AAR CORP
Form DEF 14A
August 29, 2008

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

SCHEDULE 14A

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

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to §240.14a-12

AAR CORP.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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  (3) Filing Party:

  (4) Date Filed:

One AAR Place
1100 N. Wood Dale Road
Wood Dale, IL 60191

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, OCTOBER 8, 2008

The Annual Meeting of Stockholders of AAR CORP. for the year 2008 will be held at AAR CORP.'s headquarters, One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois, on Wednesday, October 8, 2008, at 9:00 A.M. (Chicago time). At the meeting, stockholders will be asked to:

Elect four Class III directors to serve until the 2011 Annual Meeting of Stockholders;

Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2009; and

Transact any other business that may properly come before the 2008 Annual Meeting or any adjournment or postponement of the meeting.

By Order of the Board of Directors

Howard A. Pulsifer
Secretary

August 29, 2008

Your vote is important. We hope that you will attend the Annual Meeting in person, but even if you plan to attend, we strongly encourage you to vote your shares as soon as possible, by completing and returning the enclosed proxy card in the postage-paid envelope provided. You also may vote your shares by telephone or through the Internet, or by attending the Annual Meeting and voting in person.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on October 8, 2008: Copies of this Notice and Proxy Statement and the Company's 2008 Annual Report to Stockholders (including the Annual Report on Form 10-K for the fiscal year ended May 31, 2008) are available free of charge at www.edocumentview.com/AIR.

2008 Annual Meeting of Stockholders

PROXY STATEMENT

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One AAR Place
1100 N. Wood Dale Road
Wood Dale, Illinois 60191

2008 Annual Meeting of Stockholders

PROXY STATEMENT

I. VOTING INFORMATION

This Proxy Statement and the enclosed proxy card were mailed to stockholders beginning on or about August 29, 2008, in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 2008 Annual Meeting.

Who is entitled to vote?

If you were a stockholder of record (i.e., you held your shares in your own name rather than through a broker, bank or other nominee) on August 18, 2008, the Company's record date, you may vote your shares at the Annual Meeting. If you were a street-name stockholder (i.e., you held your shares through a broker, bank or other nominee) on that date, you are considered a "beneficial owner" of the stock. To vote those shares at the Annual Meeting, you must give voting instructions to your broker, bank or other intermediary who is the "nominee holder" of your shares. The Company has directed brokers, banks and other nominee holders to obtain voting instructions from their beneficial owners. Proxies submitted by nominee holders on behalf of beneficial owners will count toward a quorum and will be voted as instructed by the nominee holder. You will receive additional instructions from your broker, bank or other nominee explaining how you may vote your shares held in street name. A list of registered stockholders entitled to vote will be available at the Company's offices, 1100 N. Wood Dale Road, Wood Dale, Illinois, for 10 days prior to the meeting and at the meeting location during the meeting.

On the record date, 38,687,696 shares of common stock of the Company ("Common Stock") were outstanding. You will have one vote on each matter to be voted on for each share of Common Stock you owned on the record date.

How do stockholders vote by proxy or in person?

If you owned Common Stock of the Company at the close of business on the record date, August 18, 2008, you may vote at the Annual Meeting by completing, signing, dating and returning your proxy card in the postage-paid, addressed envelope provided, by submitting your proxy by telephone or through the Internet or by voting in person at the Annual Meeting.

How do stockholders vote by telephone or through the Internet?

You are encouraged to vote either by telephone or through the Internet. This will eliminate the need to sign, date and return your proxy card. You can vote by telephone or through the Internet 24 hours a day, seven days a week, until 1:00 a.m. (central time) on the day prior to the Annual Meeting. Specific instructions for using the telephone and Internet voting methods are set forth on the proxy card. If you vote by telephone or through the Internet, please do not return your proxy card.

How does a stockholder revoke a proxy?

You may revoke your proxy at any time before it is exercised, but only by:

- sending a written notice of revocation to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement,
- voting in person at the Annual Meeting,
- submitting another proxy by telephone or through the Internet, or
- delivering a later dated, signed proxy.

How will proxy holders vote shares?

Proxies will be voted in accordance with instructions on the proxy. If no instructions are specified, the proxy will be voted *FOR* the election of the nominees for Class Ill director designated by the Board, *FOR* the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm, and upon any other matter that may properly come before the Annual Meeting in the discretion and best judgment of the named proxy holders. If any director nominee becomes unavailable for election for any reason prior to the Annual Meeting vote, the Board may reduce the number of directors to be elected or substitute another person as nominee, and the named proxy holders will vote for the substitute nominee.

How will votes be counted?

All votes cast in person or by proxy will be tabulated by the inspectors of election appointed for the Annual Meeting. A majority of the outstanding shares of Common Stock entitled to vote, present in person or represented by proxy at the Annual Meeting, will constitute a quorum. The inspectors of election will treat directions to withhold authority, abstentions and broker non-votes (i.e., where a nominee holding shares for a beneficial owner has not received voting instructions from the beneficial owner with respect to a particular matter and such nominee does not possess or choose to exercise his discretionary authority with respect to such matter) as shares that are present for purposes of determining a quorum. Directions to withhold authority will have no effect on the election of directors, because directors are elected by a plurality of votes cast. Abstentions and broker non-votes will be disregarded for purposes of determining whether a matter has been approved because they are not considered votes cast. It is not anticipated that there will be any broker non-votes on the election of directors or the ratification of the appointment of KPMG LLP since brokers will have discretion to vote on these proposals even if they do not receive voting instructions from their beneficial owners.

Who is the Company's proxy solicitor?

The Company has engaged D. F. King & Co., 48 Wall Street, New York, New York, to assist the Company in soliciting proxies at a total estimated cost of $10,500, plus reasonable out-of-pocket expenses. The cost of soliciting proxies will be paid by the Company. D. F. King & Co. may solicit proxies by mail, telephone, facsimile, e-mail, or in person. Certain officers, directors and employees of the Company may also solicit proxies for no additional compensation.

II. PROPOSAL 1 ELECTION OF DIRECTORS

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

The Board of Directors has nominated four directors to be elected in Class III at the Annual Meeting, each to serve a three-year term expiring at the 2011 Annual Meeting or until the individual is succeeded by another qualified director who has been duly elected.

The nominees for director in Class III this year are Ronald R. Fogleman, Patrick J. Kelly, Timothy J. Romenesko, and Ronald B. Woodard.

Information about the nominees and continuing directors whose terms expire in future years is set forth in Section lIl below.

Each nominee is currently serving as a director of the Company and each nominee has been determined by the Board to be "independent" within the meaning of the New York Stock Exchange ("NYSE") rules, except Mr. Romenesko. Under Delaware law and the Company's By-Laws, the four nominees for director who individually receive the greatest number of votes shall be elected directors of the Company.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR ALL NOMINEES.

III. INFORMATION ABOUT THE NOMINEES AND CONTINUING DIRECTORS

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

	Director Since
NOMINEES FOR TERMS EXPIRING IN 2011	
Class III Directors whose terms expire at the 2008 Annual Meeting:	
RONALD R. FOGLEMAN, 66: Since 1997, President and Chief Operating Officer of B Bar J Cattle Company (a consulting company) and Chairman of the Durango Group, LLC (a consulting and business development company). From 1994 to 1997, General, Chief of Staff, Headquarters United States Air Force, Washington, D.C. Other directorships: Alliant Techsystems, Inc. and Alpha Security Group Corp.	2001
PATRICK J. KELLY, 53: Since 1980, Chief Executive Officer of Resource One (a provider of computer programming services). Since 1986, Managing Director of KMK & Associates, LLC (a private equity firm with interests in companies operating in the distribution, technology, food, real estate and financial services industries).	2006
TIMOTHY J. ROMENESKO, 51: Since June 2007, President and Chief Operating Officer of AAR. From 1994 to 2007, Vice President, Chief Financial Officer and Treasurer of AAR. From 1991 to 1994, Corporate Controller of AAR.	2007
RONALD B. WOODARD, 65: Since 2003, Chairman of MagnaDrive, Inc. (an industrial torque transfer equipment company, which he co-founded following his retirement from The Boeing Company after 32 years). From 1995 to 1998, President of the Boeing Commercial Airplane Group. From 1991 to 1994, Vice President and General Manager of the Renton Division of Boeing Commercial Aircraft. From 1987 to 1991, President of deHavilland Aircraft. Prior to that, Vice President and General Manager of the Materiel Division of Boeing Commercial Aircraft, and various other management positions. Other directorships: Coinstar Inc. and Continental Airlines, Inc.	2004
CONTINUING DIRECTORS:	
Class I Directors whose terms expire at the 2009 Annual Meeting:	
MICHAEL R. BOYCE, 60: Since 2005, Chairman and Chief Executive Officer of PQ Corporation (an industrial chemicals company). Since 1998, Chairman and Chief Executive Officer of Peak Investments (an operating and acquisition company). From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc.	2005
JAMES G. BROCKSMITH, JR., 67: Since 1996, an independent business consultant. From 1990 to 1996, Deputy Chairman, and Chief Operating Officer of KPMG Peat Marwick, where he retired after 31 years. Other directorships: Alberto-Culver Company, Nationwide Financial Services, Inc., and Sempra Energy.	2001
DAVID P. STORCH, 55: Since June 2007, Chairman of the Board and Chief Executive Officer of AAR. From October 2005 until June 2007, Chairman of the Board, President and Chief Executive Officer of AAR. From 1996 to October 2005, President and Chief Executive Officer of AAR. From 1989 to 1996, President and Chief Operating Officer of AAR. From 1988 to 1989, Vice President of AAR.	1989

	Director Since
CONTINUING DIRECTORS:	
Class II Directors whose terms expire at the 2010 Annual Meeting:	
NORMAN R. BOBINS, 65: Since July 2008, Chairman of The PrivateBank Chicago (a financial services company). From May 2007 until October 2007, Chairman of the Board of LaSalle Bank Corporation (a financial institution). From 2002 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2001 to 2007, President and Chief Executive Officer of LaSalle Bank Corporation. From 2006 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2002 to 2007, Senior Executive Vice President at ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank Corporation. Other directorships: PrivateBancorp, Inc., Sims Group Limited, and NICOR, Inc.	2007
GERALD F. FITZGERALD, JR., 58: Since 2000, Chairman and President, Cornerstone Bancorp, Inc. Since 1997, Chairman and President of LaSalle Bancorp, Inc. (LaSalle, IL). From 1990 to 1994, President and Chief Executive Officer of Suburban Bancorp, Inc.	2006
JAMES E. GOODWIN, 64: Since December 2007, Interim President and Chief Executive Officer of Federal Signal Corporation (a safety and security products manufacturer). From 2001 to December 2007, an independent business consultant. From 1999 to 2001, Chairman and Chief Executive Officer of UAL, Inc. and United Airlines, Inc., where he retired after 34 years. From 1998 to 1999, President and Chief Operating Officer of United Airlines, Inc. From 1992 to 1998, Senior Vice President of United Airlines, Inc. Other directorships: First Chicago Bancorp and Federal Signal Corporation.	2002
MARC J. WALFISH, 56: Founding Partner of Merit Capital Partners (a mezzanine investor company) in 2003. From 1991 to 2003, William Blair Mezzanine Capital Partners. From 1978 to 1991, Prudential Capital Corporation, most recently as Senior Vice President.	2003

IV. CORPORATE GOVERNANCE

General

The Company has an ongoing commitment to good governance and business practices. We regularly review our policies and procedures, giving due consideration to current developments and "best practices" in the area of corporate governance. We believe that we comply fully with all applicable Securities and Exchange Commission ("SEC") and NYSE rules and regulations and have adopted additional corporate governance practices that we believe are in the best interests of the Company and its stockholders.

Copies of the following corporate governance documents are available on the Company's website (www.aarcorp.com/investorrelations/corporategovernance):

Corporate Governance Guidelines

Categorical Standards and Policy for Determining Director Independence

Director Nominating Process and Selection Guidelines

Code of Business Ethics and Conduct

Audit Committee Charter

Compensation Committee Charter

Nominating and Governance Committee Charter

Executive Committee Charter

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

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

Director Independence

A majority of the members of the Board of Directors must be independent directors under the criteria established by the Board and under applicable NYSE rules. The Nominating and Governance Committee and the Board of Directors review each director annually and make a determination concerning independence after consideration of all known facts and circumstances. The Board has established categorical standards to assist it in determining director independence. The Company's "Categorical Standards and Policy for Determining Director Independence" include all of the elements of the applicable SEC and NYSE rules with respect to director independence, as well as those of the Company, and are attached as Appendix 1 to this Proxy Statement. Based on these categorical standards, its review of all relevant facts and information available, and the recommendations of the Nominating and Governance Committee, the Board, at its meeting in July 2008, affirmatively determined that no director has a material relationship with the Company that would impair the director's ability to exercise independent judgment and, accordingly, each director is an independent director, except for David P. Storch, due to his status as Chairman of the Board and Chief Executive Officer of the Company, and Timothy J. Romenesko, due to his status as President and Chief Operating Officer of the Company. Under the NYSE rules, a director employed by the Company is not an independent director by definition.

Executive Sessions

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

Communications with the Board of Directors

Stockholders and other interested parties may communicate with the Board, the Chairman of the Board, independent directors as a group, or any individual director or Committee Chairman by mail addressed to: AAR CORP., Attention: Independent Directors, or the name of the individual director, c/o Corporate Secretary, AAR CORP., 1100 N. Wood Dale Road, Wood Dale, Illinois 60191. The independent members of the Board of Directors have approved procedures for the processing, review and disposition of all communications sent by stockholders or other interested parties to the Board of Directors.

Corporate Governance Guidelines

The Company adopted Corporate Governance Guidelines to codify long-standing policies and procedures and to demonstrate its commitment to corporate governance best practices. These Guidelines, under the administration of the Nominating and Governance Committee of the Board of Directors, address director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, management evaluation and succession, and the annual performance evaluation of the Board of Directors. These Guidelines are reviewed annually and were last revised in July 2006.

Code of Business Ethics and Conduct

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

Related Person Transaction Policy

The Board of Directors, upon the recommendation of the Nominating and Governance Committee, adopted a written Related Person Transaction Policy in July 2008. The purpose of the Policy is to provide for the identification, review, and consideration of transactions between the Company or its subsidiaries and any related persons. "Related persons" means the Company's directors, director nominees, executive officers, greater than five percent beneficial owners of the Company's voting securities, members of their immediate families, and any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

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

The Policy provides that the Company may undertake certain pre-approved related person transactions without further specific review, consideration, and approval, including the following:

- transactions in which the related person's interest derives solely from his or her service as a director of another corporation or entity that is a party to the transaction;
- transactions in which the related person's interest derives solely from his or her ownership (together with that of any other related persons) of less than 10% of the equity interest in another person (other than a general partnership interest) that is a party to the transaction;
- transactions in which the related person's interest derives solely from his or her ownership of a class of equity securities of the Company and all holders of that class of equity securities receive the same benefits on a pro rata basis;
- transactions involving the purchase or sale of products in the ordinary course of business, not exceeding $120,000 on an annual basis; and
- compensation paid to executive officers and directors of the Company that is reported in the Company's proxy statement or otherwise approved by the Compensation Committee;

Mr. Ira A. Eichner, a former director and Founder and Chairman of the Board of the Company, who retired from the Board on October 19, 2005, provides consulting services to the Company pursuant to a consulting agreement that expires on October 18, 2010, under which he receives a quarterly consulting fee in the amount of $37,500. During the fiscal year ended May 31, 2008 ("Fiscal 2008"), Mr. Eichner received $150,000 in consulting fees. Mr. Eichner is Founder and Chairman of the Board Emeritus, an honorary position, and Mr. Storch's father-in-law.

Until October 2007, Director Norman R. Bobins was the Chairman of the Board, President and Chief Executive Officer of LaSalle Bank Corporation ("LaSalle Bank"). Since August 2006, the Company has been party to a $ 250,000,000 unsecured revolving credit facility with LaSalle Bank National Association, an affiliate of LaSalle Bank, and various other lenders. Under certain circumstances, the revolving credit commitment can be increased up to a maximum of $325,000,000. LaSalle Bank's participation under the facility is $55,000,000. The credit facility expires on August 31, 2011 and borrowings bear interest at LIBOR plus 100 to 237.5 basis points depending on specified financial measurements. The credit facility also includes a non-use fee which is currently 25 basis points on the unused portion of the facility. The facility was made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans. During Fiscal 2008, the maximum amount of borrowings outstanding under this facility was $173,000,000, and the Company paid an aggregate of $2,184,044 in interest and approximately $1,065,359 in fees and non-use charges under the facility. As of May 31, 2008, the Company had no outstanding borrowings under this facility and approximately $18,000,000 of letters of credit issued against this facility.

Board Committees

The Board has an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, and an Executive Committee. The following table shows the committee structure and membership:

Director	Audit Committee	Compensation Committee	Nominating and Governance Committee	Executive Committee
Norman R. Bobins	X			
Michael R. Boyce		X	X	
James G. Brocksmith, Jr.	X	Chair		
Gerald F. Fitzgerald, Jr.	X			
Ronald R. Fogleman		X	Chair	
James E. Goodwin	Chair		X	X
Patrick J. Kelly		X		
Timothy J. Romenesko				
David P. Storch				Chair
Marc J. Walfish	X		X	X
Ronald B. Woodard	X	X		

Audit Committee

The Audit Committee is comprised entirely of independent directors qualified to serve on the Audit Committee under applicable SEC and NYSE rules and regulations, and the Company's Categorical Standards and Policy for Determining Director Independence. Its members are James E. Goodwin (Chairman), Norman R. Bobins, James G. Brocksmith, Jr., Gerald F. Fitzgerald, Jr., Marc J. Walfish, and Ronald B. Woodard. The Board of Directors has determined that each of Messrs. Goodwin and Brocksmith is an "audit committee financial expert," within the meaning of applicable SEC rules. In addition, the Board of Directors has determined that service by Mr. Brocksmith on the Audit Committees of more than three public companies does not impair his ability to serve effectively on the Company's Audit Committee.

The Audit Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Audit Committee and the Board of Directors at their July 2008 meetings. The full text of the Audit Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement.

The Audit Committee is primarily concerned with the integrity of the Company's financial statements, compliance with legal and regulatory requirements and the performance of the Company's internal audit function and independent registered accounting firm. The Audit Committee performs the specific functions described in its charter and, among other things:

- approves and engages the independent registered public accounting firm who audits the Company's consolidated financial statements;
- pre-approves all non-audit/audit related services furnished by the independent registered public accounting firm;
- maintains communication between the Board and the independent registered public accounting firm;

- monitors the qualifications, independence and performance of the independent registered public accounting firm;
- oversees and reviews the Company's financial reporting processes and practices;
- oversees and reviews the quality and adequacy of internal controls over financial reporting, disclosure controls and the organization and performance of the Company's internal audit department;
- reviews the scope and results of audits; and
- meets with the independent registered public accounting firm representatives and internal audit department representative without members of management present.

The Audit Committee held seven meetings during Fiscal 2008. The Audit Committee Report for Fiscal 2008 appears on page 43.

Compensation Committee

The Compensation Committee is comprised entirely of independent directors as defined under applicable NYSE rules and the Company's Categorical Standards and Policy for Determining Director Independence. Its members are James G. Brocksmith, Jr. (Chairman), Michael R. Boyce, Ronald R. Fogleman, Patrick J. Kelly, and Ronald B. Woodard.

The Compensation Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Compensation Committee and the Board of Directors at their July 2008 meetings. The full text of the Compensation Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement.

The Compensation Committee is primarily concerned with establishing, reviewing and approving Chief Executive Officer compensation, reviewing and approving other senior executive compensation and overseeing the Company's Stock Benefit Plan and any other compensation and employee benefit plans. The Compensation Committee performs the specific functions described in its charter and, among other things:

- reviews and approves compensation policies and practices for all elected corporate officers, including named executive officers;
- fixes the compensation of the Chairman and Chief Executive Officer and, together with the full Board, evaluates the Chief Executive Officer's performance;
- administers the Company's annual cash incentive and long-term stock incentive programs for officers, the AAR CORP. Stock Benefit Plan, and the AAR Section 162(m) Incentive Goal Program;
- recommends director compensation and benefits to the Board for approval; and
- oversees administration of certain other employee benefit, director deferred compensation, savings and retirement plans.

The Compensation Committee held six meetings during Fiscal 2008. The Compensation Committee Report for Fiscal 2008 appears on page 17.

Nominating and Governance Committee

The Nominating and Governance Committee is comprised entirely of independent directors as defined under applicable NYSE rules and the Company's Categorical Standards and Policy for Determining Director Independence. Its members are Ronald R. Fogleman (Chairman), Michael R. Boyce, James E. Goodwin, and Marc J. Walfish.

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The Nominating and Governance Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Nominating and Governance Committee and the Board of Directors at their July 2008 meetings. The full text of the Nominating and Governance Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement.

The Nominating and Governance Committee is responsible for both nominating and governance functions as described in its charter. The Nominating and Governance Committee performs the specific functions described in its charter and, among other things:

- oversees the composition, structure and evaluation of the Board and its committees;
- reviews, considers, and acts upon related person transactions;
- develops and recommends corporate governance guidelines for Board approval; and
- monitors and screens directors for independence and recommends to the Board qualified candidates for election as directors and to serve on Board committees.

Director Nominations and Qualifications. In seeking qualified candidates, the Nominating and Governance Committee obtains referrals from management, other directors, business and community leaders, and stockholders, and may retain the services of a consultant to assist in identifying candidates. The Nominating and Governance Committee seeks candidates that complement the Board as a whole and who collectively are strong and diverse in knowledge, skills, experience, and background. The Committee screens all candidates in the same manner regardless of the source of the recommendation. When selecting nominees, including those proposed by stockholders, the Committee looks for candidates who are independent and have a high level of integrity and professional and personal ethics and values, as well as demonstrated business acumen, leadership and policy making experience or special technical skills, irrespective of gender or ethnicity, as well as other factors the Committee deems appropriate. The Committee has full discretion in considering its nominations to the Board. The Company's Director Nominating Process and Selection Guidelines appear on the Company's website and are available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement.

The Nominating and Governance Committee will consider director candidates recommended by stockholders in the same manner as other candidates. Stockholders may submit a proposed nomination to the Nominating and Governance Committee for consideration with respect to the Annual Meeting of Stockholders for the year 2009 by writing to the Secretary, AAR CORP., One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191. To be considered, proposed nominations must be received prior to May 1, 2009, must state the reasons for the proposed nomination and contain the information required under the Company's By-Laws, including the full name and address of each proposed nominee, as well as a brief biographical history setting forth past and present directorships, employment and occupations, information as to stock ownership, and other arrangements regarding the Common Stock, and any other qualifications. Proposed nominations must also include a statement indicating that the proposed nominees have consented to being named in the Proxy Statement and to serve if elected.

The Nominating and Governance Committee held two meetings during Fiscal 2008.

Executive Committee

The Executive Committee is comprised of David P. Storch (Chairman), James E. Goodwin, and Marc J. Walfish. Mr. Goodwin and Mr. Walfish are each independent directors as defined by applicable NYSE rules and the Company's Categorical Standards and Policy for Determining Director Independence.

The Executive Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Executive Committee and the Board of Directors at their July 2008 meetings. The full text of the Executive Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement.

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

The Executive Committee held four meetings during Fiscal 2008.

Board Meetings and Attendance

During Fiscal 2008, the Board held seven meetings. All persons who were directors during Fiscal 2008 attended at least 75% of the Board meetings and meetings of Board committees on which they served. All the members of the Company's Board of Directors attended the Company's 2007 Annual Meeting of Stockholders.

Director Compensation

The Board believes that compensation for any director who is not an officer or employee of the Company or any subsidiary ("Non-Employee Director") should be primarily a mix of cash and equity compensation. Director compensation and benefits are recommended to the Board of Directors from time to time by the Compensation Committee for Board approval. Directors who are officers or employees of the Company or any subsidiary receive no additional compensation for service on the Board or any of its committees.

Cash Compensation

Each Non-Employee Director receives an annual retainer of $45,000 (an increase from $35,000 effective April 15, 2008), a fee of $2,500 for attendance at each meeting of the Board or any Board committee attended in person ($1,250 per meeting for telephonic Board and Committee meetings), plus reimbursement of expenses. Each Committee Chairman (other than Mr. Storch) receives an additional $5,000 annual retainer.

Annual retainer fees are paid quarterly, Committee Chairman retainer fees are paid annually, and meeting fees are paid promptly following each meeting attended, as are reimbursement of expenses. Each Non-Employee Director may elect to defer receipt of the retainer and meeting fees pursuant to the Company's Non-Employee Directors' Deferred Compensation Plan. Under the Plan, deferred retainer fees are converted into stock units equivalent to shares of Common Stock, and deferred meeting fees are credited with interest quarterly based on the 10-year United States Treasury Bond rate. Distributions of deferred retainer fees under the Plan are made in cash or equivalent value Common Stock, at the participant's election, and distribution of deferred meeting fees are made in cash, in each case upon termination of service on the Board and on the happening of certain other events, as specified in the Plan.

Equity Compensation

Each Non-Employee Director also is eligible to receive discretionary stock option grants and restricted stock awards from time to time under the AAR CORP. Stock Benefit Plan, as may be determined by the Compensation Committee. Prior to Fiscal 2006, each Non-Employee Director received an annual stock option grant with an exercise price equal to the closing NYSE price on the date of grant, that expired ten years from the date of grant, and became exercisable in 25% increments on each anniversary of the grant date. All unvested stock options became fully vested on May 1, 2006. The Compensation Committee determined that, beginning with Fiscal 2006, equity compensation paid to Non-Employee Directors should be in the form of restricted stock instead of stock options. It further determined that, based on a value of approximately $40,000 per year at the then current stock price, each Non-Employee Director should receive an annual restricted stock award of 2,500 shares each year for the next four years (having a grant date of July 11 each year), vesting pro rata over a three-year period, on each anniversary of the grant date. Consistent with the foregoing, on July 11, 2007, the Compensation Committee made a restricted stock grant of 2,500 shares for Fiscal 2008 to each Non-Employee Director. Restricted stock recipients are entitled to vote and receive dividends, if any, on shares of restricted stock.

Other Compensation

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

Terminated Directors' Retirement Plan

The Company terminated the Non-Employee Directors' Retirement Plan effective April 10, 2001. Any Non-Employee Director who was a director on the plan's effective date of termination or a retired director then receiving benefits under the plan continues to be eligible to receive benefits pursuant to the terms of the plan as the plan was in effect and applicable to such participant on the earlier of the date of plan termination or date of retirement. Benefits are paid upon reaching age 65 and retiring from the Board if such director has completed at least five years of service as a director. Benefits are paid quarterly in cash in an amount equal to 25% of the annual retainer payable from time to time to an active director and are paid for a period equal to the total number of years of service as a director to a maximum of ten years or until death. Liabilities under the plan are unfunded. As of May 31, 2008, six former directors were receiving retirement benefits under the plan, one former director was eligible to receive benefits under the plan upon reaching age 65, and one current director, Mr. Brocksmith, is eligible to receive benefits under the plan upon retirement from the Board.

Fiscal 2009 Director Compensation

Non-Employee Director compensation for the fiscal year ended May 31, 2009 ("Fiscal 2009") will remain the same as it was at the end of Fiscal 2008. On July 11, 2008, the Compensation Committee made a restricted stock grant of 2,500 shares for Fiscal 2009 to each Non-Employee Director.

Director Compensation Table

The following table details the total compensation paid to the Company's Non-Employee Directors for Fiscal 2008:

Name1	Fees Earned or Paid in Cash($)2	Stock Awards($)3	Option Awards($)4	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings($)5	All Other Compensation ($)6	Total ($)
Norman R. Bobins	26,250	0	0	0	0	6,452	32,702
Michael R. Boyce	62,500	69,600	0	0	0		132,100
James G. Brocksmith, Jr.	78,750	69,600	0	0	60,864	5,220	214,434
Gerald F. Fitzgerald, Jr.	61,250	64,500	0	0	0	629	126,379
Ronald R. Fogleman	70,000	69,600	0	0	0	1,200	140,800
James E. Goodwin	76,250	69,600	0	0	0	4,500	150,350
Patrick J. Kelly	56,250	64,500	0	0	0	406	121,156
Marc J. Walfish	70,000	69,600	0	0	0		139,600
Ronald B. Woodard	72,500	69,600	0	0	0	3,230	145,330

1

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

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The following table provides a breakdown of director fees earned or paid in cash for Fiscal 2008:

Name	Annual Retainer ($)	Committee Chair Retainer Fees ($)	Meeting Fees ($)	Total ($)
Norman R. Bobins	17,500	0	8,750	26,250
Michael R. Boyce	35,000	0	27,500	62,500
James G. Brocksmith, Jr.	35,000	5,000	38,750	78,750
Gerald F. Fitzgerald, Jr.	35,000	0	26,250	61,250
Ronald R. Fogleman	35,000	5,000	30,000	70,000
James E. Goodwin	35,000	5,000	36,250	76,250
Patrick J. Kelly	35,000	0	21,250	