	1,231	--
Net actuarial (gain) loss.....	(2,556)	(25)
Benefits paid.....	(1,936)	(1,850)
Other.....	--	(175)
Benefit obligation at end of year.....	53,551	50,154
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year.....	44,096	42,286
Actual return on plan assets.....	2,369	2,725
Employer contributions.....	1,600	764
Plan participants' contributions.....	220	171
Benefits paid.....	(1,936)	(1,850)
Fair value of plan assets at end of year.....	46,349	44,096
Funded status.....	(7,202)	(6,058)
Unrecognized actuarial losses.....	5,068	6,904
Unrecognized prior service cost.....	2,028	966
Unrecognized transitional obligation.....	417	521
Prepaid pension costs.....	\$ 311	\$ 2,333



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 6. EMPLOYEE BENEFIT PLANS -- (CONTINUED)

The projected benefit obligation for domestic plans is determined using an assumed weighted average discount rate of 8.25% at May 31, 2000 and 7.5% at May 31, 1999, and an assumed average compensation increase of 5.0%. The expected long-term rate of return on assets is 10.0% for fiscal 2000 and 1999. The unrecognized actuarial losses, prior service cost and transition obligation are amortized on a straight-line basis over the estimated average future service period.

The projected benefit obligation for nondomestic plans is determined using an assumed weighted average discount rate of 6.5% at May 31, 2000 and 5.5% at May 31, 1999, and an assumed average compensation increase of 4.0%. The expected long-term rate of return on assets is 6.5% for fiscal 2000 and 1999.

Pension expense charged to results of operations includes the following components:

	MAY 31,		
	2000	1999	1998
Service cost.....	\$ 2,647	\$ 2,315	\$ 1,643
Interest cost.....	3,791	3,334	3,011
Expected return on plan assets.....	(3,881)	(3,560)	(3,165)
Amortization of prior service cost.....	169	138	138
Recognized net actuarial loss.....	411	412	173
Transitional obligation.....	90	92	93
	-----	-----	-----
	\$ 3,227	\$ 2,731	\$ 1,893
	=====	=====	=====

## DEFINED CONTRIBUTION PLAN

The defined contribution plan is a profit sharing plan which is intended to qualify as a 401(k) plan under the Internal Revenue Code. Under the plan, employees may contribute up to 15.0% of their pretax compensation, subject to applicable regulatory limits. The Company may make matching contributions up to 6.0% of compensation. Participants vest on a pro-rata basis in Company contributions during the first three years of employment. Expense charged to results of operations was \$1,634, \$1,491 and \$1,174 in fiscal 2000, 1999 and 1998, respectively.

## DIRECTOR, EXECUTIVE AND KEY EMPLOYEE RETIREMENT BENEFIT AND PROFIT SHARING PLANS

The Company provides its outside directors with benefits upon retirement on or after age 65 provided they have completed at least five years of service as a director. Benefits are paid quarterly in cash in an amount equal to 25.0% of the annual retainer fee payable by the Company to active outside directors. Payment of benefits commences upon retirement and continues for a period equal to the total number of years of the retired director's service as a director to a maximum of ten years, or death, whichever occurs first.

The Company also provides supplemental retirement and profit sharing benefits for current and former executives and key employees to supplement benefits provided by the Company's other benefit plans. The plans are not fully funded and may require funding in the event of a change in control of the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 6. EMPLOYEE BENEFIT PLANS -- (CONTINUED)

Company as determined by the Company's Board of Directors. Expense charged to results of operations for these plans was \$345, \$1,162 and \$1,231 in fiscal 2000, 1999 and 1998, respectively.

## POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company provides health and life insurance benefits for certain eligible employees and retirees under a variety of plans. Generally these benefits are contributory with retiree contributions adjusted annually. The postretirement plans are unfunded, and the Company has the right to modify or terminate any of these plans in the future, in certain cases, subject to union bargaining agreements. In fiscal 1995, the Company completed termination of postretirement healthcare and life insurance benefits attributable to future services of collective bargaining and other domestic employees.

Postretirement benefit cost for the years ended May 31, 2000, 1999 and 1998 included the following components:

	2000	1999	1998
	-----	-----	-----
Service cost.....	\$--	\$--	\$--
Interest cost.....	104	96	89
	-----	-----	-----
	\$104	\$ 96	\$ 89
	=====	=====	=====

The funded status of the plans at May 31, 2000 and 1999 was as follows:

	2000	1999
	-----	-----
CHANGE IN BENEFIT OBLIGATIONS:		
Benefit obligations at beginning of year.....	\$ 1,463	\$ 1,354
Interest cost.....	104	96
Benefits paid.....	(153)	(240)
Unrecognized actuarial loss.....	(57)	108
Plan participants' contributions.....	--	145
	-----	-----
Benefit obligation at end of year.....	1,357	1,463
	-----	-----
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year.....	--	--
Company contributions.....	153	95
Benefits paid.....	(153)	(240)
Plan participants' contributions.....	--	145
	-----	-----
Fair value of plan assets at end of year.....	--	--
	-----	-----
Funded status.....	\$(1,357)	\$(1,463)
Unrecognized actuarial (gains)losses.....	(3)	53
Unrecognized prior service cost.....	160	210
	-----	-----
Accrued postretirement costs.....	\$(1,200)	\$(1,200)
	=====	=====

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 6. EMPLOYEE BENEFIT PLANS -- (CONTINUED)

The assumed discount rate used to measure the accumulated postretirement benefit obligation was 8.25% at May 31, 2000 and 7.5% at May 31, 1999. The assumed rate of future increases in healthcare costs was 6.8% and 7.5% in fiscal 2000 and 1999, respectively, declining to 5.25% by the year 2004 and remaining at that rate thereafter. A one percent increase in the assumed healthcare cost trend rate would increase the accumulated postretirement benefit obligation by approximately \$44 as of May 31, 2000 and would not result in a significant change to the annual postretirement benefit expense.

## 7. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under agreements which are accounted for as operating leases that expire at various dates through 2011. The Company also leases certain aviation equipment which are accounted for as operating leases. The terms of these arrangements are one to five years with options to renew annually at the election of the Company. If the Company elects to not renew the lease, the Company is required to purchase the aviation equipment at its stipulated lease value. The Company may also sublease the aviation equipment to a customer on a short- or long-term basis. Future minimum payments under leases with initial or remaining terms of one year or more at May 31, 2000 are as follows:

YEAR	FACILITIES AND EQUIPMENT	AVIATION EQUIPMENT
- - - - -	-----	-----
2001.....	\$5,682	\$2,787
2002.....	4,343	2,787
2003.....	3,621	2,787
2004.....	3,243	2,787
2005 and thereafter.....	3,639	20,117

Rental expense during the past three fiscal years was as follows:

	2000	1999	1998
	-----	-----	-----
Facilities and Equipment.....	\$9,663	\$8,339	\$6,991
Aviation Equipment.....	8,344	4,242	422

The Company routinely issues letters of credit, performance bonds or credit guarantees in the ordinary course of its business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May 31, 2000 was approximately \$51,500.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 8. INVESTMENT IN LEVERAGED LEASES

From time to time, the Company acquires aircraft under lease that qualify for leveraged lease accounting treatment. Typically, these are long-term leases of late-model aircraft operated by major carriers where the Company is an equity participant of at least 20% and there is a third-party provider of nonrecourse debt of the remaining equipment cost.

During the lease term the Company is required, in accordance with SFAS No. 13, to adjust the elements of the investment in leveraged leases to reflect changes in important economic assumptions, such as the renegotiating of the interest rate on the nonrecourse debt or changes in income tax rates. In addition, the Company may sell options or other rights to the residual proceeds over the book value at the end of the lease term.

The Company's net investment in leveraged leases is comprised of the following elements:

	FOR THE YEAR ENDED MAY 31,	
	2000	1999
Rentals receivable (net of principal and interest on the nonrecourse debt).....	\$15,488	\$15,681
Estimated residual value of leased assets.....	32,952	32,952
Unearned and deferred income.....	(13,953)	(14,580)
	34,487	34,053
Deferred taxes.....	(27,120)	(27,440)
Net investment in leveraged leases.....	<u>\$ 7,367</u>	<u>\$ 6,613</u>

Pretax income from leveraged leases was \$695, \$702 and \$1,329 in fiscal 2000, 1999 and 1998, respectively.

## 9. OTHER NONCURRENT ASSETS

At May 31, 2000 and 1999, other noncurrent assets consisted of the following:

	MAY 31,	
	2000	1999
Investment in joint ventures.....	\$22,811	\$18,509
Notes receivable.....	7,822	7,130
Prepaid pension costs.....	311	2,333
Cash surrender value of life insurance.....	2,719	1,884
Debt issuance costs.....	818	1,028
Other.....	11,920	9,402
	<u>\$46,401</u>	<u>\$40,286</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

## 10. ACQUISITIONS

On October 19, 1998, the Company acquired substantially all of the assets and assumed certain liabilities of Tempco Hydraulics Inc. (Tempco), a regional aircraft landing gear repair and overhaul business. The purchase price of approximately \$7.5 million was paid with a combination of cash and a note. The transaction was recorded under the purchase method of accounting. The Company has included in its consolidated financial statements the results of operations of Tempco since the date of acquisition.

On December 31, 1997, the Company acquired substantially all of the assets and assumed certain liabilities of AVSCO Aviation Service Corporation (AVSCO), a distributor of factory-new parts and accessories to the commercial, regional/commuter and general aviation markets. The purchase price of approximately \$18.4 million was paid with a combination of cash and a note, and the transaction was recorded under the purchase method of accounting. The Company has included in its consolidated financial statements the results of operations of AVSCO since the date of acquisition.

On October 24, 1997, the Company purchased the stock of ATR International, Inc. (ATR), a company which engineers and manufactures composite parts and structures for the aviation/aerospace industry. The Company acquired ATR for approximately \$19 million cash, and the transaction was recorded under the purchase method of accounting. The Company has included in its consolidated financial statements the results of operations of ATR since the date of acquisition.

On June 2, 1997, the Company acquired substantially all of the assets and assumed certain liabilities of Cooper Aviation Industries, Inc. (Cooper), a distributor of factory-new aviation parts and accessories to the commercial, regional/commuter and general aviation markets. The purchase price was paid by issuing 140 thousand common shares (adjusted for the three-for-two stock split) and was recorded under the purchase method of accounting. In addition, the Company assumed short-term debt which was paid off by the Company during the first quarter of fiscal 1998. The Company has included in its consolidated financial statements the results of operations of Cooper since the date of acquisition.

The historical operating results of the acquisitions for the periods preceding the acquisitions are not material when compared to the operating results of the Company.

## 11. BUSINESS SEGMENT INFORMATION

The carrying value of long-lived assets in Company facilities located in foreign countries, and sales from these facilities in total, are not material to the consolidated financial statements.

Export sales from the Company's U.S. operations to unaffiliated customers, the majority of which are located in Europe, the Middle East, Canada, Mexico, South America and Asia (including sales through foreign sales offices of domestic subsidiaries), were approximately \$184,718 (18.0% of total sales), \$209,712 (20.0% of total sales) and \$202,481 (23.6% of total sales) in fiscal 2000, 1999 and 1998, respectively.

Sales to the U.S. Government, its agencies and its contractors were approximately \$132,048 (12.9% of total sales), \$98,954 (9.4% of total sales) and \$83,114 (9.7% of total sales) in fiscal 2000, 1999 and 1998, respectively. Sales to the Company's largest customer, excluding pass through sales, were \$114,000 and \$135,100 during fiscal 2000 and 1999, respectively. Including pass through sales, sales to

AAR CORP. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(IN THOUSANDS, EXCEPT PER SHARE AND PERCENTAGE DATA)

11. BUSINESS SEGMENT INFORMATION -- (CONTINUED)

the largest customer were \$180,800 and \$267,000 during fiscal 2000 and 1999, respectively. No assurances can be given that sales to this customer will continue at historical levels in the future.

12. SELECTED QUARTERLY DATA (UNAUDITED)

The unaudited selected quarterly data for fiscal years ended May 31, 2000 and 1999 follows. The sales amounts include pass through sales.

QUARTER	FISCAL 2000			
	SALES	GROSS PROFIT	NET INCOME	DILUTED EARNINGS PER SHARE
First.....	\$ 266,683	\$ 44,190	\$10,831	\$ .39
Second.....	260,240	45,728	10,906	.40
Third.....	272,331	45,074	10,955	.40
Fourth.....	225,079	37,861	2,471	.09
	<u>\$1,024,333</u>	<u>\$172,853</u>	<u>\$35,163</u>	<u>\$1.28</u>

QUARTER	FISCAL 1999			
	SALES	GROSS PROFIT	NET INCOME	DILUTED EARNINGS PER SHARE
First.....	\$ 250,491	\$ 41,049	\$ 9,623	\$ .34
Second.....	282,232	42,740	10,035	.36
Third.....	250,984	42,706	10,278	.37
Fourth.....	266,901	46,764	11,735	.42
	<u>\$1,050,608</u>	<u>\$173,259</u>	<u>\$41,671</u>	<u>\$1.49</u>

13. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	FOR THE YEAR ENDED MAY 31,		
	2000	1999	1998
Balance, beginning of year.....	\$ 4,830	\$ 3,157	\$ 1,965
Provision charged to operations.....	5,470	2,902	1,261
Reserves acquired.....	--	--	1,679
Deductions for accounts written off, net of recoveries.....	(220)	(1,229)	(1,748)
Balance, end of year.....	<u>\$10,080</u>	<u>\$ 4,830</u>	<u>\$ 3,157</u>

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

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item regarding the Directors of the Company is incorporated by reference to the information contained under the caption "Board of Directors" in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders.

The information required by this item regarding the Executive Officers of the Company appears under the caption "Executive Officers of the Registrant" in Part I above.

The information required by this item regarding the compliance with Section 16(a) of the Securities Exchange Act of 1934 ("Exchange Act") is incorporated by reference to the information contained under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the information contained under the captions "Executive Compensation and Other Information" (but excluding the following sections thereof, "Compensation Committee's Report on Executive Compensation" and "Stockholder Return Performance Graphs"); "Employment and Other Agreements" and "Directors' Compensation" in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the information contained under the caption "Security Ownership of Management and Others" in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the information contained under the caption "Certain Relationships and Related Transactions" in the Company's definitive proxy statement for the 2000 Annual Meeting of Stockholders.

PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

FINANCIAL STATEMENTS AND FINANCIAL STATEMENT DISCLOSURES

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ended May 31, 2000.....	15
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Financial data schedule for the twelve-month period ended May 31,	
2000 .....	See Exhibit Index

EXHIBITS

The Exhibits filed as a part of this report are set forth in the Exhibit Index contained elsewhere herein. Each of the material contracts identified as Exhibits 10.1 through 10.11 is a management contract or compensatory plan or arrangement.

REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the three-month period ended May 31, 2000.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: August 21, 2000

By: /s/ DAVID P. STORCH  
-----  
David P. Storch  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ IRA A. EICHNER ----- Ira A. Eichner	CHAIRMAN OF THE BOARD DIRECTOR	
/s/ DAVID P. STORCH ----- David P. Storch	PRESIDENT AND CHIEF EXECUTIVE OFFICER; DIRECTOR (PRINCIPAL EXECUTIVE OFFICER)	
/s/ TIMOTHY J. ROMENESKO ----- Timothy J. Romenesko	VICE PRESIDENT AND CHIEF FINANCIAL OFFICER (PRINCIPAL FINANCIAL OFFICER)	
/s/ MICHAEL J. SHARP ----- Michael J. Sharp	VICE PRESIDENT -- CONTROLLER (PRINCIPAL ACCOUNTING OFFICER)	
/s/ A. ROBERT ABBOUD ----- A. Robert Abboud	DIRECTOR	
/s/ HOWARD B. BERNICK ----- Howard B. Bernick	DIRECTOR	August 21, 2000
/s/ EDGAR D. JANNOTTA ----- Edgar D. Jannotta	DIRECTOR	
/s/ ERWIN E. SCHULZE ----- Erwin E. Schulze	DIRECTOR	
/s/ JOEL D. SPUNGIN ----- Joel D. Spungin	DIRECTOR	
/s/ LEE B. STERN ----- Lee B. Stern	DIRECTOR	
/s/ RICHARD D. TABERY ----- Richard D. Tabery	DIRECTOR	

EXHIBIT INDEX

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EXHIBITS

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|-----|---|------|--|
| 3.  | Articles of Incorporation and By-Laws               | 3.1  | Restated Certificate of Incorporation;(1) Amendments thereto dated November 3, 1987(2), October 19, 1988(2), October 16, 1989(24) and November 3, 1999 (included in the Restated Certificate of Incorporation filed herewith).   |
|     |   | 3.2  | By-Laws, as amended.(2) Amendment thereto dated April 12, 1994(12), January 13, 1997(22), July 16, 1992(24) and April 11, 2000 (included in the Amended By-Laws filed herewith).   |
| 4.  | Instruments defining the rights of security holders | 4.1  | Restated Certificate of Incorporation and Amendments (see Exhibit 3.1).  |
|     |   | 4.2  | By-Laws, as amended (See Exhibit 3.2).   |
|     |   | 4.3  | Credit Agreement dated September 9, 1996, between the Registrant and the Bank of America, Illinois.(15)  |
|     |   | 4.4  | Rights Agreement between the Registrant and the First National Bank of Chicago dated July 8, 1997.(17)   |
|     |   | 4.5  | Indenture dated October 15, 1989 between the Registrant and U.S. Bank Trust National Association (formerly known as First Trust, National Association, as successor in interest to Continental Bank, National Association) as Trustee, relating to debt securities;(5) First Supplemental Indenture thereto dated August 26, 1991;(6) Second Supplemental Indenture thereto dated December 10, 1997.(18) |
|     |   | 4.6  | Officers' certificates relating to debt securities dated October 24, 1989(10) and October 12, 1993.(10)  |
|     |   | 4.7  | Second Amended and Restated Credit Agreement dated February 10, 1998, between the Registrant and The First National Bank of Chicago.(19)   |
|     |   | 4.8  | Credit Agreement dated November 1, 1997 between the Registrant and The Northern Trust Company.(20) Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant is not filing certain documents. The Registrant agrees to furnish a copy of each such document upon the request of the Commission.   |
| 10. | Material Contracts                                  | 10.1 | AAR CORP. Stock Benefit Plan,(11) Amendments thereto dated July 29, 1996, January 2, 1997,(15) May 6, 1997,(21) and March 20, 1998,(19) December 16, 1998(23) and October 14, 1999.(25)  |
|     |   | 10.2 | Death Benefit Agreement dated August 24, 1984 between the Registrant and Ira A. Eichner;(8) Amendments thereto dated August 12, 1988(4), May 25, 1990(24) and October 9, 1996(24); and his agreement to terminate such Death Benefit Agreement dated May 30, 1999(24).   |

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EXHIBITS

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	10.3	Further Restated and Amended Employment Agreement dated August 1, 1985 between the Registrant and Ira A. Eichner;(3) Amendments thereto dated August 12, 1988,(4) May 25, 1990,(16) July 13, 1994,(16) October 9, 1996(21) and October 31, 1997.(21)
	10.4	Trust Agreement dated August 12, 1988 between the Registrant and Ira A. Eichner(4) and amendments thereto dated May 25, 1990(16), February 4, 1994(12), October 9, 1996(24) and May 31, 1999(24).
	10.5	AAR CORP Directors' Retirement Plan, dated April 14, 1992,(9) amended May 26, 2000 (filed herewith).
	10.6	AAR CORP. Amended and Restated Supplemental Key Employee Retirement Plan, dated May 4, 2000 (filed herewith).
	10.7	Amended and Restated Employment Agreement dated July 14, 1998 between the Registrant and David P. Storch (filed herewith).
	10.8	Amended and Restated Severance and Change in Control agreement dated April 11, 2000 between the Registrant and Philip C. Slapke (filed herewith).
	10.9	Amended and Restated Severance and Change in Control agreement dated April 11, 2000 between the Registrant and Howard A. Pulsifer (filed herewith).
	10.10	Amended and Restated Severance and Change in Control agreement dated April 11, 2000 between the Registrant and Timothy J. Romenesko (filed herewith).
	10.11	Amended and Restated AAR CORP. Nonemployee Directors' Deferred Compensation Plan, dated April 8, 1997, amended May 26, 2000 (filed herewith).
21. Subsidiaries of the Registrant	21.1	Subsidiaries of AAR CORP. (filed herewith).
23. Consents of experts and counsel	23.1	Consent of KPMG LLP (filed herewith).
27. Financial Data Schedule	27.1	Financial Data Schedule for the Registrant's fiscal year ended May 31, 2000.

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Notes:

- (1) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1987.
- (2) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1989.
- (3) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1986.
- (4) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1988.

- (5) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the Quarter ended November 30, 1989.
- (6) Incorporated by reference to Exhibits to Registrant's Registration Statement on Form S-3 filed August 27, 1991.
- (7) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1991
- (8) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1985.
- (9) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1992.
- (10) Incorporated by reference to Exhibits to the Registrant's Current Reports on Form 8-K dated October 24, 1989 and October 12, 1993, respectively.
- (11) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1993.
- (12) Incorporated by reference to Exhibits to Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1994.
- (13) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1994.
- (14) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1995.
- (15) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1996.
- (16) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1996.
- (17) Incorporated by reference to Exhibits to the Registrant's Current Report on Form 8-K dated August 4, 1997.
- (18) Incorporated by reference to Exhibits to the Registrant's Registration Statement on Form S-3 filed December 10, 1997.
- (19) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 28, 1998.
- (20) Incorporated by reference to Exhibits to the Registrant's Registration Statement on Form S-3 filed May 15, 1998.
- (21) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1997.
- (22) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1998.
- (23) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1998.
- (24) Incorporated by reference to Exhibits to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1999.
- (25) Incorporated by reference to Exhibits to the Registrant's Quarterly Report on Form 10-Q for the quarter ended November 30, 1999.

Amendment to  
Restated Certificate of Incorporation  
of AAR CORP.

It is hereby certified that:

1. (a) the present name of the corporation (hereinafter called the "Corporation") is AAR CORP.

(b) the name under which the Corporation was originally incorporated is Allen Aircraft Radio, Inc.; and the date of filing of the original certificate of incorporation of the Corporation with the Secretary of State of Delaware is April 11, 1966.

2. the Restated Certificate of Incorporation of the Corporation is hereby amended by deleting the first paragraph of Article FOURTH thereof and substituting in lieu of said paragraph a new first paragraph FOURTH to read as follows:

"FOURTH. The total number of shares which the Corporation shall have authority to issue is One Hundred Million Two Hundred Fifty Thousand (100,250,000), of which Two Hundred Fifty Thousand (250,000) shares at a par value of \$1.00 per share shall, be Preferred Stock and One Hundred Million (100,000,000) shares at a par value of \$1.00 per share shall be Common Stock. Any and all such shares issued, and for which the full consideration has been paid or delivered, shall be deemed fully paid shares and the holder of such shares shall not be liable for any further call or assessment or any other payment thereon."

3. the Board of Directors of the Corporation has duly adopted, and a majority of the stockholders of the Corporation have duly approved, this Amendment to Restated Certificate of Incorporation pursuant to the provisions of Section 242 of the General Corporation Law of the State of Delaware.

Signed and attested to on November 3, 1999.

/s/ David P. Storch

-----  
David P. Storch, President

ATTEST:

/s/ Howard A. Pulsifer

-----  
Howard A. Pulsifer, Secretary

AMENDMENT TO THE  
AAR CORP. BY-LAWS

WHEREAS, AAR CORP. (the "Company") has adopted a form of by-laws (the "By-Laws") and reserves the right to amend the By-Laws; and

WHEREAS, the Company has amended the By-Laws from time to time in the past, and now desires to amend the By-Laws further to add language regarding shareholder nominations for director and other shareholder proposals;

NOW, THEREFORE, the By-Laws are hereby amended effective April 11, 2000 in the following respect:

To amend the Amended By-Laws of AAR CORP. by adding the following language as new Article IX of the Corporation's by-laws:

"ARTICLE IX

NOTICE OF SHAREHOLDER NOMINATIONS FOR DIRECTOR AND OTHER  
SHAREHOLDER PROPOSALS.

Written notice of shareholder nominations for Director or any other shareholder proposal for vote of the shareholders at any annual or special meeting of the shareholders called for the election of directors or for any other action by vote of shareholders, shall be given personally or by mail to the Secretary of the Corporation not less than 180 days before the date of the meeting. With respect to a proposed nominee for election as a director, to be effective such notice must state the full name and address of each proposed nominee and a brief biographical history setting forth past and present directorships, employment, and occupations and any other qualifications, together with a statement that the proposed nominee(s) has consented to being nominated and to serve if elected; with respect to any other proposed action for vote of shareholders, to be effective such notice must clearly state the proposal, the reasons for the proposal and a brief description of how the proposed action, if adopted, would benefit the Company and/or its shareholders. Notice by mail shall be deemed given upon receipt thereof by the Secretary of the Corporation. If a meeting is adjourned to another time or place, it shall not be necessary for a shareholder to give further notice. Unless such notice is given, the shareholder nomination or other shareholder proposal for shareholder vote, shall not be included in the Corporation's proxy

statement nor put for a vote of the shareholders until such notice requirements are met."

This Amendment has been executed by the Company by its duly authorized officer effective as of April 11, 2000 and attested by its Secretary.

AAR CORP.

By /s/ David P. Storch

-----  
David P. Storch, President

ATTEST:

/s/ Howard A. Pulsifer

-----  
Howard A. Pulsifer, Secretary

Amendment No. 1 to  
AAR CORP. Directors' Retirement Plan

WHEREAS, AAR CORP. ("Company") adopted the AAR CORP. Directors' Retirement Plan ("Plan") effective April 14, 1992; and

WHEREAS, the Company now desires to amend the Plan in certain respects;

NOW, THEREFORE, the Company hereby amends the Plan as follows:

1. A new subsection 1.03.5 is added as follows:

"1.03.05 "Change in Control" means the earliest of:

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

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

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

2. A new subsection 3.01(b) is added as follows:

"3.01(b) Notwithstanding the provisions of Section 3.01(a) above, the Company shall enter into a trust agreement ("Trust Agreement") with a bank or trust company (with a combined capital and surplus in excess of \$100 million dollars), located in the Continental United States, as trustee, whereby the Company shall agree to contribute to a trust ("Trust") initially and annually thereafter, for the purpose of accumulating assets actuarially sufficient to satisfy accrued obligations to Participants under Article II hereof, in the event of a Change in Control of the Company. The Trust



Agreement shall obligate the Company to make contributions sufficient to satisfy the obligations to Participants, under Article II hereof; provided, however, that such initial contribution shall be made on the earlier to occur of (i) within 10 days after the date the Board, in its discretion, deems a Change in Control of the Company likely to occur and (ii) the date a Change in Control actually occurs. The discretion of the Board shall be binding and conclusive with respect to the likelihood of a Change in Control of the Company to occur. Such Trust Agreement shall be substantially in the form of the model trust agreement set forth in Internal Revenue Service Revenue Procedure 92-64, or any subsequent Internal Revenue Service Revenue Procedure, and shall include provisions required in such model trust agreement that all assets of the Trust shall be subject to the creditors of the Company in the event of insolvency. The Trust provided for herein may be the same trust as the Company establishes for funding of benefits under the Company's AAR CORP. Supplemental Key Employee Retirement Plan ("SKERP").

AAR CORP.

By /s/ David P. Storch

-----

Dated: May 26, 2000

AAR CORP. AMENDED AND RESTATED  
SUPPLEMENTAL KEY EMPLOYEE RETIREMENT PLAN

WHEREAS, the AAR CORP. Supplemental Key Employee Retirement Plan ("SKERP") was adopted effective June 1, 1994, for the Executive Officers, and other designated officers and key employees, of AAR CORP. and its Affiliated Companies who participate in the qualified retirement plans from time to time established and maintained by AAR CORP. The purpose of the Plan is to ensure that the retirement benefits provided to Executive Officers and certain other officers and key employees enhance the overall effectiveness of the AAR CORP. executive compensation program and attract, retain and motivate such individuals.

WHEREAS, the Company amended the Plan on June 1, 1995, January 1, 1996 and June 1, 1996; and

WHEREAS, the Company now desires to further amend the Plan in certain respects and to restate the Plan in its entirety for administrative convenience;

NOW, THEREFORE, the AAR CORP. Supplemental Key Employee Retirement Plan is hereby amended and restated, effective April 11, 2000, as set forth below:

ARTICLE I  
DEFINITIONS

Wherever used herein the following terms shall have the meanings hereinafter set forth:

1.1. "Affiliated Company" means a business entity, or predecessor of such entity, if any, which controls, or is under common control with, the Company.

1.2. "Board" means the Board of Directors of the Company.

1.3. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any regulations relating thereto.

1.4. "Committee" means the Retirement Committee responsible for the administration of the Qualified Retirement Plan.

1.5. "Company" means AAR CORP., a Delaware corporation, or, to the extent provided in Section 8.10 below, any successor corporation or other entity resulting from a merger or consolidation into or with the Company or a transfer or sale of substantially all of the assets of the Company.

1.5.1. "Change in Control" means the earliest of:

(a) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), has acquired (other than

directly from the Company) beneficial ownership (as that term is defined in Rule 13d-3 under the Exchange Act), of more than 20% of the outstanding capital stock of the Company entitled to vote for the election of directors;

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

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

1.6. "Executive Officer" means each of (a) the President and Chief Executive Officer and (b) the Vice President, General Counsel and Secretary of the Company holding office at the Plan effective date. The Compensation Committee of the Board, upon recommendation of management, shall have the discretion from time to time to designate individuals occupying other executive positions with the Company or an Affiliated Company as Executive Officers for purposes of the Plan.

1.7. "Key Employee" means each employee of the company who may from time to time be designated as such for purposes of the Plan by and in the discretion of the Compensation Committee of the Board, upon recommendation of management.

1.8. "Normal Retirement Date" means the first day of the calendar month coincident with or next following the date a Participant attains age 65.

1.9. "Participant" means any individual who has been designated an Executive Officer, or Key Employee of the Company or an Affiliated Company for purposes of the Plan.

1.10. "Plan" means the AAR CORP. Supplemental Key Employee Retirement Plan.

1.11. "Plan Year" means the calendar year or any other 12 consecutive month period that constitutes the fiscal year of the Qualified Profit Sharing Plan.

1.12. "Qualified Company Account" means the account maintained for a Participant under the Qualified Profit Sharing Account that is credited with Qualified Company Contributions.

1.13. "Qualified Company Contribution" means the Company Contribution made by the Company or an Affiliated Company for the benefit of a Participant under and in accordance with the terms of the Qualified Profit Sharing Plan in any Plan Year.

1.14. "Qualified Profit Sharing Account" means the account maintained for a

Participant under the Qualified Profit Sharing Plan that is credited with Qualified Profit Sharing Contributions.

1.15. "Qualified Profit Sharing Contribution" means the Profit Sharing Contribution made by the Company or an Affiliated Company for the benefit of a Participant under and in accordance with the terms of the Qualified Profit Sharing Plan.

1.16. "Qualified Profit Sharing Plan" means the AAR CORP. Employees' Profit Sharing Plan established effective June 1, 1965, as amended from time to time, and each successor or replacement plan.

1.17. "Qualified Retirement Benefit" means the aggregate benefit payable to a Participant pursuant to the Qualified Retirement Plan, and all annuities provided with respect to the Participant under the Qualified Retirement Plan, by reason of his termination of employment with the Company and all Affiliated Companies for any reason other than death.

1.18. "Qualified Retirement Plan" means the AAR CORP. Retirement Plan established effective August 1, 1988, as amended from time to time, and each successor or replacement plan.

1.19. "Qualified Salary Deferral Account" means the account maintained for a Participant under the Qualified Profit Sharing Plan that is credited with Qualified Salary Deferral Contributions.

1.20. "Qualified Salary Deferral Contribution" means the Salary Deferral Contribution made by the Company or an Affiliated Company for the benefit of a Participant under and in accordance with the terms of the Qualified Profit Sharing Plan in any Plan Year.

1.21. "Qualified Surviving Spouse Benefit" means the aggregate benefit payable to the Surviving Spouse of a Participant pursuant to the Qualified Retirement Plan, and all annuities provided with respect to the Participant under the Qualified Retirement Plan, in the event of the death of the Participant at any time prior to the commencement of payment of his Qualified Retirement Benefit.

1.22. "Supplemental Company Account" means the account maintained by the Company for a Participant under the Plan that is credited with Supplemental Company Contributions.

1.23. "Supplemental Company Contribution" means the contribution made by the Company for the benefit of a Participant pursuant to Section 4.3 of the Plan in any Plan Year.

1.24. "Supplemental Profit Sharing Account" means the account maintained by the Company for a Participant under the Plan that is credited with Supplemental Profit Sharing Contributions.

1.25. "Supplemental Profit Sharing Contribution" means the contribution made

by the Company for the benefit of a Participant pursuant to Section 4.4 of the Plan in any Plan Year.

1.26. "Supplemental Retirement Benefit" means the benefit payable to a Participant pursuant to Section 3.1 or 3.2 of the Plan by reason of his termination of employment with the Company and all Affiliated Companies for any reason other than death.

1.27. "Supplemental Salary Deferral Agreement" means a written agreement entered into by a Participant pursuant to the provisions of Section 4.2.

1.28. "Supplemental Salary Deferral Account" means the account maintained by the Company for a Participant under the Plan that is credited with Supplemental Salary Deferral Contributions.

1.29. "Supplemental Salary Deferral Contribution" means the contribution made by the Company for the benefit of a Participant pursuant to Section 4.1 of the Plan in any Plan Year.

1.30. "Supplemental Surviving Spouse Benefit" means the benefit payable to a Surviving Spouse pursuant to Section 3.3 of the Plan.

1.31. "Surviving Spouse" means a person who is married to a Participant throughout the one year period ending on the date of his death.

1.32. Except as otherwise provided in this Article I, all defined terms used in the Plan that are defined in the Qualified Retirement Plan or in the Qualified Profit Sharing Plan, as applicable, shall have the same meaning in the Plan as is set forth in the definition in the Qualified Retirement Plan or the Qualified Profit Sharing Plan.

1.33. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings used herein are included for ease of reference only and are not to be construed so as to alter the terms hereof.

## ARTICLE II ELIGIBILITY

2.1. EXECUTIVE OFFICERS. Each Executive Officer shall be a Participant in the Plan with respect to the Supplemental Retirement Benefit and Supplemental Surviving Spouse Benefit set forth in Sections 3.1 and 3.3, and the Supplemental Salary Deferral Contributions, the Supplemental Company Contributions and the Supplemental Profit Sharing Contributions set forth in Article IV.

2.2. KEY EMPLOYEES. Each Key Employee shall be a Participant in the Plan with respect to the Supplemental Retirement Benefit and the Supplemental Surviving Spouse Benefit set forth in Sections 3.2 and 3.3, and the Supplemental Salary Deferral Contributions, the Supplemental Company Contributions and the Supplemental Profit

Sharing Contributions set forth in Article IV.

ARTICLE III  
SUPPLEMENTAL RETIREMENT BENEFIT AND  
SUPPLEMENTAL SURVIVING SPOUSE BENEFIT

3.1. EXECUTIVE OFFICERS. Effective as of June 1, 1994, the Supplemental Retirement Benefit of an Executive Officer who is a Participant as described in Section 2.1, payable in the form of an annuity over the lifetime of the Participant or actuarial equivalent lump sum, commencing on his Normal Retirement Date, shall be a monthly amount equal to the difference between (a) and (b) below:

(a) The monthly amount of the Qualified Retirement Benefit to which the Participant would have been entitled under the Qualified Retirement Plan if (1) his Accrued Benefit earned under the Qualified Retirement Plan was based on 60% for the President and Chief Executive Officer and on 50% for all other Executive Officers (unless otherwise specified by the Compensation Committee at the time an individual is designated an Executive Officer participant), of Final Average Earnings, and (2) such Qualified Retirement Benefit was computed without giving effect to any limitations on benefits at any time imposed by any provision of the Code;

LESS

(b) The monthly amount of the Qualified Retirement Benefit actually payable to the Participant under the Qualified Retirement Plan.

The amounts described in (a) and (b) shall be computed as of the date of termination of employment of the Participant with the Company and all Affiliated Companies in the form of an annuity payable over the lifetime of the Participant only, commencing on his Normal Retirement Date.

3.2. KEY EMPLOYEES. Effective as of June 1, 1994, the Supplemental Retirement Benefit of a Participant who is a Key Employee of the Company, payable in the form of an annuity over the lifetime of the Participant only, commencing on his Normal Retirement Date, shall be a monthly amount equal to the difference between (a) and (b) below:

(a) The monthly amount of the Qualified Retirement Benefit to which the Participant would have been entitled under the Qualified Retirement Plan if such Qualified Retirement Benefit was computed without giving effect to any limitations on benefits imposed by any provision of the Code;

LESS

(b) The monthly amount of the Qualified Retirement Benefit actually payable to the Participant under the Qualified Retirement Plan.

The amounts described in (a) and (b) shall be computed on the date of termination of employment of a Participant with the Company and all Affiliated Companies in the form of an annuity payable over the lifetime of the Participant only,

commencing on his Normal Retirement Date. For purposes of calculating the Qualified Retirement Benefit under this subsection 3.2 only, any Key Employee Participant who was over the age of 55 on January 1, 2000 shall be deemed a "Grandfathered Participant as defined under the Qualified Plan."

3.3. SUPPLEMENTAL SURVIVING SPOUSE BENEFITS. Effective as of June 1, 1994, if a Participant described in Section 2.2 or 2.3 dies prior to commencement of payment of his Qualified Retirement Benefit under circumstances in which a Qualified Surviving Spouse Benefit is payable to his Surviving Spouse, then a Supplemental Surviving Spouse Benefit is payable to his Surviving Spouse in a lump sum amount equal to the lump sum amount that would have been payable to the Participant at Normal Retirement Age, present dollar valued to the date of Participant's death, using the interest rate assumption then in effect under the AAR CORP. Retirement Plan. The Supplemental Surviving Spouse Benefit shall be paid to the Surviving Spouse within 45 days of the death of the Participant.

3.4. FORM OF SUPPLEMENTAL RETIREMENT BENEFIT. The Supplemental Retirement Benefit payable to a Participant shall be paid in the same form under which the Qualified Retirement Benefit is payable to the Participant. The Participant's election under the Qualified Retirement Plan of any optional form of payment of his Qualified Retirement Benefit (with the valid consent of his Surviving Spouse where required under the Qualified Retirement Plan) shall also be applicable to the payment of his Supplemental Retirement Benefit. If paid in a lump sum, the lump sum amount shall be the actuarial value of the annuity benefit over the lifetime of the Participant based on the mortality and interest rate assumptions then in effect for the AAR CORP. Retirement Plan, present dollar valued to the date of payment.

3.5. COMMENCEMENT OF SUPPLEMENTAL RETIREMENT BENEFIT. Payment of the Supplemental Retirement Benefit to a Participant shall commence on the same date as payment of the Qualified Retirement Benefit to the Participant commences. Any election under the Qualified Retirement Plan made by the Participant with respect to the commencement of payment of his Qualified Retirement Benefit shall also be applicable with respect to the commencement of payment of his Supplemental Retirement Benefit.

3.6. APPROVAL OF COMPANY. Notwithstanding the provisions of Sections 3.4 and 3.5 above, an election made by the Participant under the Qualified Retirement Plan with respect to the form of payment of his Qualified Retirement Benefit (with the valid consent of his Surviving Spouse where required under the Qualified Retirement Plan), or the date for commencement of payment thereof, shall not be effective with respect to the form of payment or date for commencement of payment of his Supplemental Retirement Benefit hereunder unless such election is expressly approved in writing by the Company with respect to his Supplemental Retirement Benefit. If the Company shall not approve such election in writing, then the form of payment or date for commencement of payment of the Participant's Supplemental Retirement Benefit shall be selected by the Company in its sole discretion.

3.7. EQUIVALENCIES. A Supplemental Retirement Benefit that is payable in any form other than an annuity over the lifetime of the Participant only, or that commences at any time prior to the Participant's Normal Retirement Date, shall be the equivalent of the Supplemental Retirement Benefit determined pursuant to Section 3.1 or 3.2 above,

as applicable, based upon the same adjustments and assumptions as those specified in the Qualified Retirement Plan with respect to determination of the amount of the Qualified Retirement Benefit or the date for commencement of payment thereunder.

ARTICLE IV  
SUPPLEMENTAL CONTRIBUTIONS

4.1. SUPPLEMENTAL SALARY DEFERRAL CONTRIBUTIONS. The Supplemental Salary Deferral Contribution to be made by the Company for the benefit of a Participant for any Plan Year shall be an amount equal to the difference between (a) and (b) below:

(a) The Qualified Salary Deferral Contribution that would have been withheld and deposited to the Qualified Salary Deferral Account of the Participant for the Plan Year, as determined by the Salary Deferral Agreement between the Participant and the Company or an Affiliated Company in effect for such Year pursuant to the terms of the Qualified Profit Sharing Plan, without giving effect to any limitations imposed by the Code on the Qualified Profit Sharing Plan;

LESS

(b) The amount of the Qualified Salary Deferral Contribution actually allocated to the Qualified Salary Deferral Account of the Participant for the Plan Year.

A Supplemental Salary Deferral Contribution made for the benefit of a Participant for any Plan Year shall be credited to a Supplemental Salary Deferral Account maintained under the Plan in the name of such Participant at the same time as Qualified Salary Deferral Contributions are made for such Plan Year.

4.2. SUPPLEMENTAL SALARY DEFERRAL AGREEMENT. As a condition to the Company's obligation to make a Supplemental Salary Deferral Contribution for the benefit of a Participant pursuant to Section 4.1, the Participant must execute a Supplemental Salary Deferral Agreement in the form attached hereto. A Supplemental Salary Deferral Agreement shall be made at least thirty days prior to the effective date thereof and shall remain in full force and effect subsequently until revised or revoked by a Participant by written instrument delivered to the Committee at least 30 days prior to the date the revision or revocation is to become effective.

4.3. SUPPLEMENTAL COMPANY CONTRIBUTIONS. The Supplemental Company Contribution to be made by the Company for the benefit of a Participant for any Plan Year shall be an amount equal to the difference between (a) and (b) below:

(a) The Qualified Company Contribution that would have been allocated to the Qualified Company Account of the Participant for the Plan Year without giving effect to any limitations imposed by the Code on the Qualified Profit Sharing Plan;



LESS

(b) The amount of the Qualified Company Contribution actually allocated to the Qualified Company Account of the Participant for the Plan Year.

A Supplemental Company Contribution made for the benefit of a Participant for any Plan Year shall be credited to a Supplemental Company Account maintained under the Plan in the name of such Participant at the same time as Qualified Company Contributions are made for such Plan Year.

4.4. SUPPLEMENTAL PROFIT SHARING CONTRIBUTIONS. The Supplemental Profit Sharing Contribution to be made by the Company for the benefit of a Participant for any Plan Year shall be an amount equal to the difference between (a) and (b) below:

(a) The Qualified Profit Sharing Contribution that would have been allocated to the Qualified Profit Sharing Account of the Participant for the Plan Year without giving effect to any limitations imposed by the Code on the Qualified Profit Sharing Plan;

LESS

(b) The amount of the Qualified Profit Sharing Contribution actually allocated to the Qualified Profit Sharing Account of the Participant for the Plan Year.

A Supplemental Profit Sharing Contribution made for the benefit of a Participant for any Plan Year shall be credited to a Supplemental Profit Sharing Account maintained under the Plan in the name of such Participant at the same time as Qualified Profit Sharing Contributions are made for such Plan Year.

4.5. INVESTMENT OF SUPPLEMENTAL CONTRIBUTIONS.

(a) INVESTMENTS. Amounts credited hereunder to the Supplemental Salary Deferral Account, Supplemental Company Account, and Supplemental Profit Sharing Account of a Participant shall be treated as if they were actually invested in various investment funds that are made available by the Committee from time to time and as are designated by each Participant pursuant to investment directions given to the Committee. Such Accounts shall be credited with earnings, gains and losses of the applicable investment funds on the last day of each calendar quarter or on such other date selected by the Committee. Investment directions shall be made by a Participant in specified multiples of 10%.

(b) INVESTMENT CHANGES. Each Participant shall have the right to direct the Committee to modify his investment directions made pursuant to paragraph (a) above with respect to amounts credited to his Supplemental Salary Deferral Account, Supplemental Company Account and Supplemental Profit Sharing Account after the date such modification direction becomes effective, in specified multiples of 10%. Each Participant shall also have the right to direct the Committee to change the investment directions made pursuant to paragraph (a)

above with respect to amounts credited to his Accounts on the date such direction to change becomes effective, in specified multiples of 10%.

(c) EFFECTIVE DATE OF INVESTMENT DIRECTION. Any investment direction, or modification or change of an investment direction, made pursuant to paragraph (a) or (b) above, shall be effective as soon as practicable (and in any event not later than the first day of the month that occurs at least 30 days) after the date the applicable direction is given to the Committee. A modification or change of an investment direction made pursuant to paragraph (b) may, if required by an administrative rule promulgated by the Committee, be made only once in each calendar quarter.

In the event that the sponsor of the investment funds permits more frequent fund transfers than permitted above, or does not require written direction to authorize fund transactions, the Committee may waive or modify the requirements set forth in the preceding provisions of this Section as it deems appropriate.

(d) INVESTMENT FUNDS. Any investments made by the Company or by the Trustee of Trust Agreement No. 2 referred to in paragraph (f) below to conform to directions made by a Participant pursuant to this Section shall be in investment funds maintained in the name of the Company, or in the name of such Trustee, and no Participant shall at any time have any interest in the assets of any such investment fund.

(e) STATEMENT OF ACCOUNTS. A statement of accounts for each Participant, showing contributions, earnings, gains and losses and current balances of the Accounts provided for under this Article IV shall be provided to each Participant on not less than a quarterly basis.

(f) TRUST AGREEMENT NO. 2. Notwithstanding the preceding provisions of this Section, during the existence of Trust Agreement No. 2 referred to in the second paragraph of Section 8.2, the Company shall direct the Trustee of Trust Agreement No. 2 to invest and reinvest amounts to conform to directions made by a Participant pursuant to the preceding provisions of this Section 4.5. Directions shall be given by the Company to the Trustee of Trust Agreement No. 2 as soon as practicable after such directions are given to the Company by the Participant.

#### 4.6. DISTRIBUTIONS.

(a) TERMINATION OF EMPLOYMENT PRIOR TO DEATH. Following termination of a Participant's employment with the Company and all Affiliated Companies for any reason other than death, a Participant shall receive a distribution of all amounts credited to his Supplemental Salary Deferral Account, his Supplemental Company Account, and his Supplemental Profit Sharing Account, including gains and losses credited in accordance with Section 4.5.

(b) DISTRIBUTION DUE TO DEATH. If a Participant dies before distribution to him of the full amount of his Supplemental Salary Deferral Account, his

Supplemental Company Account and his Supplemental Profit Sharing Account, any remaining amount shall be distributed to his beneficiary designated under the Qualified Profit Sharing Plan. If a Participant has not designated a beneficiary under the Qualified Profit Sharing Plan, or if no designated beneficiary is living on the date of distribution hereunder, amounts distributable pursuant to this paragraph shall be distributed to those persons or entities entitled to receive distributions of the Participant's accounts under the Qualified Profit Sharing Plan.

(c) **HARDSHIP DISTRIBUTION.** A Participant shall be entitled to request a distribution from his Supplemental Salary Deferral Account, prior to his termination of employment with the Company and all Affiliated Companies, in order to satisfy a hardship as defined under the Qualified Profit Sharing Plan. The amount of a hardship distribution, and the procedures for requesting and receiving such a distribution, shall satisfy the requirements set forth in the Qualified Profit Sharing Plan with respect to a hardship distribution from his Qualified Salary Deferral Account. A request for a hardship distribution pursuant to this paragraph shall be made separate and apart from a request for a hardship distribution under the Qualified Profit Sharing Plan, and a request for a hardship distribution under the Qualified Profit Sharing Plan shall not automatically be deemed a request for a hardship distribution hereunder.

(d) **TIME AND METHOD OF DISTRIBUTION.** All amounts distributable under this Article IV to a Participant, or to his beneficiary in the event of his death, shall be distributed in the same manner and at the same time as is applicable to the distribution of the Participant's accounts under the Qualified Profit Sharing Plan following his termination of employment with the Company and all Affiliated Companies for any reason including death. Notwithstanding the preceding sentence, an election made by a Participant under the Qualified Profit Sharing Plan with respect to the form of distribution of his accounts thereunder following termination of employment, or the date for commencement of payment thereof, shall not be effective with respect to the form of payment or date for commencement of payment of his accounts pursuant to this Article IV, unless such election is expressly approved in writing by the Company. If the Company shall not approve such election in writing, the form of payment or date for commencement of payment under this Article shall be selected by the Company in its sole discretion. If a Participant does not elect a time or form of distribution under this Article, such distribution shall be made at the same time and in the same method as is applicable to distributions made with respect to his accounts under the Qualified Profit Sharing Plan. In no event may a Participant borrow amounts credited to the accounts maintained for him pursuant to this Article IV.

#### ARTICLE V FORFEITURES

5.1 **FORFEITURE OF SUPPLEMENTAL RETIREMENT BENEFIT AND SUPPLEMENTAL SURVIVING SPOUSE BENEFIT.** Notwithstanding any other provisions of the Plan, (i) if the employment of a Participant with the Company and all Affiliated Companies terminates due to Cause, or (ii) if a Participant during his employment with the Company and all

Affiliated Companies or at any time during the one year period after the termination of such employment, violates the covenant not to compete with the Company and its Affiliated Companies set forth in Section 5.3, all rights of the Participant and his Surviving Spouse to a Supplemental Retirement Benefit or a Supplemental Surviving Spouse Benefit, shall be forfeited and shall be retained by the Company free of any and all claims of the Participant, his Surviving Spouse or any other person claiming with respect to the Participant or his Surviving Spouse.

5.2 TERMINATION FOR CAUSE. For purposes of this Section, a termination for Cause shall mean termination of a Participant's employment by the Company or any Affiliated Company because of (i) the Participant's conduct, involving theft, embezzlement or fraud, or (ii) the Participant's willful misconduct in the performance of his duties that materially injures the Company or any Affiliated Company, as determined by the Board.

5.3 COVENANT NOT TO COMPETE. A Participant shall not, during the term of the Participant's employment with the Company and all Affiliated Companies, and for a period of one year thereafter, 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 stockholder of any corporation, or in any capacity (a) engage in any activity which is competitive with any of the businesses conducted by the Company or its Affiliated Companies from time to time or at any time during the Participant's term of employment, provided that the foregoing provision shall not be deemed to prohibit the Participant from purchasing for investment any securities or interest in any publicly-owned organization which is competitive with the business of the Company and its Affiliated Companies, so long as the Participant's investment in such organization does not exceed the lesser of one percent of its total outstanding equity securities or Two Hundred Fifty Thousand Dollars (\$250,000); (b) solicit in connection with any activity which is competitive with any of the businesses of the Company and its Affiliated Companies, any customers or suppliers of the Company and its Affiliated Companies; (c) use the name "AAR" or any variant thereof; or (d) actively solicit, directly or indirectly, any employee or induce any customer or supplier of the Company or any of its Affiliated Companies to terminate or materially change such relationship.

5.4 In the event of a termination of Participant's employment with the Company under circumstances which trigger Change in Control employment termination benefits under the change in control provisions of an employment agreement or severance and change in control agreement between the Participant and the Company, the provisions of subsections 5.1, 5.2 and 5.3 above shall be deemed waived by the Company and null and void.

ARTICLE VI  
ADMINISTRATION OF THE PLAN

6.1. ADMINISTRATION BY THE COMMITTEE. The Committee shall be responsible for the general operation and administration of the Plan and for carrying out the provisions thereof.

6.2. GENERAL POWERS OF ADMINISTRATION. All provisions set forth in the Qualified Retirement Plan with respect to the administrative powers and duties of the Committee, expenses of administration, and procedures for filing claims, shall also be applicable with respect to the Plan. The Committee shall be entitled to rely conclusively upon all tables, valuations, certificates, opinions and reports furnished by any actuary, accountant, controller, counsel or other person employed or engaged by the Committee with respect to the Plan.

ARTICLE VII  
AMENDMENT OR TERMINATION

7.1. AMENDMENT OR TERMINATION. The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the Board and shall be effective as of the date of such resolution or such later date as the resolution may expressly state.

7.2. EFFECT OF AMENDMENT OR TERMINATION. No amendment or termination of the Plan shall (i) directly or indirectly deprive any current or former Participant or Surviving Spouse of all or any portion of any Supplemental Retirement Benefit or Supplemental Surviving Spouse Benefit, the right to which has accrued prior to the effective date of such amendment or termination, or which would be payable if the Participant terminated employment for any reason, including death, on such effective date, or (ii) directly or indirectly reduce the balance of any Supplemental Salary Deferral Account, Supplemental Company Account or Supplemental Profit Sharing Account held hereunder as of the effective date of such amendment or termination. Upon termination of the Plan, distribution of Supplemental Retirement Benefits and Supplemental Surviving Spouse Benefits, and of amounts in Supplemental Salary Deferral Accounts, Supplemental Company Accounts and Supplemental Profit Sharing Accounts shall be made to Participants, their Surviving Spouses or beneficiaries in the manner and at the time described in Sections 3.4 through 3.8 and 4.6(d) of the Plan. No additional Supplemental Retirement Benefits or Supplemental Surviving Spouse Benefits shall be earned after termination of the Plan, and no additional credits of Supplemental Salary Reduction Contributions, Supplemental Company Contributions or Supplemental Profit Sharing Contributions shall be made to the accounts of Participants after termination of the Plan, but the Company shall continue to credit gains and losses to accounts pursuant to Section 4.5 until the balances of such accounts have been fully distributed to Participants or their beneficiaries.

7.3. EFFECT OF A CHANGE IN CONTROL. Notwithstanding subsections 7.1 and 7.2 above, in the event of a Change in Control, (i) the SKERP shall continue in effect as to any Participant's or Participant's Surviving Spouse who is a Participant or Participant's Surviving Spouse immediately prior to a Change in Control, and (ii) no amendment to or termination of the Plan shall be effective as to any such Participant or Surviving Spouse to the extent the effect of such amendment or termination would be to reduce such Participant's or Participant's Surviving Spouse benefits or rights under the Plan from those available to Participant under the Plan immediately prior to any such amendment

or termination.

ARTICLE VIII  
GENERAL PROVISIONS

8.1. PARTICIPANTS' RIGHTS UNSECURED. Except as set forth in Section 8.2, the Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company or an Affiliated Company for payment of any benefits hereunder. The right of a Participant or his Surviving Spouse or beneficiary to receive a benefit hereunder shall be an unsecured claim against the general assets of the Company, and neither the Participant nor a Surviving Spouse or beneficiary shall have any rights in or against any specific assets of the Company or any Affiliated Company. All amounts credited to Supplemental Salary Deferral Accounts, Supplemental Company Accounts and Supplemental Profit Sharing Accounts of Participants shall constitute general assets of the Company.

8.2. TRUST AGREEMENT. Notwithstanding the provisions of Section 8.1, the Company, promptly after the Plan effective date, shall enter into a trust agreement ("Trust Agreement") with a bank or trust company (with a combined capital and surplus in excess of \$100 million dollars), located in the Continental United States, as trustee, whereby the Company shall agree to contribute to a trust ("Trust") initially and annually thereafter, for the purpose of accumulating assets actuarially sufficient to satisfy accrued obligations to Participants and Surviving Spouses under Article III hereof, in the event of a Change in Control of the Company. The Trust Agreement shall obligate the Company to make contributions sufficient to satisfy the obligations to Participants, and Surviving Spouses under Article III hereof; provided, however, that such initial contribution shall be made within 10 days after the date the Board, in its discretion, deems a change in control of the Company likely to occur. The discretion of the Board shall be binding and conclusive with respect to the likelihood of a Change in Control of the Company to occur. Such Trust Agreement shall be substantially in the form of the model trust agreement set forth in Internal Revenue Service Revenue Procedure 92-64, or any subsequent Internal Revenue Service Revenue Procedure, and shall include provisions required in such model trust agreement that all assets of the Trust shall be subject to the creditors of the Company in the event of insolvency. Notwithstanding the provisions of Section 8.1, the Company on or as soon as practicable after January 1, 1996, shall enter into a Trust Agreement ("Trust Agreement No. 2") with a bank or trust company (with a combined capital and surplus in excess of \$100,000,000) located in the continental United States as Trustee, whereby the Company shall agree to contribute to a trust ("Trust No. 2") initially and annually thereafter for the purpose of accumulating assets sufficient to provide for Supplemental Salary Deferral Contributions, Supplemental Company Contributions and Supplemental Profit Sharing Contributions with respect to Participants under Article IV hereof. Trust Agreement No. 2 shall be substantially in the form of the model trust agreement set forth in Internal Revenue Service Procedure 92-64, or any subsequent Internal Revenue Service Procedure, and shall include provisions required in such model trust agreement that all assets of Trust No. 2 shall be subject to the creditors of the Company in the event of insolvency. Trust Agreement No. 2 shall include such provisions as are applicable with respect to the investment and reinvestment of such Contributions pursuant to directions

given by Participants to the Company and transmitted by the Company to the Trustee of Trust Agreement No. 2 pursuant to paragraph (f) of Section 4.5.

8.3. GENERAL CONDITIONS. Except as otherwise expressly provided herein, all terms and conditions of the Qualified Retirement Plan applicable to a Qualified Retirement Benefit, or a Qualified Surviving Spouse Benefit, shall also be applicable to a Supplemental Retirement Benefit or a Supplemental Surviving Spouse Benefit payable hereunder, and all terms and conditions of the Qualified Profit Sharing Plan applicable to a Qualified Salary Deferral Contribution, a Qualified Company Contribution or a Qualified Profit Sharing Contribution shall also be applicable to a Supplemental Salary Deferral Contribution, Supplemental Company Contribution or Supplemental Profit Sharing Contribution to be made hereunder. Any Qualified Retirement Benefit or Qualified Surviving Spouse Benefit or any other benefit payable under the Qualified Retirement Plan shall be paid solely in accordance with the terms and conditions of the Qualified Retirement Plan, any Qualified Salary Deferral Contribution, Qualified Company Contribution or Qualified Profit Sharing Contribution, or any other contribution to be made under the Qualified Profit Sharing Plan shall be made solely in accordance with the terms and conditions of the Qualified Profit Sharing Plan, and nothing in this Plan shall operate or be construed in any way to modify, amend or affect the terms and provisions of the Qualified Retirement Plan or the Qualified Profit Sharing Plan.

8.4. NO GUARANTY OF BENEFITS. Nothing contained in the Plan shall constitute a guaranty by the Company, any Affiliated Company, or any other person or entity that the assets of the Company or any Affiliated Company will be sufficient to pay any benefit hereunder. No Participant, Surviving Spouse or beneficiary shall have any right to receive a benefit or a distribution of contributions under the Plan except in accordance with the terms of the Plan.

8.5. NO ENLARGEMENT OF EMPLOYEE RIGHTS. Establishment of the Plan shall not be construed to give any Participant the right to be retained in the service of the Company or any Affiliated Company.

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

8.7. APPLICABLE LAW. The Plan shall be construed and administered under the laws of the State of Illinois except to the extent preempted by federal law.

8.8. SMALL BENEFITS. If the actuarial value of any Supplemental Retirement Benefit or Supplemental Surviving Spouse Benefit is less than \$5,000, the Company may pay the actuarial value of such Benefit to the Participant or Surviving Spouse in a single lump sum in lieu of any further Benefit payments hereunder.

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

8.10. CORPORATE SUCCESSORS. The Plan shall be continued, following a transfer or sale of assets of the Company, or following the merger or consolidation of the Company into or with any other corporation or entity, by the transferee, purchaser or successor entity, unless the Plan has been terminated by the Company pursuant to the provisions of Article VII, prior to the effective date of such transaction.

8.11. UNCLAIMED BENEFIT. Each Participant, Surviving Spouse or beneficiary shall keep the Company informed of his current address. The Company shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Company within three years after the date on which payment of the Participant's benefits under the Plan may first be made, payment may be made as though the Participant had died at the end of the three-year period. If, within one additional year after such three-year period has elapsed, or, within three years after the actual death of a Participant, the Company is unable to locate any Surviving Spouse or beneficiary of the Participant, then the Company shall have no further obligation to pay any benefit hereunder to such Participant, Surviving Spouse or beneficiary or any other person and such benefit shall be irrevocably forfeited.

8.12. LIMITATIONS ON LIABILITY. Notwithstanding any of the preceding provisions of the Plan, none of the Company, any Affiliated Company, any member of the Committee, nor any individual acting as an employee or agent of the Company, any Affiliated Company or the Committee, shall be liable to any Participant, former Participant, Surviving Spouse or any other beneficiary or other person for any claim, loss, liability or expense incurred by such Participant, Surviving Spouse or other beneficiary or other person in connection with the Plan.

IN WITNESS WHEREOF, this Plan has been executed this 4th day of May, 2000.

AAR CORP.

By /s/ David P. Storch  
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ATTEST:

/s/ Howard A. Pulsifer  
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AMENDED AND RESTATED  
EMPLOYMENT AGREEMENT\*

This Amended and Restated Employment Agreement ("Agreement") made and entered into as of the 14th day of July, 1998, by and between AAR CORP., a Delaware corporation ("Company"), and David P. Storch ("Employee").

WHEREAS, Employee is currently an elected director of the Company; and

WHEREAS, the Company currently employs Employee pursuant to a certain Employment Agreement dated June 1, 1994, as amended by amendments dated October 9, 1996, May 29, 1997, July 14, 1997 and July 14, 1998 ("Original Agreement"); and

WHEREAS, the Company and Employee desire to further amend the Original Agreement as herein set forth to reflect certain mutually agreed changes to the terms and conditions thereof; and

WHEREAS, for their mutual convenience, the Company and Employee desire to restate the Original Agreement, as so amended, in its entirety.

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

1. EMPLOYMENT. The Company hereby employs Employee and Employee hereby accepts employment by the Company, upon the terms and subject to the conditions hereinafter set forth.

2. TERM. The term of this Agreement shall commence as of the date hereof and, unless earlier terminated as hereinafter provided, shall end on May 31, 1997, subject to extension as follows:

On each day after May 31, 1994, while the Employee continues in employment hereunder, the term of employment shall automatically be extended for an additional one-day period so that on any day from and after June 1, 1994, while the Employee continues in employment hereunder, the term of employment shall expire three years thereafter until terminated pursuant to the terms hereof.

3. DUTIES.

(a) Employee shall have the title, duties and responsibilities of President and Chief Executive Officer and such other duties and responsibilities as may from time to time be assigned that are consistent with such duties and responsibilities and shall report to the Chairman of the Board of the Company.

\* including Amendment 4 (Amended and Restated Employment Agreement)

(b) Employee agrees to do and perform all such acts and duties faithfully and diligently and to furnish such services as the Chairman of the Board may from time to time direct, and do and perform all acts in the ordinary course of business of the Company (within such limits as the Company may prescribe) necessary and conducive to the best interest of the Company.

(c) Employee agrees to devote his full time, energy and skill to the business of the Company and to the promotion of the best interests of the Company and the performance of his duties as President and Chief Executive Officer of the Company; provided that the Employee shall not (to the extent not inconsistent with paragraphs 3(d) and 10(b) below) be prevented from (a) serving as a director of any corporation consented to in advance by resolution of the Board of Directors of the Company, (b) engaging in charitable, religious, civic or other non-profit community activities, or (c) investing his personal assets in such form or manner as will not require any substantial services on his part in the operation or affairs of the business in which such investments are made which would detract from or interfere or cause a conflict of interest with performance of his duties hereunder.

(d) Employee agrees to observe policies and procedures of the Company in effect from time to time applicable to employees of the Company including, without limitation, policies with respect to employee loyalty and prohibited conflicts of interest.

4. COMPENSATION. The Company shall pay to Employee, for all services to be performed by Employee an annual base salary ("Base Salary") at the rate of Six Hundred Fifty Thousand Dollars (\$650,000.00) per fiscal year, or such greater amount as may be authorized by the Board of Directors of the Company, in its sole discretion upon annual review during the term of employment, payable in periodic installments in accordance with the Company's payroll practice in effect from time to time and prorated for any portion of a fiscal year (Company's fiscal year currently being the period from June 1 of each year through May 31 of the following year).

5. INCENTIVE BONUS PAYMENTS. In addition to the Base Salary described above, Employee will continue to participate in and receive payments under such incentive bonus programs as the Company, in its sole discretion, may authorize from time to time for Employee and other executive officers of the Company; provided, however, Employee will be entitled to the following during the term of this Employment Agreement:

(a) ANNUAL DISCRETIONARY INCENTIVE BONUS OPPORTUNITY. Employee will have a graduated annual incentive bonus opportunity of up to 100% of base salary for performance at or below target and up to an additional 50% of base salary for performance in excess of target. Performance will be measured against annual financial targets approved by the Compensation Committee of the Board of Directors. Eighty percent (80%) of any bonus granted under this subsection will be paid in cash

and the balance will be paid in restricted stock awards subject to the Company's qualified Stock Benefit Plan (valued at NYSE closing price on date of grant). Thirty-three and one third percent (33 1/3%) of each such restricted stock award shall vest on the successive anniversary dates of the respective award over a three year period based solely on the passage of time unless employment is terminated voluntarily by the Employee in violation of this Agreement or by the Company for Cause.

The cash portion of the incentive bonus payable under this subsection will be paid within 45 days of the end of each fiscal year; the restricted stock shall have a grant date of May 31 of the year granted.

(b) LONG TERM INCENTIVE BONUS AWARDS. Employee will receive restricted stock awards, stock option grants and performance shares of stock in the Company in accordance with appendix (i) hereto, which is incorporated herein by reference.

6. VACATION AND FRINGE BENEFITS. Employee will accrue vacation in accordance with the Company's policy in effect from time to time for other executive officers; provided that no decrease in vacation benefits from those available on the date hereof shall be applicable to Employee during the term hereof. Employee shall be entitled to participate, according to eligibility provisions of each, in such medical, life and disability insurance programs, profit sharing plans, retirement plans and in other fringe benefit plans as may be in effect from time to time during the term hereof and available to other executive officers of the Company.

7. CLUB DUES AND BUSINESS EXPENSES. During the term hereof, Employee will be entitled to reimbursement for normal travel and business expenses in accordance with applicable Company policy, and will be reimbursed membership dues in the Green Acres Country Club, the Standard Club and such professional clubs/organizations that are appropriate and conducive to the performance of his duties.

8. PROFESSIONAL FEES. The Company will reimburse Employee for professional financial planning and income tax preparation assistance expenses actually incurred in an amount not to exceed \$5,000/year during the term hereof.

9. TERMINATION.

(a) The Company may terminate this Agreement at any time for Cause. Any such termination will be by majority action of the Board of Directors (with Employee's vote disregarded) taken at a regular or specially called meeting of the Board, after a minimum 10 day notice thereof to Employee, with termination of this Agreement listed as an agenda item. Employee will be given a reasonable opportunity to be heard at such meeting with his attorney present if Employee desires.

The term "Cause" means:

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

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

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

(b) Without limiting the generality of the foregoing, the following shall not constitute Cause for the termination of the employment of Employee or the modification or diminution of any of his authority hereunder:

(i) any personal or policy disagreement between Employee and the Company or any member of the Board, or

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

(iii) termination of employment of Employee for unsatisfactory performance (including failure to meet financial goals).

Termination for Cause shall be limited to a good faith finding by resolution of the Board, setting forth the particulars thereof. Any such resolution shall be final and binding upon Employee.

(c) The Company may terminate this Agreement at any time prior to a Change in Control of the Company as defined in Section 12(d)(i) for unsatisfactory performance by Employee of his duties and responsibilities hereunder (including but not limited to failure to meet financial goals as may be approved by the Compensation Committee), provided that the Company has given Employee (i) written notice setting forth the particulars of his performance deficiencies and (ii) six months opportunity to correct them to the satisfaction of the Company. Any termination under this section 9(c) shall be by resolution of the Board of Directors of the Company, which shall be final and binding upon Employee. In the event of termination pursuant to this section 9(c), the

Company will pay to Employee, monthly for 24 months, an amount (subject to applicable withholding) equal to Employee's regular monthly base salary at time of termination; provided, however, all such payment obligations shall terminate immediately upon any breach by Employee of section 10 of this Agreement. Upon termination pursuant to this section 9(c), no further compensation or benefits shall accrue or be payable to Employee under this Agreement except for (i) the salary continuation payments provided for above, and (ii) any compensation bonus or other benefits which have accrued to Employee prior to the date of any such termination.

(d) The Company or the Employee may terminate this Agreement at any time because of the Disability of Employee. "Disability" shall mean a physical or mental condition which has prevented Employee from substantially performing his duties under this Agreement for a period of 180 days and which is expected to continue to render Employee unable to substantially perform his duties for the remaining term of this Agreement on a full-time basis. The Company will make reasonable accommodation for any handicap of Employee as may be required by applicable law.

In the event of termination by the Company for Disability, a good faith determination of the existence of a Disability shall be made by resolution of the Board of Directors of the Company, in its sole discretion, setting forth the particulars of the Disability which shall be final and binding upon the Employee. The Company may require the submission of such medical evidence as to the condition of the Employee as it may deem necessary in order to arrive at its determination of the occurrence of a Disability. Employee will be provided with reasonable opportunity to present additional medical evidence as to the medical condition of Employee for consideration prior to the Board making its determination of the occurrence of a Disability.

Upon termination of this Agreement for Disability, Employee will continue to be eligible to participate in the Company's medical, dental and life insurance programs available to executive officers in accordance with their terms applicable to employees for a period of 3 years from the date of such termination of this Agreement.

(e) This Agreement shall automatically terminate upon the death of Employee during the term. In such event, death benefits payable under any of the Company's benefit plans in which Employee was a participant at the time of his death shall be payable in accordance with the terms of such plans.

(f) Employee may terminate this Agreement upon 30 days written notice if any person other than Employee is selected by the Board of Directors to succeed the present Chairman of the Board upon his retirement, resignation or other departure from that office. In the event of termination by Employee for such reason, the Company will pay to Employee, monthly for 24 months, an amount (subject to applicable withholding) equal to Employee's regular monthly base salary at time of termination plus an amount equal to 1/12th of the most recent fiscal year cash bonus paid to Employee; provided all such payment obligations shall terminate immediately

upon any breach by Employee of paragraph 10 of this Agreement. Upon termination of this Agreement by Employee pursuant to this paragraph, no further compensation or benefits shall accrue or be payable to Employee under this Agreement except for (i) the salary continuation payments provided for above, and (ii) any compensation, bonus or other benefits which have accrued to Employee prior to the date of any such termination.

10. CONFIDENTIAL INFORMATION AND RESTRICTION OF COMPETITION.

(a) Employee acknowledges that the trade secrets, confidential information, secret processes and know-how developed and acquired by the Company and other subsidiaries of the Company (together the "Affiliated Companies") are among their most valuable assets and that the value of such information may be destroyed by unauthorized disclosure. All such trade secrets, confidential information, secret processes and know-how imparted to or learned by Employee in the course of his employment with respect to the business of the Affiliated Companies (whether acquired before or after the date hereof) will be deemed to be confidential and will not be used or disclosed by Employee, except to the extent necessary to perform his duties and, in no event, disclosed to anyone outside the employ of the Affiliated Companies and their authorized consultants and advisors, unless either such information is or has been made generally available to the public or express written authorization to use or disclose such information has been given by the Company. If Employee ceases to be employed by the Company for any reason, he shall not take with him any documents or other papers containing or reflecting trade secrets, confidential information, secret processes or know-how. Employee acknowledges that his employment hereunder will place him in a position of utmost confidence and that he will have access to confidential information concerning the operation of the business of the Affiliated Companies, including, but not limited to, manufacturing methods, developments, secret processes, know-how, costs, prices and pricing methods, sources of supply and customer names and relations. All such information is in the nature of a trade secret and is the exclusive property of the Affiliated Companies and shall be deemed confidential information for the purposes of this paragraph.

(b) Employee agrees that during the term hereof and for a period of two (2) years after voluntary termination of employment hereunder by Employee or termination of employment hereunder by Company pursuant to section 9 above, he shall not, without the express written consent of the Company, either alone or as a consultant to, or partner, employee, officer, director, or stockholder of any organization, entity or business, (i) engage in direct or indirect competition with the Company or any Affiliated Company within 100 miles of any location within the United States of America or any other country where the Company or any Affiliated Company does business from time to time during the term hereof; (ii) solicit in connection with any activity which is competitive with any of the businesses of the Company or any Affiliated Company, any customers or suppliers of the Company or any Affiliated Company; (iii) solicit for employment any sales, marketing or management employee of Company or any

Affiliated Company or induce or attempt to induce any customer or supplier of the Company or any Affiliated Company to terminate or materially change such relationship. Company and Employee acknowledge the reasonableness of this covenant not to compete and non-solicitation and the reasonableness thereof, including but not limited to the geographic area and duration of time which are a part hereof. This covenant not to compete may be enforced with respect to any geographic area in which the Company or any Affiliated Company does business during the term hereof. Nothing herein shall prohibit Employee from being the legal or equitable holder of not more than 5% of the outstanding capital stock of any publicly held corporation which may be in direct or indirect competition with the Company or any Affiliated Company.

(c) If at any time, any clause or portion of this Section 10 shall be deemed invalid or unenforceable by the laws of the jurisdiction in which it is to be enforced by reason of being vague or unreasonable as to duration, geographic scope, nature of activities restricted, or for any other reason, this provision shall be considered divisible as to such portions and the foregoing restrictions shall become and be immediately amended to include only such duration, scope or restriction and such event as shall be deemed reasonable and enforceable by the court or other body having jurisdiction to enforce this Agreement; and the parties hereto agree that the restrictions, as so amended, shall be valid and binding as though the invalid or unenforceable portion had not been involved herein.

(d) The Employee acknowledges and agrees that the Company would be irreparably harmed by violations of this Section 10 and in recognition thereof, the Company shall be entitled to an injunction or other decree of specific performance with respect to any violation thereof (without any bond or other security being required) in addition to other available legal and equitable remedies.

(e) This Section 10 shall survive any termination of this Agreement and any termination of Employee's employment.

11. CHANGES IN BUSINESS. The Company, acting through its Board of Directors, will at all times have complete control over the Company's business. Without limiting the generality of the foregoing, the Company may at any time or times change or discontinue any or all of its present or future operations, may close or move any one or more of its divisions or offices, may undertake any new servicing or sales operation, may sell any one or more of its divisions or offices to any company not controlled, directly or indirectly, by the Company or may take any and all other steps which its Board of Directors, in its exclusive judgment, shall deem desirable, and Employee shall have no claim or recourse by reason of such action. Provided, however, no such action shall result in the reduction of Employee's Base Salary hereunder; provided, further that if the Company discontinues operations, a discretionary bonus may or may not be granted, however, Employee will be entitled to a pro-rata share of any non-discretionary incentive bonus through the date of discontinuance. Said pro-rata bonus will be

calculated by the Chief Financial Officer of the Company whose determination will be final.

12. CHANGE IN CONTROL.

(a) In the event:

(i) a Change in Control of the Company occurs,  
and

(ii) (A) at any time during the 24 month period commencing on the date of the Change in Control the Company terminates Employee's employment for other than Cause or Disability, or Employee terminates his employment for Good Reason, in either case by written notice to the other party (including the particulars thereof), and having given the other party the opportunity to be heard with respect thereto, or (B) Employee's employment with the Company terminates for any reason other than Disability or death during the 30-day period commencing on the expiration of the aforementioned 18 month period, then:

(1) the Company shall promptly pay to Employee a lump sum cash payment in an amount equal to the sum of (A) all base salary earned through the date of termination, (B) any annual cash bonus earned by Employee for the fiscal year of the Company most recently ended prior to the date of termination to the extent unpaid on the date of termination, (C) a prorata portion of the annual cash bonus, including value of any restricted stock grant in lieu of annual cash bonus, Employee would have earned had he been employed by the Company on the last day of the fiscal year in which the date of termination occurs (as if all performance targets had been met) that is applicable to the period commencing on the first day of such fiscal year and ending on the date of termination, and (D) any and all other benefits and amounts earned by Employee prior to the date of termination to the extent unpaid, all subject to applicable withholding.

(2) The Company shall promptly pay to Employee in a lump sum, a cash payment in an amount equal to three times Employee's total cash compensation (base salary plus annual cash bonus, including value of any restricted stock grant in lieu of cash bonus) for either the fiscal year of the Company most recently ended prior to the date of termination, or the preceding fiscal year, whichever is the highest total compensation subject to applicable withholding. Employee may elect to take payment of any amounts on a schedule of his own choosing; provided that such schedule shall be completed no later than three years from the date of Employee's termination of employment.

(3) Employee and his dependents shall continue to be covered by, and receive employee welfare and executive fringe benefits in accordance with the terms of, all of the Company's benefit plans and executive fringe benefit programs for three years following the date of termination, and at no less than the levels he and his dependents were receiving



immediately prior to the Change in Control. Employee's dependents shall be entitled to continued coverage pursuant to the preceding sentence for the balance of such three year period in the event of Employee's death during such period. The period during which Employee and his dependents are entitled to continuation of group health plan coverage pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended, and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended, shall commence on the date next following the expiration of the aforementioned three year period.

(4) Employee shall receive an additional retirement benefit, over and above that which Employee would normally be entitled to under the Company's retirement plans or programs applicable to Employee, equal to the actuarial equivalent of the additional amount that Employee would have earned under such retirement plans or programs had he accumulated three additional continuous years of service. Such amount shall be paid to Employee in a cash lump sum payment on the Employee's Retirement Date, as defined in the AAR CORP. Retirement Plan or any successor plan or promptly upon a termination of employment which triggers Change in Control termination of employment benefits hereunder. In such event, the Company shall concurrently pay Employee a gross-up bonus in an amount equal to any federal, state and local income taxes and excise taxes (including FICA or any similar taxes) payable by Employee on such lump sum payment and such gross-up bonus.

(5) The Company, at its expense, shall provide Employee with outplacement services of a nationally recognized outplacement firm of the Employee's choosing until the earlier of the Employee's attainment of employment or the date eighteen months from the date of Employee's termination of employment; provided, however, that the cost of such outplacement services shall not exceed 3.5% of the cash payment due to Employee pursuant to subsection 12(a)(ii)(2) above.

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

(c) In the event that a Change in Control has occurred, both for purposes of this Agreement and for purposes of the AAR CORP. Stock Benefit Plan, as amended ("Plan"), whether or not such Change in Control has the prior written approval of a majority of the Continuing Directors (as defined in the Plan), and notwithstanding any conditions or restrictions, related to any Award granted to Employee under the Plan, all options grants and restricted stock awards provided for hereunder which have not then become vested (including released restrictions) or exercisable, shall immediately become exercisable or vested, as the case may be, all performance shares to be awarded hereunder shall be immediately awarded according to Appendix (i) of this Agreement, and all Options or Limited Rights, or both, granted to Employee under the Plan will become immediately

exercisable and remain exercisable for the full remaining life of the option(s) whether or not Employee's employment continues, and all restrictions on Restricted Stock granted to Employee under the Plan, including any performance share awards, will immediately lapse.

(d) For purposes of this provision

(i) Change in Control means the earliest of:

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

(B) the effective time of (1) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or (2) a transfer of substantially all of the assets of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or

(C) the election, over any period of time, to the Board of Directors of the Company without the recommendation or approval of the incumbent Board of Directors of the Company, of the lesser of (1) three directors, or (2) directors constituting a majority of the number of directors of the Company then in office.

(ii) "Good Reason" means:

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

(B) a good faith determination by Employee that as the result of a Change in Control and a material change in employment circumstances thereafter, he is unable to carry out his duties and responsibilities contemplated by this Agreement in a manner consistent with the practices, standards, values or philosophy of the Company immediately prior to the Change in Control; or

(C) a material breach of this Agreement by the Company; or

(D) a relocation of the primary place of employment of at least 100 miles.

(e) The Company shall promptly pay Employee a gross-up bonus in an amount equal to (i) all excise taxes payable under Section 280G of the Internal Revenue Code on any amounts constituting "golden parachute" payments, plus (ii) any federal, state, and local income taxes and excise taxes (including FICA) payable by Employee on such gross-up bonus in order to put Employee in the same position he would have been in if the excise tax provision (Section 280G) did not apply.

(f) The Company will continue to provide SKERP benefits to Employee at no less than the level Employee and Employee's dependents were receiving or entitled to receive immediately prior to the Change in Control, under the SKERP as it was then in effect.

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

13. NOTICES. Any notice or other instrument or thing required or permitted to be given, served or delivered to any of the parties hereto shall be delivered personally or deposited in the United States mail, with proper postage prepaid, telegram, teletype, cable or facsimile transmission to the addresses listed below:

(a) If to the Company, to:

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

With a copy to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: General Counsel

(b) If to Employee, to:

David P. Storch  
908 Elm Place  
Glencoe, IL 60022

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

14. NON-ASSIGNMENT.

(a) The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of Employee, and any attempted unpermitted assignment shall be null and void and without further effect; provided,

however, that, upon the sale or transfer of all or substantially all of the assets of the Company, or upon the merger by the Company into or the combination with another corporation or other business entity, or upon the liquidation or dissolution of the Company, this Agreement will inure to the benefit of and be binding upon the person, firm or corporation purchasing such assets, or the corporation surviving such merger or consolidation, or the shareholder effecting such liquidation or dissolution, as the case may be. After any such transaction, the term Company in this Agreement shall refer to the entity which conducts the business now conducted by the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the estate and beneficiaries of Employee and upon and to the benefit of the permitted successors and assigns of the parties hereto.

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

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

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

17. ENTIRE AGREEMENT. This Agreement as amended and restated herein and the other agreements referred to herein set forth the entire understanding of the parties and supersede all prior agreements, arrangements and communications, whether oral or written, pertaining to the subject matter hereof, including, but not limited to, all prior compensation arrangements between the Company and the Employee concerning compensation and benefits. This Agreement shall not be modified or amended except by the mutual written agreement of the Company and Employee.

18. WAIVER. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing signed by Employee and an authorized officer of the Company. No waiver by either party

hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

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

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

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

Employer:

COMPENSATION COMMITTEE  
AAR CORP. BOARD OF DIRECTORS

By: /s/ Erwin E. Schulze

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Erwin E. Schulze, Chairman

AAR CORP.

By: /s/ Timothy J. Romenesko

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Timothy J. Romenesko  
Vice President

Employee:

/s/ David P. Storch

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David P. Storch

AAR CORP.  
CEO  
LONG-TERM INCENTIVE COMPENSATION

RESPONSIBILITY AND AUTHORITY

The Compensation Committee of the Board of Directors will be responsible for the administration of the CEO's long-term incentive compensation arrangements. Any interpretation or adjustments will be by the Committee, whose decision is final.

OVERALL STRUCTURE OF THE PLAN

Long-term incentive compensation for the CEO will consist of:

- - 200,000 options awarded at the beginning of the 4-year performance period from date of appointment as CEO (July 9, 1996), vesting at 25% of the award on each of the 4 anniversary dates of the award. This grant will be made at fair market value as of the grant date.
- - Up to 15,000 restricted shares in each of the 4 years of the performance period with the initial grant at the beginning of the 4-year performance period and subsequent grant on the next three successive anniversary dates of the CEO's appointment as CEO. Award will be made at fair market value on the date of the grant with vesting of 33% of the award on each of the 3 anniversary dates following the award. The actual number of shares granted is at the discretion of the Committee.
- - Up to 360,000 performance units (payable in performance restricted stock in the manner described below) to be determined at the end of the four year performance period based on achievement of the following specified performance goals in four categories over the 4-year performance period:
  - A. The Company's cumulative percentage Total Return to Shareholders as compared to that of the S&P 500 Composite Index Total Return to Shareholders; and
  - B. The Company's cumulative percentage Total Return to Shareholders as compared to that of its Peer Group Composite Index Total Return to Shareholders; and

- C. The Company's average Return on Capital as compared to that of the S&P 500 Composite Index Average Return on Capital; and
- D. The Company's average Return on Capital as compared to that of the Company's Peer Group Composite Index Average Return on Capital.
- Restricted shares will be awarded out of treasury shares according to the performance unit matrix below upon completion of the four year performance period ending July 9, 2000.
  - One share of restricted stock will be awarded for each performance unit earned subject to a maximum dollar value of \$12,690,000 based on the NYSE closing price for the Company's Common Stock on July 9, 2000; provided, however, in the event Mr. Storch's Employment Agreement is terminated following a Change in Control of the Company (as defined in Mr. Storch's Employment Agreement) occurring prior to July 9, 2000 pursuant to the Change in Control provisions of Mr. Storch's Employment Agreement, the above stated dollar value limit will be removed and one share of restricted stock will be awarded for each performance unit earned.
  - The performance restricted shares awarded at the end of the four year performance period will be restricted for three years: 50% of the shares will vest on the first anniversary of the award; 50% of the shares will vest on the third anniversary of the award.
  - No shares will be awarded in any category of award in which the result for AAR is negative.
  - Except as otherwise provided below with respect to the 360,000 options, a Change of control (as elsewhere defined in this agreement) will cause all options under this plan to become vested/exercisable, all restricted stock to vest and performance shares to be awarded according to the performance unit matrix below based on the higher of target or actual performance through the effective date of a Change in Control using the latest data then available to determine goals applicable for the partial performance period.
  - At the direction of the Compensation Committee, transactions which significantly alter the capital structure of AAR may be excluded from the measurement period (in whole or in part) in a manner determined by the Committee.

PERFORMANCE UNIT AWARD MATRIX\*

% OF TARGET ACHIEVED**	SHARES AWARD FOR EACH OF THE FOUR CRITERIA
0-80	0
81	30,000
100	60,000
120	75,000
120+	90,000

\* Results between the amounts on the schedule will be calculated by linear interpolation.

\*\* With respect to Total Return to Shareholders goals, 100% achievement will be the median of the S&P 500 and the 60th percentile of the Peer Group; with respect to the Return on Capital goals, 100% achievement will be 80% of the median of the S&P 500 and 60th percentile of the Peer Group.

- 360,000 options awarded in accordance with the following schedule:

ISSUE DATE	# OF OPTION SHARES
July 14, 1997	100,000
January 1, 1998	130,000
January 1, 1999	130,000

- All such options will vest at the end of the performance period on July 9, 2000; provided, however, in the event the dollar value limit on the performance restricted stock award is removed due to a Change in Control of the Company as described above, options not yet granted under the above schedule shall not be awarded and any such options already awarded shall lapse. The exercise price of all such options will be \$35.25, the NYSE closing price on July 14, 1997, the date of Compensation Committee approval of this performance stock program.

DEFINITIONS:

- - Total Return to Shareholders -- Cumulative price appreciation plus dividends (reinvested).
- - Peer Group -- Selected companies used from time to time for performance comparison in AAR proxy. Any deletions or additions to the peer group during the performance period will cause measurement/calculation changes on a prospective



basis from the date of the change in the peer group (beginning of the fiscal year in which the proxy is issued).

- - Return on Capital -- Earnings before interest and taxes (EBIT) divided by total capital (debt plus equity minus cash).

AMENDED AND RESTATED  
SEVERANCE AND CHANGE IN CONTROL AGREEMENT

This Amended and Restated Severance and Change in Control Agreement ("Agreement") made and entered into as of the 11th day of April, 2000, by and between AAR CORP., a Delaware corporation ("Company"), and Philip C. Slapke ("Employee").

WHEREAS, the Company currently employs Employee as an employee at will in the capacity of Executive Vice President; and

WHEREAS, the Company and Employee entered into a Severance and Change in Control Agreement dated February 24, 1995 ("Agreement"); and

WHEREAS, the Company and Employee amended and restated the Agreement as of the 8th day of April, 1997, and further amended the Agreement as of the 14th day of July, 1998 ("Original Agreement"); and

WHEREAS, the Company and Employee desire to further amend the Agreement as herein set forth to reflect certain mutually agreed changes to the terms and conditions thereof; and

WHEREAS, for their mutual convenience, the Company and Employee desire to restate the Agreement, as so amended, in its entirety.

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

1. EMPLOYMENT. Employee will continue employment with the Company as an at will employee subject to the terms and conditions hereinafter set forth.
2. DUTIES. During the continuation of Employee's employment, Employee shall:
  - (a) well and faithfully serve the Company and do and perform assigned duties and responsibilities in the ordinary course of Employee's employment and the business of the Company (within such limits as the Company may from time to time prescribe), professionally, faithfully and diligently.
  - (b) devote Employee's full time, energy and skill to the business of the Company and Employee's assigned duties and responsibilities, and to the promotion of the best interests of the Company; provided that Employee shall not (to the extent not inconsistent with Section 5 below) be prevented from (a) serving as a director of any corporation consented to in advance in writing by the Company, (b) engaging in charitable, religious, civic or other non-profit community activities, or (c) investing his personal assets in such form or manner as will not require any substantial services on Employee's part in the operation or affairs of the business in which such investments are made or which would detract from or interfere or cause a conflict of interest with performance of Employee's duties hereunder.
  - (c) observe all policies and procedures of the Company in effect from time to time applicable to employees of the Company including, without limitation, policies with respect to employee loyalty and prohibited conflicts of interest.

3. BENEFITS. Employee shall be entitled to participate, according to the eligibility provisions of each, in such welfare plans (including but not limited to medical, dental, life, accident and disability insurance programs), vacation, retirement plans and other fringe benefits as may be in effect from time to time and available to other officers of the Company during Employee's employment term. Employee shall also be entitled to participate in such additional executive fringe benefits as may be authorized from time to time by the President and Chief Executive Officer of the Company. Employee shall be eligible to participate in the Company's Supplemental Key Employee Retirement Plan as an executive legal participant.

4. CONFIDENTIAL INFORMATION, ASSIGNMENT OF INVENTIONS.

(a) Employee acknowledges that the trade secrets, confidential information, secret processes and know-how developed and acquired by AAR CORP. and its affiliates or subsidiaries (together the "Affiliated Companies") are among their most valuable assets and that the value of such information may be destroyed by unauthorized disclosure. All such trade secrets, confidential information, secret processes and know-how imparted to or learned by Employee in the course of his employment with respect to the business of the Affiliated Companies (whether acquired before or after the date hereof) will be deemed to be confidential and will not be used or disclosed by Employee, except to the extent necessary to perform Employee's duties and, in no event, disclosed to anyone outside the employ of the Affiliated Companies and their authorized consultants and advisors, unless (i) such information is or has been made generally available to the public, (ii) disclosure of such information is required by law in the opinion of Employee's counsel (provided that written notice thereof is given to Company as soon as possible but not less than 24 hours prior to such disclosure), or (iii) express written authorization to use or disclose such information has been given by the Company. If Employee ceases to be employed by the Company for any reason, Employee shall not take any electronically stored data, documents or other papers containing or reflecting trade secrets, confidential information, secret processes, know-how, or computer software programs from Company. Employee acknowledges that Employee's employment hereunder will place Employee in a position of utmost confidence and that Employee will have access to confidential information concerning the operation of the business of the Affiliated Companies, including, but not limited to, manufacturing methods, developments, secret processes, know-how, computer software programs, costs, prices and pricing methods, sources of supply and customer names and relations. All such information is in the nature of a trade secret and is the sole and exclusive property of the Affiliated Companies and shall be deemed confidential information for the purposes of this paragraph.

(b) Employee hereby assigns to the Company all rights that Employee may have as author, designer, inventor or otherwise as creator of any written or graphic material, design, invention, improvement, or any other idea or thing whatever that Employee may write, draw, design, conceive, perfect, or reduce to practice during employment with the Company or within 120 days after termination of such employment, whether done during or outside of normal work hours, and whether done alone or in conjunction with others ("Intellectual Property"),

provided, however, that Employee reserves all rights in anything done or developed entirely by Employee on Employee's own personal time and without the use of any Company equipment, supplies, facilities or information, or the participation of any other Company employee, unless it relates to the Company's business or reasonably anticipated business, or grows out of any work performed by Employee for the Company. Employee will promptly disclose all such Intellectual Property developed by Employee to the Company, and fully cooperate at the Company's request and expense in any efforts by the Company or its assignees to secure protection for such Intellectual Property by way of domestic or foreign patent, copyright, trademark or service mark registration or otherwise, including executing specific assignments or such other documents or taking such further action as may be considered necessary to vest title in Company or its assignees and obtain patents or copyrights in any and all countries.

5. NON-COMPETE; SEVERANCE.

- (a) Employee agrees that during Employee's continuation of employment with the Company and for one (1) year thereafter so long as the Company makes the severance payments to Employee pursuant to subsections 4(b) or 4(c) below, Employee shall not, without the express written consent of the Company, either alone or as a consultant to, or partner, employee, officer, director, or stockholder of any organization, entity or business, (i) take or convert for Employee's personal gain or benefit or for the benefit of any third party, any business opportunities which may be of interest to the Company or any Affiliated Company which Employee becomes aware of during the term of his employment; (ii) engage in direct or indirect competition with the Company or any Affiliated Company within 100 miles of any location within the United States of America or any other country where the Company or any Affiliated Company does business from time to time during the term hereof; (iii) solicit in connection with any activity which is competitive with any of the businesses of the Company or any Affiliated Company, any customers of the Company or any Affiliated Company; (iv) solicit for employment any sales, marketing or management employee of Company or any Affiliated Company or induce or attempt to induce any customer or supplier of the Company or any Affiliated Company to terminate or materially change such relationship. Company and Employee acknowledge the reasonableness of the foregoing covenants not to compete and non-solicitation, including but not limited to the geographic area and duration of time which are a part hereof, and further, that the restrictions stated in this Section 5 are reasonably necessary for the protection of Employer's legitimate proprietary interests. This covenant not to compete may be enforced with respect to any geographic area in which the Company or any Affiliated Company does business during the term hereof. Nothing herein shall prohibit Employee from being the legal or equitable holder, solely for investment purposes, of less than 5% of the capital stock of any publicly held corporation which may be in direct or indirect competition with the Company or any Affiliated Company.
- (b) Upon termination of Employee's employment by the Company prior to a Change in Control (as defined in 7(c)(i) below) for any reason other than Cause (as defined in 7(c)(iv) below), the Company will pay Employee severance each month

for 12 months ("Severance Period"), in an amount (subject to applicable withholding) equal to 1/12 of Employee's base salary; and, further, the Company will pay Employee a PIP bonus award in accordance with and subject to the terms and conditions of Employee's PIP in a lump sum at the time any such PIP bonuses are payable under the PIP or at such time as the Severance Period is complete, whichever is later (with interest at prime rate plus one percentage point from the earlier of such dates), for any PIP bonuses earned (1) in the completed fiscal year preceding termination but not due and payable prior to termination, and (2) prorata for the period prior to termination of employment in any partial PIP fiscal year based on Employee's performance against Employee's PIP during such partial period; provided, however, that (i) all such monthly payment obligations shall terminate immediately upon Employee obtaining full time employment in a comparable position in terms of salary level, and (ii) all such payment obligations shall terminate or lapse immediately upon any breach by Employee of Section 4 or 5(a) of this Agreement or if Employee shall commence any action or proceeding in any court or before any regulatory agency arising out of or in connection with termination of Employee's employment.

- (c) If Employee terminates Employee's employment or Employee's employment is terminated by the Company for Cause (as defined below), the Company may elect (but is not required to), by written notice thereof to Employee, within five (5) days of any such termination of Employee's employment with the Company prior to a Change in Control (as defined below), to pay Employee severance as provided in and subject to the provisions of subsection 5(b) above.
- (d) Employee may terminate this Severance and Change in Control Agreement effective immediately upon notice thereof in writing to Company at any time while still employed within a sixty (60) calendar day period immediately following the effective date of any reduction by Company in (i) Employee's level of responsibility or position from that held by Employee as Executive Vice President on the effective date of this Agreement, or (ii) Employee's level of compensation, including retirement benefits in effect immediately prior to any such change.
- (e) If at any time, any clause or portion of this Section 5 shall be deemed invalid or unenforceable by the laws of the jurisdiction in which it is to be enforced by reason of being vague or unreasonable as to duration, geographic scope, nature of activities restricted, or for any other reason, this provision shall be considered divisible as to such portions and the foregoing restrictions set forth in 5(a) shall become and be immediately amended to include only such duration, scope or restriction and such event as shall be deemed reasonable and enforceable by the court or other body having jurisdiction to enforce this Agreement; and the parties hereto agree that the restrictions, as so amended, shall be valid and binding as though the invalid or unenforceable portion had not been involved herein.
- (f) The Employee acknowledges and agrees that the Company would be irreparably harmed by violations of Section 4 or Section 5(a) above, and in recognition thereof, the Company shall be entitled to an injunction or other decree of specific performance with respect to any violation thereof (without any bond or other

security being required) in addition to other available legal and equitable remedies.

6. TERMINATION OF EMPLOYMENT.

- (a) Upon and after termination of employment howsoever arising, Employee shall, upon request by Company:
- (1) immediately return to the Company all correspondence, documents, business calendars/diaries, or other property belonging to the Company which is in Employee's possession,
  - (2) immediately resign from any office Employee holds with the Company or any Affiliated Company; and
  - (3) cooperate fully and in good faith with the Company in the resolution of all matters Employee worked on or was involved in during Employee's employment with the Company. Employee's cooperation will include reasonable consultation by telephone. Further, in connection therewith, Employee will, at Company's request upon reasonable advance notice and subject to Employee's availability, make Employee available to Company in person at Company's premises, for testimony in court, or elsewhere; provided, however, that in such event, Company shall reimburse all Employee's reasonable expenses and pay Employee a reasonable per diem or hourly stipend.

7. CHANGE IN CONTROL.

- (a) In the event (i) a Change in Control of AAR CORP. occurs, and (ii) (A) at any time during the 18 month period commencing on the date of the Change in Control the Company terminates Employee's employment for other than Cause or Disability, or Employee terminates Employee's employment for Good Reason, in either case by written notice to the other party (including the particulars thereof), and having given the other party the opportunity to be heard with respect thereto, or (B) Employee's employment with the Company terminates for any reason other than Disability or death during the 30 day period commencing on the expiration of the aforementioned 18 month period, then:
- (1) the Company shall promptly pay to Employee, in a lump sum, a cash payment in an amount equal to the sum of (A) all base salary earned through the date of termination, (B) any annual cash bonus earned by Employee for the fiscal year of the Company most recently ended prior to the date of termination to the extent unpaid on the date of termination, (C) a prorata portion of the annual cash bonus, including the value of any restricted stock grant in lieu of annual cash bonus, Employee would have earned had Employee been employed by the Company on the last day of the fiscal year in which the date of termination occurs (as if all performance targets have been met or, in the event the bonus is of the "discretionary" type, the bonus shall be based on a percentage of base

salary which is not less than percentage of base salary received as bonus for the preceding fiscal year) that is applicable to the period commencing on the first day of such fiscal year and ending on the date of termination, and (D) any and all other benefits and amounts earned by Employee prior to the date of termination to the extent unpaid, all subject to applicable withholding.

- (2) The Company shall promptly pay to Employee in a lump sum, a cash payment in an amount equal to three times Employee's total compensation (base salary plus annual cash bonus, including the value of any restricted stock grant in lieu of annual cash bonus) for either the fiscal year of the Company most recently ended prior to the date of termination, or the preceding fiscal year, whichever is the highest total compensation, or such lesser amount as Employee may elect to take, subject to applicable withholding. Employee may elect to take payment of any amounts on a schedule of Employee's own choosing; provided that such schedule shall be completed no later than three years from the date of Employee's termination of employment.
- (3) Employee and Employee's dependents shall continue to be covered by, and receive employee welfare and executive fringe benefits (including but not limited to medical, dental, life, accident and disability insurance available to officers of the Company and additional executive retirement and other fringe benefits approved by the President and CEO of the Company) in accordance with the terms of the Company's benefit plans and executive fringe benefit programs, for three years following the date of termination, and at no less than the levels Employee and Employee's dependents were receiving immediately prior to the Change in Control. Employee's dependents shall be entitled to continued benefits coverage pursuant to the preceding sentence for the balance of such three year period in the event of Employee's death during such period. The period during which Employee and Employee's dependents are entitled to continuation of group health plan coverage pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended, and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended, shall commence on the date next following the expiration of the aforementioned three year period.
- (4) Employee shall receive an additional retirement benefit, over and above that which Employee would normally be entitled to under the Company's retirement plans or programs applicable to Employee, equal to the actuarial equivalent of the additional amount that Employee would have earned under such retirement plans or programs had Employee accumulated three additional continuous years of service. Such amount shall be paid to Employee in a cash lump sum payment on the earlier to occur of Employee's termination of employment following a Change in Control or Employee's Retirement Date, together with a gross-up bonus in an amount equal to any federal, state and local income taxes and excise taxes (including FICA and any similar taxes) payable by Employee on such lump sum payment and such gross-up bonus.

- (5) The Company, at its expense, shall provide Employee with outplacement services of a nationally recognized outplacement firm of the Employee's choosing until the earlier of (a) the Employee's attainment of employment, or (b) the date eighteen (18) months from the date of Employee's termination of employment; provided, however, that the cost of such outplacement services shall not exceed 3.5% of the cash payment due to Employee pursuant to subsection 7(a)(2) above.
  - (6) The amounts paid to Employee under this Change in Control provision applicable to Employee shall be considered severance pay in consideration of past service Employee has rendered to the Company and in consideration of Employee's continued service from the date hereof to entitlement of those payments.
- (b) In the event that a Change in Control occurs, whether or not such Change in Control has the prior written approval of a majority of the Continuing Directors (as defined in the AAR CORP. Stock Benefit Plan), and notwithstanding any conditions or restrictions related to any Award granted to Employee under the Plan, all Options or Limited Rights, or both, granted to Employee under the Plan will become immediately exercisable and remain exercisable for the full remaining life of the option whether or not Employee's employment continues, and all restrictions on Restricted Stock granted to Employee under the Plan will immediately lapse.
- (c) For purposes of this Agreement
- (i) "Change in Control" means the earliest of:
    - (1) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act")), has acquired (other than directly from the Company) beneficial ownership (as that term is defined in Rule 13d-3 under the Exchange Act), of more than 20% of the outstanding capital stock of the Company entitled to vote for the election of directors; or
    - (2) the effective time of (i) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or a transfer of substantially all of the assets of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or
    - (3) the election over any period of time to the Board of Directors of the Company without the recommendation or approval of the incumbent Board of Directors of the Company, of the lesser of (i)



three directors, or (ii) directors constituting a majority of the number of directors of the Company then in office.

(ii) "Good Reason" means:

- (1) a material reduction in the nature or scope of Employee's duties, responsibilities, authority, power or functions from those enjoyed by Employee immediately prior to the Change in Control, or a material reduction in Employee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control; or
- (2) if the incumbent in the position of President & CEO of the Company on August 8, 1997 is not the President & CEO of the Company at the time of termination, a good faith determination by Employee that as the result of a Change in Control and a material change in employment circumstances at any time during the immediate two year period after the Change in Control, Employee is unable to carry out Employee's assigned duties and responsibilities in a manner consistent with the practices, standards, values or philosophy of the Company immediately prior to the Change in Control; or
- (3) a relocation of the primary place of employment of at least 100 miles.

(iii) "Disability" means:

- (1) a physical or mental condition which has prevented Employee from substantially performing Employee's assigned duties for a period of 180 consecutive days and which is expected to continue to render Employee unable to substantially perform Employee's duties on a full-time basis and otherwise meets the benefit eligibility requirements of the Company's Long Term Disability Welfare Benefit Plan or any executive program in which Employee was a participant at the time of a Change in Control. The Company will make reasonable accommodation for any handicap of Employee as may be required by applicable law.

In the event of termination by the Company for Disability after a Change in Control, a good faith determination of the existence of a Disability shall be made by resolution of the Compensation Committee of the Board of Directors of the Company, in its sole discretion, setting forth the particulars of the Disability which shall be final and binding upon the Employee. The Company may require the submission of such medical evidence as to the condition of the Employee as it may deem necessary in order to arrive at its determination of the occurrence of a Disability, and Employee will cooperate in providing any such information. Employee will be provided with reasonable opportunity to present additional medical

evidence as to the medical condition of Employee for consideration prior to the Board making its determination of the occurrence of a Disability.

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

(iv) "Cause" means:

- (1) Employee engages, during the performance of Employee's duties hereunder, in acts or omissions constituting dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing or malfeasance;
- (2) Employee intentionally disobeys or disregards a lawful and proper direction of the Board or the Company; or
- (3) Employee materially breaches the Agreement and such breach by its nature, is incapable of being cured, or such breach remains uncured for more than 10 days following receipt by Employee of written notice from the Company specifying the nature of the breach and demanding the cure thereof. For purposes of this clause (3), a material breach of the Agreement that involves inattention by Employee to Employee's duties under the Agreement shall be deemed a breach capable of cure.

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

- (1) any personal or policy disagreement between Employee and the Company or any member of the Board; or
- (2) any action taken by Employee in connection with Employee's duties hereunder, or any failure to act, if Employee acted or failed to act in good faith and in a manner Employee reasonably believed to be in and not opposed to the best interest of the Company and Employee had no reasonable cause to believe Employee's conduct was unlawful, or
- (3) termination of Employee's employment for overall unsatisfactory performance (including, but not limited to, failure to meet financial goals).

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

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

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

- (d) The Company will pay reasonable legal/attorney's fees (including court costs and other costs of litigation) incurred by Employee in connection with enforcement of any right or benefit under this Agreement.
- (e) The Company shall promptly pay Employee a gross-up bonus in an amount equal to (i) all excise taxes payable under Section 280G of the Internal Revenue Code on any amounts constituting "golden parachute" payments, plus (ii) any federal, state, and local income taxes and excise taxes (including FICA) payable by Employee on such gross-up bonus in order to put Employee in the same position Employee would have been in if the excise tax provision (Section 280G) did not apply.
- (f) The Company will continue to provide SKERP retirement benefits to Employee and Employee's spouse at no less than the level they are receiving or entitled to receive under the SKERP as it was in effect immediately prior to the Change in Control.

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

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

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

10. NOTICES. Any notice or other instrument or thing required or permitted to be given, served or delivered to any of the parties hereto shall be delivered personally or deposited in the United States mail, with proper postage prepaid, telegram, teletype, cable or facsimile transmission to the addresses listed below:

- (a) If to the Company, to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: Chairman

With a copy to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: General Counsel

- (b) If to Employee, to:

Philip C. Slapke  
10 Walnut Lane  
S. Barrington, IL 60010

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

11. NON-ASSIGNMENT.

- (a) The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of Employee, and any attempted unpermitted assignment shall be null and void and without further effect; provided, however, that, upon the sale or transfer of all or substantially all of the assets of the Company, or upon the merger by the Company into or the combination with another corporation or other business entity, or upon the liquidation or dissolution of the Company, this Agreement will inure to the benefit

of and be binding upon the person, firm or corporation purchasing such assets, or the corporation surviving such merger or consolidation, or the shareholder effecting such liquidation or dissolution, as the case may be. After any such transaction, the term Company in this Agreement shall refer to the entity which conducts the business now conducted by the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the estate and beneficiaries of Employee and upon and to the benefit of the permitted successors and assigns of the parties hereto.

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

12. SEVERABILITY. If any term, clause or provision contained herein is declared or held invalid by any court of competent jurisdiction, such declaration or holding shall not affect the validity of any other term, clause or provision herein contained.
13. CONSTRUCTION. Careful scrutiny has been given to this Agreement by the Company, Employee, and their respective legal counsel. Accordingly, the rule of construction that the ambiguities of the contract shall be resolved against the party which caused the contract to be drafted shall have no application in the construction or interpretation of this Agreement or any clause or provision hereof.
14. ENTIRE AGREEMENT. This Agreement as amended and restated herein and the other agreements referred to herein set forth the entire understanding of the parties and supersede all prior agreements, arrangements and communications, whether oral or written, pertaining to the subject matter hereof.
15. WAIVER. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing signed by Employee and an authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.
16. GOVERNING LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Illinois without regard to its conflicts of law principles.

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

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

Employer:

AAR CORP.

By: /s/ Howard A. Pulsifer

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Title: Vice President

Employee:

/s/ Philip C. Slapke

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Philip C. Slapke

AMENDED AND RESTATED  
SEVERANCE AND CHANGE IN CONTROL AGREEMENT

This Amended and Restated Severance and Change in Control Agreement ("Agreement") made and entered into as of the 11th day of April, 2000, by and between AAR CORP., a Delaware corporation ("Company"), and Howard A. Pulsifer ("Employee").

WHEREAS, the Company currently employs Employee as an employee at will in the capacity of Vice President, General Counsel and Secretary; and

WHEREAS, the Company and Employee entered into a Severance and Change in Control Agreement dated February 24, 1995 ("Agreement"); and

WHEREAS, the Company and Employee amended and restated the Agreement as of the 8th day of April, 1997, and further amended the Agreement as of the 14th day of July, 1998 ("Original Agreement"); and

WHEREAS, the Company and Employee desire to further amend the Agreement as herein set forth to reflect certain mutually agreed changes to the terms and conditions thereof; and

WHEREAS, for their mutual convenience, the Company and Employee desire to restate the Agreement, as so amended, in its entirety.

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

1. EMPLOYMENT. Employee will continue employment with the Company as an at will employee subject to the terms and conditions hereinafter set forth.
2. DUTIES. During the continuation of Employee's employment, Employee shall:
  - (a) well and faithfully serve the Company and do and perform assigned duties and responsibilities in the ordinary course of Employee's employment and the business of the Company (within such limits as the Company may from time to time prescribe), professionally, faithfully and diligently.
  - (b) devote Employee's full time, energy and skill to the business of the Company and Employee's assigned duties and responsibilities, and to the promotion of the best interests of the Company; provided that Employee shall not (to the extent not inconsistent with Section 5 below) be prevented from (a) serving as a director of any corporation consented to in advance in writing by the Company, (b) engaging in charitable, religious, civic or other non-profit community activities, or (c) investing his personal assets in such form or manner as will not require any substantial services on Employee's part in the operation or affairs of the business in which such

investments are made or which would detract from or interfere or cause a conflict of interest with performance of Employee's duties hereunder.

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

3. BENEFITS. Employee shall be entitled to participate, according to the eligibility provisions of each, in such welfare plans (including but not limited to medical, dental, life, accident and disability insurance programs), vacation, retirement plans and other fringe benefits as may be in effect from time to time and available to other officers of the Company during Employee's employment term. Employee shall also be entitled to participate in such additional executive fringe benefits as may be authorized from time to time by the President and Chief Executive Officer of the Company. Employee shall be eligible to participate in the Company's Supplemental Key Employee Retirement Plan as an executive level participant.

4. CONFIDENTIAL INFORMATION, ASSIGNMENT OF INVENTIONS.

- (a) Employee acknowledges that the trade secrets, confidential information, secret processes and know-how developed and acquired by AAR CORP. and its affiliates or subsidiaries (together the "Affiliated Companies") are among their most valuable assets and that the value of such information may be destroyed by unauthorized disclosure. All such trade secrets, confidential information, secret processes and know-how imparted to or learned by Employee in the course of his employment with respect to the business of the Affiliated Companies (whether acquired before or after the date hereof) will be deemed to be confidential and will not be used or disclosed by Employee, except to the extent necessary to perform Employee's duties and, in no event, disclosed to anyone outside the employ of the Affiliated Companies and their authorized consultants and advisors, unless (i) such information is or has been made generally available to the public, (ii) disclosure of such information is required by law in the opinion of Employee's counsel (provided that written notice thereof is given to Company as soon as possible but not less than 24 hours prior to such disclosure), or (iii) express written authorization to use or disclose such information has been given by the Company. If Employee ceases to be employed by the Company for any reason, Employee shall not take any electronically stored data, documents or other papers containing or reflecting trade secrets, confidential information, secret processes, know-how, or computer software programs from Company. Employee acknowledges that Employee's employment hereunder will place Employee in a position of utmost confidence and that Employee will have access to confidential information concerning the operation of the business of the Affiliated Companies, including, but not limited to, manufacturing methods, developments, secret processes, know-how, computer software programs, costs, prices and pricing methods, sources of supply and customer names and relations. All such information is in the nature of a trade secret and is the sole and exclusive property of the Affiliated Companies and shall be deemed confidential information for the purposes of this paragraph.



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

5. NON-COMPETE; SEVERANCE.

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

the legal or equitable holder, solely for investment purposes, of less than 5% of the capital stock of any publicly held corporation which may be in direct or indirect competition with the Company or any Affiliated Company.

- (b) The Company will pay Employee, upon termination of Employee's employment by the Company prior to a Change in Control (as defined in 7(c)(i) below) for any reason other than Cause (as defined in 7(c)(iv) below), severance each month for 12 months, in an amount (subject to applicable withholding) equal to 1/12 of Employee's base salary; and, further, if the Company pays discretionary bonuses to its officers for the fiscal year in which Employee's employment is terminated, Employee will be paid a bonus in a lump sum at the time any such bonuses are paid to other officers or at such time as the Severance Period is complete, whichever is later (with interest at prime rate plus one percentage point from the earlier of such dates), (1) for the completed fiscal year preceding termination if such bonus has not been paid prior to termination, and (2) for the fiscal year in which employment is terminated, prorata for the period prior to termination of employment based on Employee's performance during such period; provided, however, that (i) all such monthly payment obligations shall terminate immediately upon Employee obtaining full time employment in a comparable position in terms of salary level, and (ii) all such payment obligations shall terminate or lapse immediately upon any breach by Employee of Section 4 or 5(a) of this Agreement or if Employee shall commence any action or proceeding in any court or before any regulatory agency arising out of or in connection with termination of Employee's employment.
- (c) If Employee terminates Employee's employment or Employee's employment is terminated by the Company for Cause (as defined below), the Company may elect (but is not required to), by written notice thereof to Employee, within five (5) days of any such termination of Employee's employment with the Company prior to a Change in Control (as defined below), to pay Employee severance as provided in and subject to the provisions of subsection 5(b) above.
- (d) Employee may terminate this Severance and Change in Control Agreement effective immediately upon notice thereof in writing to Company at any time while still employed within a sixty (60) calendar day period immediately following the effective date of any reduction by Company in (i) Employee's level of responsibility or position from that held by Employee as Vice President, General Counsel and Secretary on the effective date of this Agreement, or (ii) Employee's level of compensation, including retirement benefits in effect immediately prior to any such change.
- (e) If at any time, any clause or portion of this Section 5 shall be deemed invalid or unenforceable by the laws of the jurisdiction in which it is to be enforced by reason of being vague or unreasonable as to duration, geographic scope, nature of activities restricted, or for any other reason, this provision shall be considered divisible as to such portions and the foregoing restrictions set forth in 5(a) shall become and be immediately amended to include only such duration, scope or restriction and such event as shall be deemed reasonable and enforceable by the court or other body having jurisdiction to enforce this Agreement; and the parties hereto agree that the

restrictions, as so amended, shall be valid and binding as though the invalid or unenforceable portion had not been involved herein.

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

6. TERMINATION OF EMPLOYMENT.

- (a) Upon and after termination of employment howsoever arising, Employee shall, upon request by Company:
- (1) immediately return to the Company all correspondence, documents, business calendars/diaries, or other property belonging to the Company which is in Employee's possession,
  - (2) immediately resign from any office Employee holds with the Company or any Affiliated Company; and
  - (3) cooperate fully and in good faith with the Company in the resolution of all matters Employee worked on or was involved in during Employee's employment with the Company. Employee's cooperation will include reasonable consultation by telephone. Further, in connection therewith, Employee will, at Company's request upon reasonable advance notice and subject to Employee's availability, make Employee available to Company in person at Company's premises, for testimony in court, or elsewhere; provided, however, that in such event, Company shall reimburse all Employee's reasonable expenses and pay Employee a reasonable per diem or hourly stipend.

7. CHANGE IN CONTROL.

- (a) In the event (i) a Change in Control of AAR CORP. occurs and (ii) (A) at any time during the 18 month period commencing on the date of the Change in Control the Company terminates Employee's employment for other than Cause or Disability, or Employee terminates Employee's employment for Good Reason, in either case by written notice to the other party (including the particulars thereof), and having given the other party the opportunity to be heard with respect thereto, or (B) Employee's employment with the Company terminates for any reason other than Disability or death during the 30 day period commencing on the expiration of the aforementioned 18 month period, then:
- (1) The Company shall promptly pay to Employee, in a lump sum, a cash payment in an amount equal to the sum of (A) all base salary earned through the date of termination, (B) any annual cash bonus earned by Employee for the fiscal year of the Company most recently ended prior to the date of

termination to the extent unpaid on the date of termination, (C) a prorata portion of the annual cash bonus, including the value of any restricted stock grant in lieu of annual cash bonus, Employee would have earned had Employee been employed by the Company on the last day of the fiscal year in which the date of termination occurs (as if all performance targets have been met or, in the event the bonus is of the "discretionary" type, the bonus shall be based on a percentage of base salary which is not less than percentage of base salary received as bonus for the preceding fiscal year) that is applicable to the period commencing on the first day of such fiscal year and ending on the date of termination, and (D) any and all other benefits and amounts earned by Employee prior to the date of termination to the extent unpaid, all subject to applicable withholding.

- (2) The Company shall promptly pay to Employee in a lump sum, a cash payment in an amount equal to three times Employee's total compensation (base salary plus annual cash bonus) for either the fiscal year of the Company most recently ended prior to the date of termination, or the preceding fiscal year, whichever is the highest total compensation, subject to applicable withholding. Employee may elect to take payment of any amounts on a schedule of Employee's own choosing; provided that such schedule shall be completed no later than three years from the date of Employee's termination of employment.
- (3) Employee and Employee's dependents shall continue to be covered by, and receive employee welfare and executive fringe benefits (including but not limited to medical, dental, life, accident and disability insurance available to officers of the Company and additional executive retirement and other fringe benefits approved by the President and CEO of the Company) in accordance with the terms of the Company's benefit plans and executive fringe benefit programs, for three years following the date of termination, and at no less than the levels Employee and Employee's dependents were receiving immediately prior to the Change in Control. Employee's dependents shall be entitled to continued benefits coverage pursuant to the preceding sentence for the balance of such three year period in the event of Employee's death during such period. The period during which Employee and Employee's dependents are entitled to continuation of group health plan coverage pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended, and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended, shall commence on the date next following the expiration of the aforementioned three year period.
- (4) Employee shall receive an additional retirement benefit, over and above that which Employee would normally be entitled to under the Company's retirement plans or programs applicable to Employee, equal to the actuarial equivalent of the additional amount that Employee would have earned under such retirement plans or programs had Employee accumulated three additional continuous years of service. Such amount shall be paid to Employee in a cash lump sum payment on the earlier to

occur of Employee's termination of employment following a Change in Control or Employee's Retirement Date, together with a gross-up bonus in an amount equal to any federal, state and local income taxes and excise taxes (including FICA and any similar taxes) payable by Employee on such lump sum payment and such gross-up bonus.

- (5) The Company, at its expense, shall provide Employee with outplacement services of a nationally recognized outplacement firm of the Employee's choosing until the earlier of (a) the Employee's attainment of employment, or (b) the date eighteen (18) months from the date of Employee's termination of employment; provided, however, that the cost of such outplacement services shall not exceed 3.5% of the cash payment due to Employee pursuant to subsection 7(a)(2) above.
  - (6) The amounts paid to Employee under this Change in Control provision applicable to Employee shall be considered severance pay in consideration of past service Employee has rendered to the Company and in consideration of Employee's continued service from the date hereof to entitlement of those payments.
- (b) In the event that a Change in Control occurs, whether or not such Change in Control has the prior written approval of a majority of the Continuing Directors (as defined in the AAR CORP. Stock Benefit Plan), and notwithstanding any conditions or restrictions related to any Award granted to Employee under the Plan, all Options or Limited Rights, or both, granted to Employee under the Plan will become immediately exercisable and remain exercisable for the full remaining life of the option whether or not Employee's employment continues, and all restrictions on Restricted Stock granted to Employee under the Plan will immediately lapse.
- (c) For purposes of this Agreement
- (i) "Change in Control" means the earliest of:
    - (1) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), has acquired (other than directly from the Company) beneficial ownership (as that term is defined in Rule 13d-3 under the Exchange Act), of more than 20% of the outstanding capital stock of the Company entitled to vote for the election of directors; or
    - (2) the effective time of (i) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or (ii) a transfer of substantially all of the assets of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or

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

(ii) "Good Reason" means:

- (1) a material reduction in the nature or scope of Employee's duties, responsibilities, authority, power or functions from those enjoyed by Employee immediately prior to the Change in Control, or a material reduction in Employee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control; or
- (2) if the incumbent in the position of President and CEO of the Company on August 8, 1997 is not the President and CEO of the Company at the time of termination, a good faith determination by Employee that as the result of a Change in Control and a material change in employment circumstances at any time during the immediate two year period after the Change in Control, Employee is unable to carry out Employee's assigned duties and responsibilities in a manner consistent with the practices, standards, values or philosophy of the Company immediately prior to the Change in Control; or
- (3) a relocation of the primary place of employment of at least 100 miles.

(iii) "Disability" means:

- (1) a physical or mental condition which has prevented Employee from substantially performing Employee's assigned duties for a period of 180 consecutive days and which is expected to continue to render Employee unable to substantially perform Employee's duties on a full-time basis and otherwise meets the benefit eligibility requirements of the Company's Long Term Disability Welfare Benefit Plan or any executive program in which Employee was a participant at the time of a Change in Control. The Company will make reasonable accommodation for any handicap of Employee as may be required by applicable law.

In the event of termination by the Company for Disability after a Change in Control, a good faith determination of the existence of a Disability shall be made by resolution of the Compensation Committee of the Board of Directors of the Company, in its sole discretion, setting forth the particulars of the Disability which shall be final and binding upon the Employee. The

Company may require the submission of such medical evidence as to the condition of the Employee as it may deem necessary in order to arrive at its determination of the occurrence of a Disability, and Employee will cooperate in providing any such information. Employee will be provided with reasonable opportunity to present additional medical evidence as to the medical condition of Employee for consideration prior to the Board making its determination of the occurrence of a Disability.

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

(iv) "Cause" means:

- (1) Employee engages, during the performance of Employee's duties hereunder, in acts or omissions constituting dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing or malfeasance;
- (2) Employee intentionally disobeys or disregards a lawful and proper direction of the Board or the Company; or
- (3) Employee materially breaches the Agreement and such breach by its nature, is incapable of being cured, or such breach remains uncured for more than 10 days following receipt by Employee of written notice from the Company specifying the nature of the breach and demanding the cure thereof. For purposes of this clause (3), a material breach of the Agreement that involves inattention by Employee to Employee's duties under the Agreement shall be deemed a breach capable of cure.

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

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

(2) any action taken by Employee in connection with Employee's duties hereunder, or any failure to act, if Employee acted or failed to act in good faith and in a manner Employee reasonably believed to be in and not opposed to the best interest of

the Company and Employee had no reasonable cause to believe Employee's conduct was unlawful; or

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

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

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

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

- (d) The Company will pay reasonable legal/attorney's fees (including court costs and other costs of litigation) incurred by Employee in connection with enforcement of any right or benefit under this Agreement.
- (e) The Company shall promptly pay Employee a gross-up bonus in an amount equal to (i) all excise taxes payable under Section 280G of the Internal Revenue Code on any amounts constituting "golden parachute" payments, plus (ii) any federal, state, and local income taxes and excise taxes (including FICA) payable by Employee on such gross-up bonus in order to put Employee in the same position Employee would have been in if the excise tax provision (Section 280G) did not apply.
- (f) The Company will continue to provide SKERP retirement benefits to Employee and Employee's spouse at no less than the level they are receiving or entitled to receive under the SKERP as it was in effect immediately prior to the Change in Control.

8. CHANGES IN BUSINESS. The Company, acting through its Board of Directors, will at all times have complete control over the Company's business and retirement and other employee health and welfare benefit plans ("Plans"). Without limiting the generality of the foregoing, the Company may at any time or times change or discontinue any or all of its present or future operations or Plans (subject to their terms), may close or move any one or more of its divisions or offices, may undertake any new servicing or sales operation, may sell any one



or more of its divisions or offices to any company not controlled, directly or indirectly, by the Company or may take any and all other steps which its Board of Directors, in its exclusive judgment, shall deem desirable, and Employee shall have no claim or recourse against the Company, its officers, directors or employees by reason of such action except for enforcement of the provisions of Sections 5 and 7 of this Agreement.

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

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

10. NOTICES. Any notice or other instrument or thing required or permitted to be given, served or delivered to any of the parties hereto shall be delivered personally or deposited in the United States mail, with proper postage prepaid, telegram, teletype, cable or facsimile transmission to the addresses listed below:

(a) If to the Company, to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: Chairman

With a copy to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: General Counsel

(b) If to Employee, to:

Howard A. Pulsifer  
630 Indian Way  
Barrington, IL 60010

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

11. NON-ASSIGNMENT.

- (a) The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of Employee, and any attempted unpermitted assignment shall be null and void and without further effect; provided, however, that, upon the sale or transfer of all or substantially all of the assets of the Company, or upon the merger by the Company into or the combination with another corporation or other business entity, or upon the liquidation or dissolution of the Company, this Agreement will inure to the benefit of and be binding upon the person, firm or corporation purchasing such assets, or the corporation surviving such merger or consolidation, or the shareholder effecting such liquidation or dissolution, as the case may be. After any such transaction, the term Company in this Agreement shall refer to the entity which conducts the business now conducted by the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the estate and beneficiaries of Employee and upon and to the benefit of the permitted successors and assigns of the parties hereto.
- (b) The Employee agrees on behalf of Employee, Employee's heirs, executors and administrators, and any other person or person claiming any benefit under Employee by virtue of this Agreement, that this Agreement and all rights, interests and benefits hereunder shall not be assigned, transferred, pledged or hypothecated in any way by the Employee or by any beneficiary, heir, executor, administrator or other person claiming under the Employee by virtue of this Agreement and shall not be subject to execution, attachment or similar process. Any attempted assigned, transfer, pledge or hypothecation or any other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provisions or the levy or any execution, attachment or similar process thereon shall be null and void and without further effect.

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

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

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

15. WAIVER. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing signed by Employee and an authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or

provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

- 16. GOVERNING LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Illinois without regard to its conflicts of law principles.
- 17. EXECUTION. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and which shall constitute but one and the same Agreement.

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

Employer:

AAR CORP.

/s/ David P. Storch

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By:

Title: President

Employee:

/s/ Howard A. Pulsifer

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Howard A. Pulsifer

AMENDED AND RESTATED  
SEVERANCE AND CHANGE IN CONTROL AGREEMENT

This Amended and Restated Severance and Change in Control Agreement ("Agreement") made and entered into as of the 11th day of April, 2000, by and between AAR CORP., a Delaware corporation ("Company"), and Timothy J. Romenesko ("Employee").

WHEREAS, the Company currently employs Employee as an employee at will in the capacity of Vice President-Chief Financial Officer; and

WHEREAS, the Company and Employee entered into a Severance and Change in Control Agreement dated February 24, 1995 ("Agreement"); and

WHEREAS, the Company and Employee amended and restated the Agreement as of the 8th day of April, 1997, and further amended the Agreement as of the 14th day of July, 1998 ("Original Agreement"); and

WHEREAS, the Company and Employee desire to further amend the Agreement as herein set forth to reflect certain mutually agreed changes to the terms and conditions thereof; and

WHEREAS, for their mutual convenience, the Company and Employee desire to restate the Agreement, as so amended, in its entirety.

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

1. EMPLOYMENT. Employee will continue employment with the Company as an at will employee subject to the terms and conditions hereinafter set forth.
2. DUTIES. During the continuation of Employee's employment, Employee shall:
  - (a) well and faithfully serve the Company and do and perform assigned duties and responsibilities in the ordinary course of Employee's employment and the business of the Company (within such limits as the Company may from time to time prescribe), professionally, faithfully and diligently.
  - (b) devote Employee's full time, energy and skill to the business of the Company and Employee's assigned duties and responsibilities, and to the promotion of the best interests of the Company; provided that Employee shall not (to the extent not inconsistent with Section 5 below) be prevented from (a) serving as a director of any corporation consented to in advance in writing by the Company, (b) engaging in charitable, religious, civic or other non-profit community activities, or (c) investing his personal assets in such form or manner as will not require any substantial services on Employee's part in the operation or affairs of the business in which such

investments are made or which would detract from or interfere or cause a conflict of interest with performance of Employee's duties hereunder.

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

3. BENEFITS. Employee shall be entitled to participate, according to the eligibility provisions of each, in such welfare plans (including but not limited to medical, dental, life, accident and disability insurance programs), vacation, retirement plans and other fringe benefits as may be in effect from time to time and available to other officers of the Company during Employee's employment term. Employee shall also be entitled to participate in such additional executive fringe benefits as may be authorized from time to time by the President and Chief Executive Officer of the Company. Employee shall be eligible to participate in the Company's Supplemental Key Employee Retirement Plan as an executive level participant.

4. CONFIDENTIAL INFORMATION, ASSIGNMENT OF INVENTIONS.

- (a) Employee acknowledges that the trade secrets, confidential information, secret processes and know-how developed and acquired by AAR CORP. and its affiliates or subsidiaries (together the "Affiliated Companies") are among their most valuable assets and that the value of such information may be destroyed by unauthorized disclosure. All such trade secrets, confidential information, secret processes and know-how imparted to or learned by Employee in the course of his employment with respect to the business of the Affiliated Companies (whether acquired before or after the date hereof) will be deemed to be confidential and will not be used or disclosed by Employee, except to the extent necessary to perform Employee's duties and, in no event, disclosed to anyone outside the employ of the Affiliated Companies and their authorized consultants and advisors, unless (i) such information is or has been made generally available to the public, (ii) disclosure of such information is required by law in the opinion of Employee's counsel (provided that written notice thereof is given to Company as soon as possible but not less than 24 hours prior to such disclosure), or (iii) express written authorization to use or disclose such information has been given by the Company. If Employee ceases to be employed by the Company for any reason, Employee shall not take any electronically stored data, documents or other papers containing or reflecting trade secrets, confidential information, secret processes, know-how, or computer software programs from Company. Employee acknowledges that Employee's employment hereunder will place Employee in a position of utmost confidence and that Employee will have access to confidential information concerning the operation of the business of the Affiliated Companies, including, but not limited to, manufacturing methods, developments, secret processes, know-how, computer software programs, costs, prices and pricing methods, sources of supply and customer names and relations. All such information is in the nature of a trade secret and is the sole and exclusive property of the Affiliated Companies and shall be deemed confidential information for the purposes of this paragraph.

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

5. NON-COMPETE; SEVERANCE.

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

the legal or equitable holder, solely for investment purposes, of less than 5% of the capital stock of any publicly held corporation which may be in direct or indirect competition with the Company or any Affiliated Company.

- (b) The Company will pay Employee, upon termination of Employee's employment by the Company prior to a Change in Control (as defined in 7(c)(i) below) for any reason other than Cause (as defined in 7(c)(iv) below), severance each month for 12 months, in an amount (subject to applicable withholding) equal to 1/12 of Employee's base salary; and, further, if the Company pays discretionary bonuses to its officers for the fiscal year in which Employee's employment is terminated, Employee will be paid a bonus in a lump sum at the time any such bonuses are paid to other officers or at such time as the Severance Period is complete, whichever is later (with interest at prime rate plus one percentage point from the earlier of such dates), (1) for the completed fiscal year preceding termination if such bonus has not been paid prior to termination, and (2) for the fiscal year in which employment is terminated, prorata for the period prior to termination of employment based on Employee's performance during such period; provided, however, that (i) all such monthly payment obligations shall terminate immediately upon Employee obtaining full time employment in a comparable position in terms of salary level, and (ii) all such payment obligations shall terminate or lapse immediately upon any breach by Employee of Section 4 or 5(a) of this Agreement or if Employee shall commence any action or proceeding in any court or before any regulatory agency arising out of or in connection with termination of Employee's employment.
- (c) If Employee terminates Employee's employment or Employee's employment is terminated by the Company for Cause (as defined below), the Company may elect (but is not required to), by written notice thereof to Employee, within five (5) days of any such termination of Employee's employment with the Company prior to a Change in Control (as defined below), to pay Employee severance as provided in and subject to the provisions of subsection 5(b) above.
- (d) Employee may terminate this Severance and Change in Control Agreement effective immediately upon notice thereof in writing to Company at any time while still employed within a sixty (60) calendar day period immediately following the effective date of any reduction by Company in (i) Employee's level of responsibility or position from that held by Employee as Timothy J. Romensko on the effective date of this Agreement, or (ii) Employee's level of compensation, including retirement benefits in effect immediately prior to any such change.
- (e) If at any time, any clause or portion of this Section 5 shall be deemed invalid or unenforceable by the laws of the jurisdiction in which it is to be enforced by reason of being vague or unreasonable as to duration, geographic scope, nature of activities restricted, or for any other reason, this provision shall be considered divisible as to such portions and the foregoing restrictions set forth in 5(a) shall become and be immediately amended to include only such duration, scope or restriction and such event as shall be deemed reasonable and enforceable by the court or other body having jurisdiction to enforce this Agreement; and the parties hereto agree that the

restrictions, as so amended, shall be valid and binding as though the invalid or unenforceable portion had not been involved herein.

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

6. TERMINATION OF EMPLOYMENT.

- (a) Upon and after termination of employment howsoever arising, Employee shall, upon request by Company:
- (1) immediately return to the Company all correspondence, documents, business calendars/diaries, or other property belonging to the Company which is in Employee's possession,
  - (2) immediately resign from any office Employee holds with the Company or any Affiliated Company; and
  - (3) cooperate fully and in good faith with the Company in the resolution of all matters Employee worked on or was involved in during Employee's employment with the Company. Employee's cooperation will include reasonable consultation by telephone. Further, in connection therewith, Employee will, at Company's request upon reasonable advance notice and subject to Employee's availability, make Employee available to Company in person at Company's premises, for testimony in court, or elsewhere; provided, however, that in such event, Company shall reimburse all Employee's reasonable expenses and pay Employee a reasonable per diem or hourly stipend.

7. CHANGE IN CONTROL.

- (a) In the event (i) a Change in Control of AAR CORP. occurs and (ii) (A) at any time during the 18 month period commencing on the date of the Change in Control the Company terminates Employee's employment for other than Cause or Disability, or Employee terminates Employee's employment for Good Reason, in either case by written notice to the other party (including the particulars thereof), and having given the other party the opportunity to be heard with respect thereto, or (B) Employee's employment with the Company terminates for any reason other than Disability or death during the 30 day period commencing on the expiration of the aforementioned 18 month period, then:
- (1) The Company shall promptly pay to Employee, in a lump sum, a cash payment in an amount equal to the sum of (A) all base salary earned through the date of termination, (B) any annual cash bonus earned by Employee for the fiscal year of the Company most recently ended prior to the date of



termination to the extent unpaid on the date of termination, (C) a prorata portion of the annual cash bonus, including the value of any restricted stock grant in lieu of annual cash bonus, Employee would have earned had Employee been employed by the Company on the last day of the fiscal year in which the date of termination occurs (as if all performance targets have been met or, in the event the bonus is of the "discretionary" type, the bonus shall be based on a percentage of base salary which is not less than percentage of base salary received as bonus for the preceding fiscal year) that is applicable to the period commencing on the first day of such fiscal year and ending on the date of termination, and (D) any and all other benefits and amounts earned by Employee prior to the date of termination to the extent unpaid, all subject to applicable withholding.

- (2) The Company shall promptly pay to Employee in a lump sum, a cash payment in an amount equal to three times Employee's total compensation (base salary plus annual cash bonus) for either the fiscal year of the Company most recently ended prior to the date of termination, or the preceding fiscal year, whichever is the highest total compensation, subject to applicable withholding. Employee may elect to take payment of any amounts on a schedule of Employee's own choosing; provided that such schedule shall be completed no later than three years from the date of Employee's termination of employment.
- (3) Employee and Employee's dependents shall continue to be covered by, and receive employee welfare and executive fringe benefits (including but not limited to medical, dental, life, accident and disability insurance available to officers of the Company and additional executive retirement and other fringe benefits approved by the President and CEO of the Company) in accordance with the terms of the Company's benefit plans and executive fringe benefit programs, for three years following the date of termination, and at no less than the levels Employee and Employee's dependents were receiving immediately prior to the Change in Control. Employee's dependents shall be entitled to continued benefits coverage pursuant to the preceding sentence for the balance of such three year period in the event of Employee's death during such period. The period during which Employee and Employee's dependents are entitled to continuation of group health plan coverage pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended, and Part 6 of Title I of the Employee Retirement Income Security Act of 1974, as amended, shall commence on the date next following the expiration of the aforementioned three year period.
- (4) Employee shall receive an additional retirement benefit, over and above that which Employee would normally be entitled to under the Company's retirement plans or programs applicable to Employee, equal to the actuarial equivalent of the additional amount that Employee would have earned under such retirement plans or programs had Employee accumulated three additional continuous years of service. Such amount shall be paid to Employee in a cash lump sum payment on the earlier to

occur of Employee's termination of employment following a Change in Control or Employee's Retirement Date, together with a gross-up bonus in an amount equal to any federal, state and local income taxes and excise taxes (including FICA and any similar taxes) payable by Employee on such lump sum payment and such gross-up bonus.

- (5) The Company, at its expense, shall provide Employee with outplacement services of a nationally recognized outplacement firm of the Employee's choosing until the earlier of (a) the Employee's attainment of employment, or (b) the date eighteen (18) months from the date of Employee's termination of employment; provided, however, that the cost of such outplacement services shall not exceed 3.5% of the cash payment due to Employee pursuant to subsection 7(a)(2) above.
  - (6) The amounts paid to Employee under this Change in Control provision applicable to Employee shall be considered severance pay in consideration of past service Employee has rendered to the Company and in consideration of Employee's continued service from the date hereof to entitlement of those payments.
- (b) In the event that a Change in Control occurs, whether or not such Change in Control has the prior written approval of a majority of the Continuing Directors (as defined in the AAR CORP. Stock Benefit Plan), and notwithstanding any conditions or restrictions related to any Award granted to Employee under the Plan, all Options or Limited Rights, or both, granted to Employee under the Plan will become immediately exercisable and remain exercisable for the full remaining life of the option whether or not Employee's employment continues, and all restrictions on Restricted Stock granted to Employee under the Plan will immediately lapse.
- (c) For purposes of this Agreement
- (i) "Change in Control" means the earliest of:
    - (1) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), has acquired (other than directly from the Company) beneficial ownership (as that term is defined in Rule 13d-3 under the Exchange Act), of more than 20% of the outstanding capital stock of the Company entitled to vote for the election of directors; or
    - (2) the effective time of (i) a merger or consolidation or other business combination of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such business combination hold less than 60% of the voting stock of the surviving or resulting corporation, or (ii) a transfer of substantially all of the assets of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or

- (3) the election over any period of time to the Board of Directors of the Company without the recommendation or approval of the incumbent Board of Directors of the Company, of the lesser of (i) three directors, or (ii) directors constituting a majority of the number of directors of the Company then in office.
- (ii) "Good Reason" means:
- (1) a material reduction in the nature or scope of Employee's duties, responsibilities, authority, power or functions from those enjoyed by Employee immediately prior to the Change in Control, or a material reduction in Employee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control; or
  - (2) if the incumbent in the position of President and CEO of the Company on August 8, 1997 is not the President and CEO of the Company at the time of termination, a good faith determination by Employee that as the result of a Change in Control and a material change in employment circumstances at any time during the immediate two year period after the Change in Control, Employee is unable to carry out Employee's assigned duties and responsibilities in a manner consistent with the practices, standards, values or philosophy of the Company immediately prior to the Change in Control; or
  - (3) a relocation of the primary place of employment of at least 100 miles.
- (iii) "Disability" means:
- (1) a physical or mental condition which has prevented Employee from substantially performing Employee's assigned duties for a period of 180 consecutive days and which is expected to continue to render Employee unable to substantially perform Employee's duties on a full-time basis and otherwise meets the benefit eligibility requirements of the Company's Long Term Disability Welfare Benefit Plan or any executive program in which Employee was a participant at the time of a Change in Control. The Company will make reasonable accommodation for any handicap of Employee as may be required by applicable law.

In the event of termination by the Company for Disability after a Change in Control, a good faith determination of the existence of a Disability shall be made by resolution of the Compensation Committee of the Board of Directors of the Company, in its sole discretion, setting forth the particulars of the Disability which shall be final and binding upon the Employee. The

Company may require the submission of such medical evidence as to the condition of the Employee as it may deem necessary in order to arrive at its determination of the occurrence of a Disability, and Employee will cooperate in providing any such information. Employee will be provided with reasonable opportunity to present additional medical evidence as to the medical condition of Employee for consideration prior to the Board making its determination of the occurrence of a Disability.

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

(iv) "Cause" means:

- (1) Employee engages, during the performance of Employee's duties hereunder, in acts or omissions constituting dishonesty, intentional breach of fiduciary obligation or intentional wrongdoing or malfeasance;
- (2) Employee intentionally disobeys or disregards a lawful and proper direction of the Board or the Company; or
- (3) Employee materially breaches the Agreement and such breach by its nature, is incapable of being cured, or such breach remains uncured for more than 10 days following receipt by Employee of written notice from the Company specifying the nature of the breach and demanding the cure thereof. For purposes of this clause (3), a material breach of the Agreement that involves inattention by Employee to Employee's duties under the Agreement shall be deemed a breach capable of cure.

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

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

(2) any action taken by Employee in connection with Employee's duties hereunder, or any failure to act, if Employee acted or failed to act in good faith and in a manner Employee reasonably believed to be in and not opposed to the best interest of

the Company and Employee had no reasonable cause to believe Employee's conduct was unlawful; or

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

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

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

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

- (d) The Company will pay reasonable legal/attorney's fees (including court costs and other costs of litigation) incurred by Employee in connection with enforcement of any right or benefit under this Agreement.
- (e) The Company shall promptly pay Employee a gross-up bonus in an amount equal to (i) all excise taxes payable under Section 280G of the Internal Revenue Code on any amounts constituting "golden parachute" payments, plus (ii) any federal, state, and local income taxes and excise taxes (including FICA) payable by Employee on such gross-up bonus in order to put Employee in the same position Employee would have been in if the excise tax provision (Section 280G) did not apply.
- (f) The Company will continue to provide SKERP retirement benefits to Employee and Employee's spouse at no less than the level they are receiving or entitled to receive under the SKERP as it was in effect immediately prior to the Change in Control.

8. CHANGES IN BUSINESS. The Company, acting through its Board of Directors, will at all times have complete control over the Company's business and retirement and other employee health and welfare benefit plans ("Plans"). Without limiting the generality of the foregoing, the Company may at any time or times change or discontinue any or all of its present or future operations or Plans (subject to their terms), may close or move any one or more of its divisions or offices, may undertake any new servicing or sales operation, may sell any one

or more of its divisions or offices to any company not controlled, directly or indirectly, by the Company or may take any and all other steps which its Board of Directors, in its exclusive judgment, shall deem desirable, and Employee shall have no claim or recourse against the Company, its officers, directors or employees by reason of such action except for enforcement of the provisions of Sections 5 and 7 of this Agreement.

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

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

10. NOTICES. Any notice or other instrument or thing required or permitted to be given, served or delivered to any of the parties hereto shall be delivered personally or deposited in the United States mail, with proper postage prepaid, telegram, teletype, cable or facsimile transmission to the addresses listed below:

- (a) If to the Company, to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: Chairman

With a copy to:

AAR CORP.  
1100 N. Wood Dale Road  
Wood Dale, Illinois 60191  
Attention: General Counsel

- (b) If to Employee, to:

Timothy J. Romenesko  
515 Lake Shore Drive North  
Barrington, IL 60010

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

11. NON-ASSIGNMENT.

- (a) The Company shall not assign this Agreement or any rights or obligations hereunder without the prior written consent of Employee, and any attempted unpermitted assignment shall be null and void and without further effect; provided, however, that, upon the sale or transfer of all or substantially all of the assets of the Company, or upon the merger by the Company into or the combination with another corporation or other business entity, or upon the liquidation or dissolution of the Company, this Agreement will inure to the benefit of and be binding upon the person, firm or corporation purchasing such assets, or the corporation surviving such merger or consolidation, or the shareholder effecting such liquidation or dissolution, as the case may be. After any such transaction, the term Company in this Agreement shall refer to the entity which conducts the business now conducted by the Company. The provisions of this Agreement shall be binding upon and inure to the benefit of the estate and beneficiaries of Employee and upon and to the benefit of the permitted successors and assigns of the parties hereto.
- (b) The Employee agrees on behalf of Employee, Employee's heirs, executors and administrators, and any other person or person claiming any benefit under Employee by virtue of this Agreement, that this Agreement and all rights, interests and benefits hereunder shall not be assigned, transferred, pledged or hypothecated in any way by the Employee or by any beneficiary, heir, executor, administrator or other person claiming under the Employee by virtue of this Agreement and shall not be subject to execution, attachment or similar process. Any attempted assigned, transfer, pledge or hypothecation or any other disposition of this Agreement or of such rights, interests and benefits contrary to the foregoing provisions or the levy or any execution, attachment or similar process thereon shall be null and void and without further effect.

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

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

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

15. WAIVER. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing signed by Employee and an authorized officer of the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or

provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

- 16. GOVERNING LAW. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Illinois without regard to its conflicts of law principles.
- 17. EXECUTION. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and which shall constitute but one and the same Agreement.

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

Employer:

AAR CORP.

/s/ Howard A. Pulsifer

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By:

Title: Vice President

Employee:

/s/ Timothy J. Romenesko

-----  
Timothy J. Romenesko



COMPOSITE\* OF

AAR CORP.  
NONEMPLOYEE DIRECTORS' DEFERRED COMPENSATION PLAN

AS AMENDED AND RESTATED EFFECTIVE APRIL 8, 1997

\*includes Amendment No. 1

AAR CORP.  
NONEMPLOYEE DIRECTORS' DEFERRED COMPENSATION PLAN  
AS AMENDED AND RESTATED EFFECTIVE APRIL 8, 1997

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AAR CORP.  
NONEMPLOYEE DIRECTORS' DEFERRED COMPENSATION PLAN

AS AMENDED AND RESTATED EFFECTIVE APRIL 8, 1997

SECTION I - INTRODUCTION

Effective January 1, 1996 AAR CORP. ("Company") established the Nonemployee Directors' Deferred Compensation Plan ("Plan") for members of its Board of Directors ("Board"), who are not employees of the Company or an affiliate ("Nonemployee Directors"). The Plan is amended and restated, effective April 8, 1997, as set forth below:

SECTION II - PLAN PARTICIPANTS

Each Nonemployee Director shall become a Participant under the Plan by filing the written Election Form described in Section III below with the Plan Administrator appointed by the Compensation Committee of the Board ("Committee") with respect to the Retainers and Meeting Fees payable to the Nonemployee Director for his services as a member of the Board.

SECTION III - DEFERRAL ELECTIONS

(a) Each Participant shall make the following election with respect to his Retainer:

(i) The Participant may elect to defer receipt of his entire Retainer until the date on which his service on the Board terminates for any reason, and have the cash value of such Retainer credited to the Stock Unit Account established for him under the Plan and converted to Stock Units, pursuant to the provisions of paragraph (a) of Section IV below; or

(ii) If an election is not made pursuant to clause (i) above, a Participant shall

receive distribution of a number of shares of common stock of AAR CORP. ("Common Stock") equal to the cash value of each quarterly payment of his Retainer divided by the Fair Market Value (as defined in paragraph (b) of Section VIII) of a share of Common Stock on the date on which such quarterly payment of such Retainer is payable. Such distribution shall be evidenced by a certificate representing the applicable number of shares of Common Stock, registered in the name of the Participant, and distributed to the Participant as soon as practicable after the date on which each quarterly payment of such Retainer is payable.

(b) Each Participant shall elect (i) to have his entire Meeting Fee paid to him in cash as soon as practicable after the date on which such Meeting Fee is otherwise payable, or (ii) to defer receipt of his entire Meeting Fee until the date on which his service on the Board terminates for any reason, and have the cash value of such Meeting Fee credited to the Cash Account established for him under the Plan pursuant to the provisions of paragraph (b) of Section IV below.

(c) Each election with respect to a Retainer and Meeting Fee for a calendar year shall be set forth on an Election Form provided by the Plan Administrator. Such Election Form shall be in writing and shall specify the elections described above with respect to Retainers and Meeting Fees.

(d) An Election Form effective for a calendar year shall be delivered to the Plan Administrator prior to the first day of such calendar year. An Election Form shall remain in effect for subsequent calendar years until a written notice to revise the Election Form is delivered to the Plan Administrator on or before the first day of the calendar year in which the revision is

to become effective. Except as provided in paragraph (e) below, an initial Election Form or a revised Election Form shall only apply to a Retainer or Meeting Fee otherwise payable to a Participant after the end of the calendar year in which such initial or revised Election Form is delivered to the Plan Administrator. Any Election Form delivered by a Participant shall be irrevocable with respect to any Retainer or Meeting Fee covered by the elections set forth therein. If an Election Form is not in effect for a Nonemployee Director for a calendar year, he shall be deemed to have elected the options specified in clause (i) of paragraphs (a) and (b) of this Section for such calendar year.

(e) Notwithstanding the preceding provisions of this Section:

(i) An election by a Participant with respect to a Retainer or Meeting Fee payable on or after April 8, 1997 may be made pursuant to an Election Form delivered to the Plan Administrator prior to April 8, 1997; and

(ii) An election made by a Participant in the calendar year in which he first becomes eligible to participate in the Plan may be made pursuant to an Election Form delivered to the Plan Administrator within 30 days after the date on which he initially becomes eligible to participate, and such Election Form shall be effective with respect to Retainers and Meeting Fees earned from and after the date such Election Form is delivered to the Plan Administrator.

(f) All Retainers and Meeting Fees deferred by a Participant pursuant to the provisions of the Plan prior to April 8, 1997, shall be credited to the Cash Account established for the Participant under the Plan.

SECTION IV - PARTICIPANT ACCOUNTS

(a) (i) A Retainer of a Participant deferred pursuant to clause (i) of paragraph (a) of Section III shall be credited as a dollar amount to the Participant's Stock Unit Account as of the quarterly date on which each quarterly payment of such Retainer otherwise would have been paid, and shall be converted as of such date into Stock Units equivalent to Common Stock. Such conversion shall be determined by dividing the dollar balance of the quarterly payment of such Retainer by the Fair Market Value of a share of Common Stock on such quarterly date. The number of Stock Units for full shares of Common Stock so determined shall be credited to the Participant's Stock Unit Account and the aggregate value thereof shall be charged to the cash balance of his Stock Unit Account. Any cash balance remaining in the Participant's Stock Unit Account after such conversion, together with other subsequent credits of deferred Retainers thereto and credits thereto pursuant to clause (ii) next below, shall be converted into Stock Units on the next quarterly conversion date.

(ii) Additional credits shall be made to a Participant's Stock Unit Account in dollar amounts equal to the cash dividends (or the fair market value of dividends paid in property other than Common Stock) that the Participant would have received had he been the owner on each record date of a number of shares of Common Stock equal to the number of Stock Units in his Stock Unit Account on such date. In the case of a dividend in Common Stock or a Common Stock split, additional credits will be made to a Participant's Stock Unit Account of a number of Stock Units equal to the number of full shares of Common Stock that the Participant would have received had he been the owner on each record date of a number of shares of Common Stock equal to the number of Stock Units in his Stock Unit Account on such date. Any cash dividends

(or dividends paid in property other than Common Stock) shall be converted into Stock Units at the next quarterly conversion date as set forth in clause (i) of this paragraph.

(b) A Meeting Fee of a Participant deferred pursuant to clause (ii) of paragraph (b) of Section III shall be credited to the Participant's Cash Account as of the date it would otherwise have been paid. Until the entire balance of a Cash Account has been paid to the Participant, or to the beneficiaries of a deceased Participant, such balance shall be increased on the last day of each calendar quarter to reflect accrued interest on such balance based on the 10 year United States Treasury Bond rate at the end of the applicable calendar quarter. The Committee may, from time to time, change prospectively the interest rate applied with respect to Participants' Cash Balance Accounts.

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

#### SECTION V - DISTRIBUTION OF ACCOUNTS

(a) The entire balance of a Participant's Stock Unit Account and of his Cash Account shall be paid to him (or to his beneficiaries in the event of his death) in a single lump sum as of the January 31 next following the date the Participant's service on the Board terminates for any reason.

(b) The balance of a Participant's Stock Unit Account shall be distributed in shares of Common Stock or in cash as designated by the Participant (or his beneficiaries in the event of his

death) by written notice delivered to the Plan Administrator prior to the applicable January 31 distribution date. If a timely designation is not received by the Plan Administrator, distribution shall be made in cash or in Common Stock as the Company shall decide. In the event of a distribution in Common Stock, a certificate representing a number of shares of Common Stock equal to the number of Stock Units in the Participant's Stock Unit Account, registered in the name of the Participant (or his beneficiaries), and any remaining cash in the Stock Unit Account, shall be distributed to the Participant (or his beneficiaries). In the event of a cash distribution, the Participant (or his beneficiaries) shall receive an amount in cash equal to the aggregate of (i) the number of Stock Units in the Stock Unit Account multiplied by the Fair Market Value of a share of Common Stock on the applicable January 31, and (ii) any remaining cash in the Stock Unit Account.

(c) The balance of a Participant's Cash Account shall be distributed to the Participant (or his beneficiaries) in cash on the applicable January 31 distribution date.

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

(e) In the written discretion of the Plan Administrator, and at the written request of a Participant, up to 100% of the balance in his Stock Unit Account and in his Cash Account,



determined as of the last day of the calendar month prior to the date of distribution, may be distributed to a Participant in a lump sum in the case of an Unforeseeable Emergency, subject to the limitations set forth below. For purposes of this paragraph an Unforeseeable Emergency is a severe financial hardship of the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Internal Revenue Code) of the Participant, loss of the Participant's property due to casualty or other similar, extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. The circumstances that will constitute an Unforeseeable Emergency will depend upon the facts of each case, as determined by the Plan Administrator in its discretion, but in any case payment may not be made to the extent that such hardship is or may be relieved:

- (i) through reimbursement or compensation by insurance or otherwise;
- (ii) by liquidation of the Participant's assets to the extent the liquidation of such assets would not itself cause severe financial hardship; or
- (iii) by cessation of deferrals under the Plan.

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

(f) Notwithstanding any other provisions of the Plan, the entire balance of each Participant's Stock Unit Account and Cash Account shall be distributed to such Participant on the earlier to occur of (1) within 10 days after the date the Board, in its discretion, deems a Change in Control of the Company likely to occur, and (2) the date a Change in Control actually occurs. Distribution of each Participant's Cash Account shall be made in cash. Distribution of each Participant's Stock Unit Account shall be made in shares of Common Stock or in cash as

designated by the Participant (or his beneficiaries in the event of his death) pursuant to the procedures set forth in paragraph (b) of this Section V; provided that the references to "the applicable January 31" in paragraph (b) shall be references to the date set forth in this paragraph for distribution of the Participant's Stock Unit Account. For purposes of this paragraph (f), the definition of a Change in Control of the Company shall be the same as that found in the AAR CORP. Stock Benefit Plan, as amended and restated from time to time.

SECTION VI - ADMINISTRATION OF THE PLAN

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

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

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

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

(b) Any Participant claiming a benefit, requesting an interpretation or ruling, or

requesting information, under the Plan, shall present the request in writing to the Plan Administrator, which shall respond in writing as soon as practicable. If the claim or request is denied, the written notice of denial shall state the following:

- (i) The reasons for denial, with specific reference to the Plan provisions upon which the denial is based;
- (ii) A description of any additional material or information required and an explanation of why it is necessary; and
- (iii) An explanation of the Plan's review procedure.

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

SECTION VII - AMENDMENT OR TERMINATION

(a) The Company intends the Plan to be permanent but reserves the right to amend or terminate the Plan when, in the sole opinion of the Company, such amendment or termination is advisable. Any such amendment or termination shall be made pursuant to a resolution of the Board and shall be effective as of the date of such resolution or such later date as the resolution may expressly state.

(b) No amendment or termination of the Plan shall (i) directly or indirectly deprive any current or former Participant or his beneficiaries of all or any portion of his Accounts as determined as of the effective date of such amendment or termination, or (ii) directly or indirectly reduce the balance of any Account held hereunder as of the effective date of such amendment or termination. Upon termination of the Plan, distribution of balances in all Accounts shall be made to Participants or their beneficiaries in the manner and at the time described in Section V as if each Participant's service on the Board had then terminated. No additional deferred Retainers or Meeting Fees shall be credited to the Accounts of Participants after termination of the Plan, but the Company shall continue to credit earnings, gains and losses to Accounts pursuant to Section IV until the balances of such Accounts have been fully distributed to Participants or their beneficiaries.

SECTION VIII - GENERAL PROVISIONS

(a) The Plan at all times shall be entirely unfunded and no provision shall at any time be made with respect to segregating any assets of the Company for payment of any benefits hereunder. The right of a Participant or his beneficiary to receive a benefit hereunder shall be an

unsecured claim against the general assets of the Company, and neither the Participant nor a beneficiary shall have any rights in or against any specific assets of the Company. All amounts credited to Accounts shall constitute general assets of the Company.

(b) For all purposes of the Plan, the Fair Market Value of a share of Common Stock as of a given date shall be the closing price per share of the Common Stock on the New York Stock Exchange on such date, or if such date is not a regular trading date on such Exchange, on the next following regular trading date.

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

(d) Nothing contained in the Plan shall constitute a guaranty by the Company, the Committee, the Plan Administrator, or any other person or entity, that the assets of the Company will be sufficient to pay any benefit hereunder. No Participant or beneficiary shall have any right to receive a distribution under the Plan except in accordance with the terms of the Plan.

(e) Establishment of the Plan shall not be construed to give any Participant the right to be retained as a member of the Board.

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

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

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

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

(j) Each Participant or beneficiary shall keep the Plan Administrator informed of his current address. The Plan Administrator shall not be obligated to search for the whereabouts of any person. If the location of a Participant is not made known to the Plan Administrator within three years after the date on which payment of the Participant's benefits under the Plan may first be made, payment may be made as though the Participant had died at the end of the three year period. If, within one additional year after such three year period has elapsed, or, within three years after the actual death of a Participant, the Plan Administrator is unable to locate any beneficiary of the Participant, then the Company shall have no further obligation to pay any

benefit hereunder to such Participant, or beneficiary or any other person and such benefit shall be forfeited. If such Participant, or his beneficiary or any other person, subsequently makes a valid claim for distribution of the amount forfeited, such amount, without gains or earnings thereon, shall be distributed to such Participant or his beneficiary or such other person pursuant to Section V.

(k) Notwithstanding any of the preceding provisions of the Plan, none of the Company, any member of the Committee, any Plan Administrator or any individual acting as an employee or agent of the Company, the Committee or the Plan Administrator, shall be liable to any Participant, former Participant, or any beneficiary or other person for any claim, loss, liability or expense incurred by such Participant, or beneficiary or other person in connection with the Plan.

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

(m) Notwithstanding anything to the contrary contained in the Plan, (a) if the Internal Revenue Service prevails in a claim by it that amounts credited to a Participant's Account, and/or earnings thereon, constitute taxable income to the Participant or his beneficiary for any taxable

year of his, prior to the taxable year in which such credits and/or earnings are distributed to him or (b) legal counsel satisfactory to the Company, and the applicable Participant or his beneficiary, renders an opinion that the Internal Revenue Service would likely prevail in such a claim, the balance of such Participant's Account shall be immediately distributed to the Participant or his beneficiary. For purposes of this paragraph, the Internal Revenue Service shall be deemed to have prevailed in a claim if such claim is upheld by a court of final jurisdiction, or if the Company, or a Participant or beneficiary, based upon an opinion of legal counsel satisfactory to the Company and the Participant or his beneficiary, fails to appeal a decision of the Internal Revenue Service, or a court of applicable jurisdiction, with respect to such claim, to an appropriate Internal Revenue Service appeals authority or to a court of higher jurisdiction, within the appropriate time period.

(n) The Company shall withhold from any deferred or nondeferred Retainer or Meeting Fee, or any payments made pursuant to Section V, any amounts required by applicable federal, state and local tax laws and regulations thereunder. A Participant may pay any applicable taxes due with respect to any shares of Common Stock distributed under the Plan in cash or in Common Stock, either by having the Company withhold a portion of the shares of Common Stock otherwise distributable, or by delivering to the Company shares of Common Stock otherwise owned by the Participant.

(o) Any notice under the Plan shall be in writing, or by electronic means, and shall be received when actually delivered, or mailed postage paid as first class U.S. Mail. Notices shall be directed to the Company at its principal business office at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191, to a Nonemployee Director at the address stated in his



Election Form, and to a beneficiary entitled to benefits at the address stated in the Participant's beneficiary designation, or to such other addresses any party may specify by notice to the other parties.

IN WITNESS WHEREOF, this amendment and restatement of the Plan has been executed on behalf of the Company on this 9th day of April, 1997.

AAR CORP.

By: /s/ Ira A. Eichner

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Ira A. Eichner, Chairman of the Board

SUBSIDIARIES OF AAR CORP. (1)

Name of Corporation -----	State of ----- Incorporation -----
AAR Aircraft Services, Inc. (2).....	Oklahoma
AAR Airframe & Accessories Group, Inc. (3).....	Illinois
AAR Allen Services, Inc. (4).....	Illinois
AAR Aircraft & Engine Group, Inc. (5).....	Illinois
AAR Engine Services, Inc. (6).....	Illinois
AAR Financial Services Corp.....	Illinois
AAR International, Inc. (7).....	Illinois
AAR Manufacturing Group, Inc. (8).....	Illinois

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- (1) Subsidiaries required to be listed pursuant to Regulation S-K Item 601(b)(21).
  - (2) Formerly know as AAR Aircraft Group, Inc.
  - (3) Also does business under the names AAR Allen Aircraft, AAR Distribution, AAR Expendables, and AAR Defense Systems. Formerly known as AAR Allen Group, Inc.
  - (4) Also does business under the names AAR Landing Gear, AAR Component Services, and Mars Aircraft Radio.
  - (5) Also does business under the names AAR Aircraft Turbine Center, AAR Aircraft Sales and Leasing, and AAR Engine Sales & Leasing. Formerly known as AAR Engine Group, Inc.
  - (6) Also does business under the name AAR Engine Component Services and AAR Energy Services.
  - (7) Also does business under the names AAR Distribution, AAR Aircraft Component Services, AAR Engine Group International, and AAR Allen Group International.
  - (8) Also does business under the names AAR Cargo Systems, AAR Cadillac Manufacturing, AAR Composites, AAR Craig Systems, and AAR Skydyne. AAR Manufacturing Group, Inc. was formerly known as AAR Brooks & Perkins Corp.

CONSENT OF KPMG LLP

The Board of Directors  
AAR CORP.:

We consent to the incorporation by reference in Registration Statements Nos. 33-19767, 333-95433, 333-71067, 333-44693, 333-38671, 33-26783, 033-38042, 33-43839, 33-58456, 333-56023, 33-57753, 333-15327, 333-22175, 333-26093, 333-00205 and 002-002-95635 on Form S-8 and in Registration Statement No. 333-52853 on Form S-3 of AAR CORP. of our report dated June 27, 2000 relating to the consolidated balance sheets of AAR CORP. and subsidiaries as of May 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended May 31, 2000, which report appears in the May 31, 2000 annual report on Form 10-K of AAR CORP.

KPMG LLP

Chicago, Illinois  
August 18, 2000



THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE REGISTRANT'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED MAY 31, 2000 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

YEAR	
MAY-31-2000	
JUN-01-1999	
MAY-31-2000	1,241
	0
	138,428
	10,080
	275,817
	511,267
	202,597
	92,594
	740,998
163,816	180,447
0	0
	29,168
	310,347
740,998	1,024,333
	1,024,333
	851,480
	953,675
	0
	5,470
21,132	49,526
	14,363
35,163	0
	0
	0
	35,163
	1.30
	1.28

PROVISION FOR DOUBTFUL ACCOUNTS IS INCLUDED IN TOTAL COSTS AND EXPENSES  
INTEREST EXPENSE IS PRESENTED NET OF \$2,299 OF INTEREST INCOME