AAR CORP
Form DEF 14A
September 02, 2011

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

SCHEDULE 14A

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

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

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

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

AAR CORP.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

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(1) Title of each class of securities to which transaction applies:

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(3) Filing Party:

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, OCTOBER 12, 2011

To Our Stockholders:

We cordially invite you to attend our 2011 annual meeting of stockholders our 45th annual meeting as a public company. Information about the annual meeting is set forth below and in the accompanying proxy statement.

Date: Wednesday, October 12, 2011

Time: 9:00 a.m., Chicago time

Place: AAR CORP.
One AAR Place
1100 North Wood Dale Road
Wood Dale, Illinois 60191

Purposes: The purposes of our 2011 annual meeting of stockholders are to:

Elect four Class III directors to serve until the 2014 annual meeting of stockholders;

Hold an advisory vote on executive compensation;

Hold an advisory vote on the frequency of future executive compensation votes;

Approve an amendment to the AAR CORP. Stock Benefit Plan to add performance criteria in accordance with Section 162(m) of the Internal Revenue Code of 1986, as amended;

Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2012; and

Transact any other business that may properly come before the 2011 annual meeting or any adjournment or postponement of the meeting.

Record Date: You may vote your shares at the annual meeting if you were a stockholder of record on August 19, 2011. If you were not a stockholder of record and hold your shares in the name of a broker, bank or other nominee, please follow the voting instructions you receive from the nominee on how to vote your shares.

Voting: **Your vote is important. Even if you plan to attend our annual meeting, we encourage you to vote your shares as soon as possible over the Internet, by telephone, or by completing and returning the enclosed proxy card in the postage-paid envelope provided.**

By Order of the Board of Directors,

Robert J. Regan
Vice President, General Counsel and Secretary

September 2, 2011

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PROXY STATEMENT FOR THE
2011 ANNUAL MEETING OF STOCKHOLDERS

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on October 12, 2011; Copies of this Notice and Proxy Statement and the Company's 2011 Annual Report to Stockholders (including the Annual Report on Form 10-K for the fiscal year ended May 31, 2011) are available free of charge at www.proxyvote.com.

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2011 PROXY STATEMENT SUMMARY

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

Annual Meeting: Wednesday, October 12, 2011 at 9:00 a.m., Chicago time, at AAR CORP.'s corporate headquarters located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191

Record Date: Friday, August 19, 2011

Voting: You have one vote for each share of Common Stock that you owned on the record date.

Matters to be Voted On:

	Proposal	Board Recommendation
Proposal 1:	Election of four Class III directors	FOR ALL NOMINEES
Proposal 2:	Advisory vote on executive compensation	FOR
Proposal 3:	Advisory vote on the frequency of future executive compensation votes	ANNUAL (1 YEAR)
Proposal 4:	Approval of an amendment to the AAR CORP. Stock Benefit Plan to add Section 162(m) performance criteria	FOR
Proposal 5:	Ratification of the appointment of KPMG LLP	FOR

Proposal 1: We are asking our stockholders to vote FOR the following nominees for Class III directors:

Name	Age	Brief Biography	Director Since
Ronald R. Fogleman	69	President and Chief Operating Officer of B Bar J Cattle & Consulting Company; previously, General, Chief of Staff of the United States Air Force (Retired)	2001
Patrick J. Kelly	56	Managing Director of KMK & Associates, LLC	2006
Peter Pace	65	General, U.S. Marine Corps (Retired), Former Chairman of the Joint Chiefs of Staff	2011
Ronald B. Woodard	68	Chairman of MagnaDrive, Inc.; previously, President of the Boeing Commercial Airplane Group	2004

Proposal 2: We are asking our stockholders to vote FOR an advisory resolution on the Company's executive compensation as reported in this proxy statement. Please read the "Executive Compensation" section below and our "Compensation Discussion and Analysis" for information relating to our executive compensation program for the fiscal year ended May 31, 2011 ("Fiscal 2011").

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Proposal 3: We are asking our stockholders to vote on how often the Company should hold an advisory vote on executive compensation in the future. We believe that an annual (1 year) advisory vote will permit stockholders to provide direct and timely feedback on our executive compensation policies and practices.

Proposal 4: We are asking our stockholders to vote FOR an amendment to the AAR CORP. Stock Benefit Plan to add performance criteria that will help assure the deductibility of stock awards under Section 162(m) of the Internal Revenue Code of 1986, as amended.

Proposal 5: We are asking our stockholders to vote FOR ratification of the Audit Committee's appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2012 ("Fiscal 2012"). The fees paid to KPMG LLP for the last two fiscal years were:

Description of Fees	Fiscal 2011	Fiscal 2010
Audit Fees	$ 1,275,000	$ 1,490,000
Audit Related Fees	63,386	243,090
Tax Fees	335,536	268,588
All Other Fees	0	40,000

Executive Compensation: The executive compensation awarded to the named executive officers in Fiscal 2011 reflected and, in the Compensation Committee's view, contributed to the Company's exceptional business performance for the year. Fiscal 2011 executive compensation also underlined the Company's commitment to pay for performance.

The Company achieved record consolidated sales of $1.78 billion in Fiscal 2011 (a 34.9% increase over Fiscal 2010) and earned net income of $69.8 million (a 56.5% increase over Fiscal 2010) and diluted earnings per share of $1.73 (a 49.1% increase over Fiscal 2010). Our businesses generated $108.6 million in cash flow from operations during Fiscal 2011, most of which was reinvested to strengthen and broaden our product and service capabilities for the future. We also began paying an annual dividend of $.30 per share in the fourth quarter of Fiscal 2011.

As a result of these business performance results, annual cash incentives to the named executive officers paid out just below the maximum level in Fiscal 2011. However, total direct compensation (defined as base salary plus annual cash incentive plus long-term incentive compensation), as well as "Total" compensation reported in the Summary Compensation Table on page 52, *decreased* for four of the named executive officers in Fiscal 2011 versus Fiscal 2010, principally as a result of significantly lower long-term incentive compensation in Fiscal 2011.

Additional Information: The Company strives to maintain corporate governance "best practices." Foremost among these is the Company's commitment to a strong and independent Board of Directors. In Fiscal 2011, the Company added to the quality of its Board leadership with the election of General Peter Pace as a director. General Pace, a nominee for election at this year's annual meeting of stockholders, served with distinction in the United States Marine Corps for over 40 years and was the Chairman of the Joint Chiefs of Staff from 2005 to 2007.

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

We will hold our 2011 annual meeting of stockholders on Wednesday, October 12, 2011, at 9:00 a.m., Chicago time, at AAR CORP.'s corporate headquarters located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191. We invite you to attend the annual meeting and ask that you vote on the proposals described in this proxy statement.

Information about the annual meeting is presented below in question-and-answer format.

ANNUAL MEETING INFORMATION

Why am I receiving the proxy materials?

Our Board of Directors has made these proxy materials available to you, beginning on or about September 2, 2011, in connection with its solicitation of proxies for use at the Company's 2011 annual meeting of stockholders.

What information is contained in the proxy materials?

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

How do I access the proxy materials electronically?

We mailed a "Notice of Internet Availability of Proxy Materials," to all of our stockholders so that you can choose to receive your proxy materials and vote your shares over the Internet. The Notice provides you with instructions on how to:

- Access and review our proxy materials over the Internet;
- Submit your vote over the Internet; and
- Request and receive printed proxy materials.

This proxy statement and our Fiscal 2011 annual report to stockholders may be viewed online at www.proxyvote.com.

What proposals are stockholders voting on at the annual meeting?

Stockholders will vote on five proposals at the annual meeting:

Proposal 1 The election of Ronald R. Fogleman, Patrick J. Kelly, Peter Pace and Ronald B. Woodard as Class III directors to serve until the 2014 annual meeting of stockholders;

Proposal 2 An advisory vote on executive compensation;

Proposal 3 An advisory vote on the frequency of future executive compensation votes;

Proposal 4 The approval of an amendment to the AAR CORP. Stock Benefit Plan to add Section 162(m) performance criteria; and

Proposal 5 The ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for Fiscal 2012.

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The Board of Directors unanimously recommends that stockholders vote FOR ALL NOMINEES on Proposal 1, FOR each of Proposals 2, 4 and 5 and for an annual (1 year) advisory vote on Proposal 3.

Who is entitled to vote?

You are entitled to vote your shares if you were an AAR CORP. stockholder at the close of business on August 19, 2011. This date is sometimes referred to in this proxy statement as the "record date."

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) at the close of business on the record date, you may vote your shares at the 2011 annual meeting.

If you were a street-name stockholder (i.e., you held your shares through a broker, bank or other nominee) on the record 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 beneficial owners. 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 stockholders of record entitled to vote will be available at the Company's corporate headquarters located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191 for 10 days prior to the meeting and at the meeting location during the meeting.

On the record date, 40,460,583 shares of common stock of the Company ("Common Stock") were outstanding. You will have one vote on each proposal 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?

Stockholders of record at the close of business on the record date may vote on the matters that are before the annual meeting by proxy by completing, signing, dating and returning the enclosed proxy card, by voting by telephone or over the Internet, or by attending the annual meeting and voting in person.

How do stockholders vote by telephone or over the Internet?

You are encouraged to vote either by telephone or over the Internet. This will eliminate the need to sign, date and return your proxy card. You can vote by telephone or over the Internet 24 hours a day, seven days a week, until 10:59 p.m. (Chicago time) on the day prior to the annual meeting. Specific instructions for using the telephone and Internet voting methods are set forth on the proxy card. If you vote by telephone or over the Internet, please do not return your proxy card.

How do stockholders revoke a proxy?

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

- Sending a written notice of revocation to the Secretary of the Company at the Company's address listed on the first page of this proxy statement;
- Submitting another proxy by telephone or over the Internet;

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- Delivering a later dated, signed proxy; or
- Voting in person at the annual meeting.

How will the proxy holders vote shares?

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

- **FOR** the election of the nominees for Class III directors;
- **FOR** the advisory resolution on executive compensation;
- **FOR** the holding of future advisory votes on executive compensation on an annual (1 year) basis;
- **FOR** the amendment to the AAR Stock Benefit Plan to add Section 162(m) performance criteria; and
- **FOR** the ratification of KPMG LLP as the Company's independent registered public accounting firm for Fiscal 2012.

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

How will the 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 proposal has been approved because they are not considered votes cast. It is not anticipated that there will be any broker non-votes on the ratification of the appointment of KPMG LLP since brokers will have discretion to vote on this proposal 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 10005, to assist the Company in soliciting proxies at a total estimated cost of $11,500, plus reasonable out-of-pocket expenses. The cost of soliciting proxies will be paid by the Company. D. F. King & Co. may solicit proxies by mail, telephone, facsimile, e-mail, or in person. Certain officers, directors and employees of the Company may also solicit proxies for no additional compensation.

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PROPOSAL 1 ELECTION OF DIRECTORS

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

The Board of Directors has nominated four directors to be elected in Class III at the annual meeting, each to serve a three-year term expiring at the 2014 annual meeting or until the individual is succeeded by another qualified director who has been duly elected. The nominees for director in Class III at the annual meeting are Ronald R. Fogleman, Patrick J. Kelly, Peter Pace and Ronald B. Woodard.

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

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

Information about the Director Nominees and Continuing Directors

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

	Director Since
DIRECTOR NOMINEES:	
Class III Directors whose terms expire at the 2011 annual meeting:	
RONALD R. FOGLEMAN, 69: Since 1997, President and Chief Operating Officer of B Bar J Cattle & Consulting Company (a consulting company). From 1994 to 1997, General, Chief of Staff of the United States Air Force, Washington, D.C.	2001
Current public company directorship: Alliant Techsystems, Inc. (ATK)	
Other public company directorship held in the past five years: World Air Holdings, Inc.	
Director Qualifications: The Board of Directors concluded that General Fogleman should serve as a director of the Company based on his leadership skills and record of accomplishment during a 34-year career with the United States Air Force, his business experience and business relationships gained through his senior management positions at two consulting organizations and his understanding of the government defense and services markets.	

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	Director Since
PATRICK J. KELLY, 56: Since 1986, Managing Director of KMK & Associates, LLC (a private equity firm with interests in companies operating in the food, distribution, technology, financial services, real estate and energy industries). *Director Qualifications:* The Board of Directors concluded that Mr. Kelly should serve as a director of the Company based on his leadership and operational experience at various businesses, his background as a long-term chief executive officer and his business expertise gained through his experience at a private equity firm with a diversified portfolio of operating companies.	2006
PETER PACE, 65: General, U.S. Marine Corps (Retired). From 2005 to 2007, Chairman of the Joint Chiefs of Staff. Current public company directorship: Pike Electric Corporation, Inc. *Director Qualifications:* The Board of Directors concluded that General Pace should serve as a director of the Company based on his leadership and management skills and experience from over 40 years of service with the United States Marine Corps, culminating in his appointment as the sixteenth Chairman of the Joint Chiefs of Staff (the most senior position in the United States Armed Forces), where he served from 2005 to 2007 as the principal military adviser to the President, the Secretary of Defense, the National Security Council and the Homeland Security Council.	2011
RONALD B. WOODARD, 68: 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. Current public company directorship: Coinstar, Inc. Other public company directorship held in the past five years: Continental Airlines, Inc. *Director Qualifications:* The Board of Directors concluded that Mr. Woodard should serve as a director of the Company based on his original equipment manufacturing experience while at The Boeing Company, his knowledge of the commercial aviation industry and his experience as a director of other public companies, including Continental Airlines, Inc.	2004

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	Director Since
CONTINUING DIRECTORS:	
Class I Directors whose terms expire at the 2012 annual meeting:	
MICHAEL R. BOYCE, 63: Since 2005, Chairman and Chief Executive Officer of PQ Corporation (a specialty chemicals and catalyst company). Since 1998, Chairman and Chief Executive Officer of The Peak Group (an operating and acquisition company). From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc. (a chemicals company).	2005
Current public company directorship: Stepan Company.	
Director Qualifications: The Board of Directors concluded that Mr. Boyce should serve as a director of the Company based on his experience as Chairman and Chief Executive Officer of two leading global organizations, his insight into global manufacturing, supply and distribution practices and his international business development skills.	
JAMES G. BROCKSMITH, JR., 70: Since 1996, an independent business consultant. From 1990 to 1996, Deputy Chairman and Chief Operating Officer of KPMG LLP (a global accounting firm), from which he retired after 31 years.	2001
Current public company directorship: Sempra Energy.	
Other public company directorship held in the past five years: Alberto Culver Company.	
Director Qualifications: The Board of Directors concluded that Mr. Brocksmith should serve as a director of the Company based on his previous leadership position at KPMG, his knowledge of corporate accounting, tax and compliance practices and his expertise in financial and accounting issues relevant to the Company's businesses.	

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	Director Since
DAVID P. STORCH, 58: Since 2007, Chairman of the Board and Chief Executive Officer of AAR CORP. From 2005 until 2007, Chairman of the Board, President and Chief Executive Officer of AAR CORP. From 1996 to 2005, President and Chief Executive Officer of AAR CORP. From 1989 to 1996, President and Chief Operating Officer of AAR CORP. From 1988 to 1989, Vice President of AAR CORP.	1989

Current public company directorships: KapStone Paper and Packaging Corp. and Unitrin, Inc.

Director Qualifications: The Board of Directors concluded that Mr. Storch should serve as a director of the Company based on his current position as Chairman and Chief Executive Officer of the Company, his leadership and management skills, his understanding of the Company's businesses gained during his 33-year career with the Company, his knowledge of the commercial aviation and government and defense services markets, and his leadership role in transforming the Company into a leading international provider of products and services to the commercial aviation and government and defense services markets, with front-end manufacturing and after-market support to domestic and international customers.

Class II Directors whose terms expire at the 2013 annual meeting:

NORMAN R. BOBINS, 68: Since 2008, Non-Executive Chairman of The PrivateBank and Trust Company - Chicago (a financial services company). From May 2007 until October 2007, Chairman of the Board of LaSalle Bank Corporation. From 2002 to 2007, President and Chief Executive Officer of LaSalle Bank Corporation. From 2006 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2002 to 2007, Senior Executive Vice President at ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank Corporation.	2007

Current public company directorships: The PrivateBancorp, Inc., SIMS Metal Management Limited and Nicor, Inc.

Director Qualifications: The Board of Directors concluded that Mr. Bobins should serve as a director of the Company based on his 42 years of banking experience, his financial and accounting knowledge, his service as a director of other public companies, and his civic involvement as a director of various not-for-profit organizations.

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	Director Since
JAMES E. GOODWIN, 67: Since 2009, Chairman of Federal Signal Corporation (a safety and security products manufacturer). From 2007 to 2008, Interim President and Chief Executive Officer of Federal Signal Corporation. From 2001 to 2007, an independent business consultant. From 1999 to 2001, Chairman and Chief Executive Officer of UAL, Inc. and United Airlines, Inc., from which he retired after 34 years. From 1998 to 1999, President and Chief Operating Officer of United Airlines, Inc. From 1992 to 1998, Senior Vice President of United Airlines, Inc.	2002
Current public company directorships: Federal Signal Corporation and John Bean Technologies Corporation.	
Other public company directorship held in the past five years: First Chicago Bancorp.	
Director Qualifications: The Board of Directors concluded that Mr. Goodwin should serve as a director of the Company based on his airline industry experience and expertise, including his leadership positions at UAL, Inc. and United Airlines, Inc., his management experience and his financial expertise, as well as his global consulting experience and his service as a director of other public companies.	
TIMOTHY J. ROMENESKO, 54: Since 2007, President and Chief Operating Officer of AAR CORP. From 1994 to 2007, Vice President, Chief Financial Officer and Treasurer of AAR CORP. From 1991 to 1994, Corporate Controller of AAR CORP.	2007
Director Qualifications: The Board of Directors concluded that Mr. Romenesko should serve as a director of the Company based on his current leadership position as President and Chief Operating Officer of the Company, his experience in various accounting and financial capacities during his 29-year career with the Company and his knowledge of the Company's commercial aviation and government and defense services markets.	
MARC J. WALFISH, 59: Founding Partner of Merit Capital Partners (a mezzanine investor company) in 2003. From 1991 to 2003, partner at William Blair Mezzanine Capital Partners. From 1978 to 1991, various positions at Prudential Capital Corporation, most recently as Senior Vice President.	2003
Director Qualifications: The Board of Directors concluded that Mr. Walfish should serve as a director of the Company based on his experience in the finance industry, including as a founding partner of Merit Capital Partners, a mezzanine investor company, his knowledge of the capital markets and his expertise in corporate finance, strategic planning and risk management.	

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PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are asking our stockholders to approve an advisory resolution on the compensation awarded to our five named executive officers for Fiscal 2011, as reported in this proxy statement, as required pursuant to Section 14A of the Securities Exchange Act of 1934, as amended. We encourage our stockholders to read the "Compensation Discussion and Analysis" beginning on page 32 and the "Summary Compensation Table" and other related compensation tables and narrative beginning on page 52 of this proxy statement. These sections describe our executive compensation policies and practices and provide detailed information about the compensation of our named executive officers.

Our Compensation Committee and Board of Directors believe that:

- Our compensation policies and practices have proven effective in achieving the Company's compensation goals of attracting, retaining, motivating and rewarding executives of the Company and aligning their interests with the interests of the Company's stockholders; and

- The compensation of our named executive officers has contributed to the Company's successful business results, including in Fiscal 2011: (i) a 34.9% increase in net sales to $1.78 billion; (ii) a 56.5% increase in net income to $69.8 million; and (iii) a 49.1% increase in diluted earnings per share to $1.73.

Accordingly, we ask that you consider and vote on the following advisory resolution:

> **"RESOLVED,** that the stockholders of the Company approve, on an advisory basis, the compensation of the named executive officers for Fiscal 2011, as reported in this proxy statement."

This advisory resolution, commonly known as a "say on pay" proposal, is not binding on the Board of Directors. The Board, however, will review and consider the results of the "say on pay" vote and other relevant factors in making future decisions regarding the Company's executive compensation program.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE ADVISORY RESOLUTION ON EXECUTIVE COMPENSATION.

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PROPOSAL 3 ADVISORY VOTE ON THE FREQUENCY OF FUTURE EXECUTIVE COMPENSATION VOTES

We are asking our stockholders to vote on how frequently the advisory vote on executive compensation (the subject of Proposal 2 above) should be presented to our stockholders, as required pursuant to Section 14A of the Securities Exchange Act of 1934, as amended. You may vote your shares to have the advisory vote on executive compensation held every year, every two years or every three years, or you may abstain from voting.

Our Compensation Committee and Board of Directors believe that holding an advisory vote on executive compensation on an annual (1 year) basis is the most appropriate policy for the Company and its stockholders. Decisions on our executive compensation policies and practices are made annually, and an annual (1 year) vote will permit our stockholders to provide direct and timely feedback to the Company's Board and management on these important issues.

Accordingly, we ask that you consider and vote on the following advisory resolution:

> **"RESOLVED,** that the stockholders of the Company approve, on an advisory basis, the holding of an advisory vote on executive compensation on an annual (1 year) basis."

This advisory vote is not binding on the Board of Directors. The Board, however, will review and consider the voting results and other relevant factors in recommending a voting frequency to stockholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE TO HOLD THE ADVISORY VOTE ON EXECUTIVE COMPENSATION ON AN ANNUAL (1 YEAR) BASIS.

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PROPOSAL 4 APPROVAL OF AN AMENDMENT TO THE AAR CORP. STOCK BENEFIT PLAN TO ADD SECTION 162(m) PERFORMANCE CRITERIA

Proposed Amendment

We are asking our stockholders to approve an amendment to the AAR CORP. Stock Benefit Plan (the "Plan"). The amendment will add performance criteria to the Plan so that performance-based stock awards under the Plan are tax deductible for the Company under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). This amendment was unanimously adopted by the Board of Directors, subject to stockholder approval.

Under Section 162(m), compensation paid to a company's named executive officers in any one year in excess of $1 million must qualify as "performance-based compensation" in order to be tax deductible. Qualification under Section 162(m) requires that the material terms of the performance goals under which compensation may be paid must be disclosed to and approved by a company's stockholders. In addition, if the targets under a performance goal may be changed, the material terms must be re-approved every five years. The Company's stockholders last approved the performance criteria relating to equity awards under the Plan at the 2006 annual meeting of stockholders.

Section 162(m) provides that the material terms of the performance goals include:

- The individuals eligible to receive compensation;
- A description of the business criteria on which the performance goals are based; and
- The maximum amount of compensation that can be paid to an individual under the performance goals.

Each of these material terms is described below. Stockholder approval of the amendment constitutes approval of each material term for purposes of the approval requirements of Section 162(m).

Individuals Eligible to Receive Compensation. The Compensation Committee administers the Plan. It has the authority to determine the key employees and non-employee directors to whom awards are to be granted under the Plan. All non-employee directors and all employees, officers and other employees with executive, managerial, supervisory or professional responsibilities (which includes the five named executive officers) are eligible for the grant of awards under the Plan. In Fiscal 2011, 112 employees, including the five named executive officers and nine non-employee directors, received awards under the Plan.

Description of the Business Criteria on Which the Performance Goals Are Based. Awards that the Compensation Committee seek to qualify as "performance-based compensation" will be subject to the attainment of performance goals based on one or more of the following business criteria, as selected and defined by the Compensation Committee: earnings, earnings per share or earnings per share growth; earnings before interest and taxes, or earnings before interest, taxes, depreciation and/or amortization; stock price; total stockholder return; return on assets; net asset turnover; return on capital or return on invested capital; return on equity; cash flow; net income; profit margin; market share; expense management; revenue; revenue growth; stockholder equity; leverage ratio; investment rating; and debt coverage; provided, that these criteria shall include any derivations of the foregoing (e.g., net income shall include pre-tax income). Any of these criteria may be used to measure the performance of the Company as a whole or any business unit or division of the Company. Performance criteria may be stated in absolute terms or relative to comparison companies or indices to be achieved during a given time period.

The Compensation Committee may provide, at the time it establishes the performance goals for any award, that any evaluation of performance shall include or exclude any one or more of the following events that occurs during a performance period: (i) significant acquisitions or dispositions of business or assets by the Company; (ii) litigation, judgments or settlements; (iii) the effect of changes in the tax laws, accounting principles, or other laws or provisions affecting reported results; (iv) any reorganization or restructuring programs; (v) extraordinary items as described in FASB ASC Section 225-20-20; (vi) significant, non-recurring charges or credits; and (vii) foreign exchange rates.

Maximum Amount of Compensation. Subject to certain adjustments, the aggregate number of shares subject to awards intended to qualify as performance-based that are granted under the Plan during any one year to any one participant shall not exceed 300,000 shares.

Summary of the Plan

General. The Plan, previously approved by stockholders, was amended and restated by the Board of Directors in 2001. The Board of Directors has subsequently amended the Plan, including most recently in July 2011 to include performance-based compensation provisions, as discussed above, and to add restricted stock units to the types of awards eligible for grant under the Plan. The following is a summary of the current Plan.

Administration. The Compensation Committee administers the Plan and has the authority to determine the key employees and non-employee directors to whom awards are to be granted under the Plan, the types and amount of awards, the term of each award and other terms and conditions of each award, including the applicable vesting schedule, and the number of shares of common stock covered by an award.

Available Shares. As of May 31, 2011, 3,766,606 shares of our Common Stock were available for issuance under the Plan (this number reflects the shares not subject to outstanding awards). Any shares subject to an award that are not issued due to a lapse, expiration or cancellation of the award, or that are issued pursuant to a restricted stock award that is subsequently cancelled or forfeited will again be available for issuance pursuant to subsequent awards. Shares delivered by the participant or withheld by the Company as payment of the exercise price or withholding taxes for an option will again be available for issuance pursuant to subsequent awards. Shares delivered as payment of any withholding taxes for a restricted stock award will not again be available for issuance under the Plan. The Compensation Committee will adjust this maximum annual award limit in the case of a stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding shares in order to prevent dilution or enlargement of the benefits or potential benefits intended to be provided under the Plan.

Awards. The Plan provides for the grant of stock options, restricted stock, restricted stock units and stock appreciation rights. To date, the Company has granted stock options and restricted stock but has not granted any restricted stock units or stock appreciation rights. Beginning

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July 15, 2002, the Plan provides that only non-qualified stock options (as opposed to incentive stock options) may be granted under the Plan.

Stock Options: The Compensation Committee may grant non-qualified stock options to key employees and non-employee directors. The Compensation Committee has discretion to set the terms and conditions of each stock option, provided that: (i) the exercise price of an option will be the fair market value of a share of common stock on the date of the grant, (ii) each option will expire no later than ten years from the date of grant, and (iii) the option is subject to certain vesting and exercise provisions set forth in the Plan in the case of a participant's death, disability or retirement (as defined in the Plan).

Restricted Stock: The Compensation Committee also may grant awards of restricted stock to key employees and non-employee directors. The Compensation Committee has discretion to set the terms and conditions, including the restrictions on transfer of the award. A participant will be a stockholder with respect to the shares of restricted stock awarded to him, and will have the rights of a stockholder, although dividends otherwise payable on any performance-based restricted stock awards will be held by the Company and will be paid only to the extent the restrictions on the shares lapse, and the Compensation Committee has the discretion to hold dividends on other restricted stock awards until the restrictions lapse. In the case of restricted stock granted in tandem with an option, the exercise of an option results in a forfeiture of the restricted stock related to the option, and the lapse of restrictions on the restricted stock results in the cancellation of the unexercised related option.

Restricted Stock Units: The Compensation Committee may grant restricted stock units to key employees and non-employee directors. Each restricted stock unit entitles the participant to receive, on a specified date or event set forth in the award agreement, one share of common stock or cash equal to the fair market value of one share on such date or event, as provided in the award agreement. The number of restricted stock units awarded to each participant, and the terms and conditions of the award, will be at the discretion of the Compensation Committee. A participant will not be a stockholder with respect to the restricted stock units awarded to him prior to the date they are settled in shares of common stock. The award agreement may provide that until the restrictions lapse, the participant will be paid an amount equal to the dividends that would have been paid had the restricted stock units been actual shares (although such dividend equivalents payable on any performance-based restricted stock units will be held by the Company and paid only to the extent the restrictions lapse, and the Compensation Committee has the discretion to hold such amounts payable on any other restricted stock units until the restrictions lapse).

Stock Appreciation Rights: The Compensation Committee may grant stock appreciation rights ("SARs") to key employees. SARs may be granted in tandem with a related stock option (a "tandem SAR") or as a separate award (a "non-tandem SAR"). A tandem SAR will be exercisable only at the same time as the related option and will be subject to the same restrictions applicable to such option. A tandem SAR will expire upon exercise of a related option and a related option will expire upon exercise of the tandem SAR. The Compensation Committee has the discretion to set the terms and conditions of an SAR, provided that (i) the exercise price of each SAR will be the fair market value of a share of common stock on the date of grant and (ii) the SAR is subject to certain vesting and exercise provisions set forth in the Plan in the case of a participant's death, disability or retirement (as defined in the Plan). Upon exercise of an

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SAR, a participant will receive the following amount, in the form of cash or shares, as determined by the Compensation Committee: (i) in the case of a non-tandem SAR, the difference between the fair market value of a share of common stock on the date of exercise, and the exercise price of the SAR, multiplied by the number of shares for which the SAR is exercised; or (ii) in the case of a tandem SAR, the difference between the fair market value of a share of common stock on the date of exercise and the exercise price of the related stock option, multiplied by the number of shares for which the SAR is exercised.

Payment and Withholding Taxes. A participant may pay the exercise price of a stock option and/or the withholding taxes due with respect to an award by one or more of the following payment methods: (i) cash; (ii) cash received from a broker-dealer to whom the participant has submitted an exercise notice together with irrevocable instructions to deliver promptly to the Company the amount of sales proceeds from the sale of the shares subject to the award to pay the exercise price or withholding taxes; (iii) delivery of shares (either subject to the award or already owned) that have an aggregate fair market value equal to the exercise price or withholding taxes; (iv) or by directing the Company to withhold shares otherwise issuable in connection with the award having a fair market value equal to the exercise price or withholding taxes.

Change in Control. If a change in control of the Company does not have the prior written approval of a majority of the Board, the following rules will apply to awards made to key employees: (i) in the case of non-tandem awards, all outstanding stock options and SARs will vest and be exercisable and all restrictions on restricted stock and restricted stock units will lapse; and (ii) in the case of tandem awards, a participant may elect whether the restrictions on tandem restricted stock will lapse (in which case the related option will expire), or whether the option will be immediately exercisable (in which case the related restricted stock will be forfeited). If a change in control is approved by a majority of the Board, the Compensation Committee will decide whether outstanding stock options and SARs will vest and be exercisable and/or all restrictions on restricted stock will lapse, or the awards will be exchanged for similar awards of the surviving or acquiring corporation. If a non-employee director's membership on the Board terminates within one year following a change in control that did not have the prior written approval of a majority of the Board, all outstanding stock options will vest and be exercisable and all restrictions on restricted stock and restricted stock units will lapse.

Amendment or Termination of Plan. The Board of Directors may terminate, suspend or modify the Plan, without the authorization of the stockholders, to the extent allowed by law, provided that neither the Plan nor any award agreement can be amended in a way that results in the repricing of a stock option without stockholder approval. No termination, suspension or modification of the Plan may adversely affect any rights of a holder of an award granted under the Plan before the date of such termination, suspension or modification without the consent of such holder.

Federal Income Tax Consequences. The following is a summary of the federal income tax consequences of the Plan. It is based on the federal tax laws and regulations currently in effect and existing administrative rules of the Internal Revenue Service. Participants also may be subject to state and local taxes in connection with the grant of awards under the Plan. Participants should consult with their individual tax advisors to determine the tax consequences associated with awards granted under the Plan. This information may not be applicable to employees of foreign subsidiaries or to employees who are not residents of the United States.

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Nonqualified Stock Options. A participant will not recognize any income upon the grant of a nonqualified stock option. On the date the participant exercises the nonqualified stock option, the participant will recognize ordinary income in an amount equal to the excess of the fair market value of the shares of common stock on the date of exercise over the exercise price (the amount paid for the shares). The participant will be responsible for remitting to the Company any withholding tax obligation that arises at the time the option is exercised. The Company generally will receive a tax deduction for the same amount of ordinary income the participant recognizes. The participant's tax basis for the shares acquired upon exercise will be the exercise price paid for the shares plus the amount of ordinary income recognized. When the participant sells these shares, any gain or loss recognized is treated as either short-term or long-term capital gain or loss depending on whether the participant has held the shares for more than one year.

Restricted Stock/Restricted Stock Units. If a participant receives a restricted stock award, he will recognize ordinary income upon becoming entitled to transfer the shares of common stock at the end of the restriction period without forfeiture or, if earlier, when there is no substantial risk of forfeiture of the common stock. A participant generally will recognize ordinary income when he receives shares or cash pursuant to the settlement of stock units, provided that if the shares are subject to any further restrictions on transfer, the participant will recognize ordinary income upon becoming entitled to transfer the shares at the end of the restriction period without forfeiture. In each case, the amount of income recognized will be equal to the fair market value of the shares or cash received on such date less the amount, if any, the participant paid for the shares. This amount will also be the participant's tax basis for the shares. The participant will be responsible for remitting to the Company the withholding tax obligation that arises at the time the ordinary income is recognized. In addition, the holding period begins on the day the restrictions lapse for purposes of determining whether the participant has long-term or short-term capital gain or loss on a subsequent sale of the shares. The Company generally will be entitled to a deduction with respect to the ordinary income recognized by the participant.

Stock Appreciation Rights. A participant will not recognize any income at the time of the grant of an SAR. Upon exercise of the SAR, the participant will recognize ordinary income equal to the amount received upon exercise. The participant will be responsible for remitting to the Company the withholding tax obligation that arises at the time the ordinary income is recognized. The Company generally will be entitled to a deduction with respect to the ordinary income the participant recognizes.

Awards Granted Under the Plan

It is not possible at this time to determine the specific awards that will be made in Fiscal 2012 and future years under the Plan. As of August 1, 2011, a total of 13,624,302 stock options with exercise prices ranging from $3.20 to $34.02 have been granted under the Plan since it was first adopted. Included in this number are grants as follows: David P. Storch (Chairman of the Board and Chief Executive Officer and a 33-year employee): 4,218,044; Timothy J. Romenesko (President and Chief Operating Officer and a 29-year employee): 504,900; Richard J. Poulton (Vice President, Chief Financial Officer and Treasurer): 108,357; Terry D. Stinson (Group Vice President Structures and Systems): 30,000; Robert J. Regan (Vice President, General Counsel and Secretary): 58,357; all current executive officers as a group: 4,919,658; all current non-employee directors as a group: 71,500; all current nominees for election as a director as a group: 20,500; and all current employees as a group (excluding current executive officers): 8,704,644. On August 1,

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2011, the last reported sales price for the common stock on the New York Stock Exchange was $29.11 per share.

Vote Required for Approval

The affirmative vote of a majority of the shares of common stock present in person or represented by proxy and voting at the annual meeting is required to approve the amendment to the Plan.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE AMENDMENT TO THE PLAN TO ADD SECTION 162(m) PERFORMANCE CRITERIA.

Equity Compensation Plan Information

The following table provides information as of May 31, 2011 with respect to the Company's compensation plans under which equity securities of the Company are authorized for issuance (shares in thousands):

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by securities holders	1,994	$ 18.56	3,767
Equity compensation plans not approved by securities holders			
Total	1,994	$ 18.56	3,767

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PROPOSAL 5 RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

The Audit Committee appointed KPMG LLP ("KPMG") as the Company's independent registered public accounting firm for Fiscal 2011, after consideration and determination of KPMG's independence in light of all services rendered to the Company and its performance as the Company's independent registered public accounting firm. The Board of Directors asks that stockholders ratify the appointment of KPMG as the Company's independent registered public accounting firm for Fiscal 2011. Representatives of KPMG are expected to be present at the annual meeting, with the opportunity to make a statement if they so desire and to respond to appropriate questions of stockholders.

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the aggregate fees billed by KPMG to the Company for Fiscal 2011 and Fiscal 2010 for audit, audit-related, tax, and other services provided by the Company's independent registered public accounting firm. As noted, audit fees decreased in Fiscal 2011, principally as a result of additional assistance provided by the Company's internal audit department.

Description of Fees	Fiscal 2011 ($)	Fiscal 2010 ($)
Audit Fees	1,275,000	1,490,000
Audit-Related Fees[1]	63,386	243,090
Tax Fees[2]	335,536	268,588
All Other Fees[3]	0	40,000

1 Audit-related fees in Fiscal 2011 were for a comfort letter and statutory audits of foreign subsidiaries. Audit-related fees in Fiscal 2010 were for a comfort letter, statutory audits of foreign subsidiaries and acquisition due diligence.

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

3 All other fees represent consultation and assistance regarding government contract accounting.

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

Vote Required for Ratification

The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy and voting at the annual meeting is required to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

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Audit Committee Report for Fiscal 2011

On May 31, 2011, the Audit Committee was comprised of six independent directors. The Board has determined that each member of the Audit Committee is independent within the meaning of the applicable SEC regulations, NYSE rules and the Company's Categorical Standards and Policy for Determining Director Independence.

The Company's management is primarily responsible for the Company's financial statements and the quality and integrity of the reporting process and systems of internal control. The Company's independent registered public accounting firm is responsible for auditing the Company's financial statements and the effectiveness of internal controls over financial reporting and for expressing opinions thereon. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors, as the Audit Committee deems necessary, to carry out its duties with funding from the Company.

In fulfilling its oversight responsibilities, the Audit Committee has reviewed and discussed the Company's audited financial statements for the fiscal year ended May 31, 2011 with the Company's management and representatives of the Company's independent registered public accounting firm, including a discussion of the reasonableness of significant judgments and accounting estimates, and clarity of disclosures in the financial statements. The Audit Committee also reviewed with management and the independent registered public accounting firm the preparation of the financial statements and related disclosures contained in the Company's earnings announcements and quarterly reports. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with the United States generally accepted accounting principles ("GAAP"), and the independent registered public accounting firm has expressed an opinion based on their audit that the financial statements are in conformance with GAAP in all material respects. The Audit Committee is not responsible for planning or conducting audits, or the determination that the Company's financial statements are complete and accurate and in accordance with GAAP. That is the responsibility of management and the independent registered public accounting firm.

The Audit Committee reviewed and discussed with the independent registered public accounting firm and management the overall scope and plans for the audit, the quality, adequacy and assessment of the effectiveness of internal controls over financial reporting, and the Internal Audit Department's management, organization, responsibilities, budget and staffing. The Audit Committee also met with the independent registered public accounting firm representatives without management present and discussed the results of their audits, their evaluation of the Company's internal controls over financial reporting, disclosure controls and the overall quality (not just acceptability) of the Company's accounting policies and financial reporting.

The Audit Committee also discussed with the representatives of the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards ("SAS"), No. 61, *Communications with Audit Committees,* as amended by SAS 90 *Audit Committee Communications,* the independent registered public accounting firm's independence from the Company and its management, including the matters in the written disclosures and letter furnished to the Audit Committee by the independent registered public accounting firm and required by applicable requirements of the Public Company Accounting Oversight Board, and determined that the non-audit services provided to the Company by the independent registered public accounting firm are compatible with maintaining the independent registered public accounting firm's independence.

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In reliance on its review of the audited financial statements and the discussions referred to above and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in its charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended May 31, 2011 for filing with the SEC.

The Audit Committee also reviewed and assessed the adequacy of the Audit Committee Charter and conducted an Audit Committee self-assessment in which it concluded that the Committee operates effectively and successfully carried out all of its Charter responsibilities.

Respectfully submitted,

Audit Committee

James E. Goodwin, Chairman
Norman R. Bobins
James G. Brocksmith, Jr.
Patrick J. Kelly
Marc J. Walfish
Ronald B. Woodard

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CORPORATE GOVERNANCE

General

The Company is committed to good corporate governance. We regularly review our policies and procedures, giving due consideration to current developments and "best practices." We believe that we comply with all applicable 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 at www.aarcorp.com under "Investor Relations/Corporate Governance":

- Corporate Governance Guidelines
- Categorical Standards and Policy for Determining Director Independence
- Code of Business Ethics and Conduct
- Audit Committee Charter
- Compensation Committee Charter
- Nominating and Governance Committee Charter
- Executive Committee Charter

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 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 to identify themselves or remain anonymous at their election.

Director Independence

A majority of the members of the Board of Directors must be independent directors under the Company's Corporate Governance Guidelines and applicable 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 A 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 2011, affirmatively determined that no director has a material relationship with the Company that would impair the director's ability to exercise independent judgment and, accordingly, that each director is an independent director, except for David P. Storch, due to his status as Chairman of the Board and Chief Executive

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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.

Board Leadership Structure

The Board of Directors determines the leadership structure for the Board and the Company in a manner that it believes best serves the interests of the Company's stockholders. The Board has no fixed policy with respect to combining or separating the offices of Chairman of the Board and Chief Executive Officer. Currently, the Company's Chief Executive Officer, David P. Storch, is also Chairman of the Board. The Board believes this structure is the most effective and appropriate leadership structure for the Board and the Company at this time for the following principal reasons:

Mr. Storch is the second Chairman and Chief Executive Officer in the Company's 60-year history. This stability at the most senior executive position within the Company has served the Company well and contributed to its ability to adapt and react to recurrent business cycles in the commercial aviation and government and defense services markets.

Mr. Storch has served the Company in senior management positions for over 20 years (beginning in 1989 as President and Chief Operating Officer of the Company, his assumption of the Chief Executive Officer title in 1996, his assumption of the Chairman of the Board title in 2005 and continuing through his current position as Chairman and Chief Executive Officer).

Mr. Storch's combination of expertise and experience provides the Company with a unique skill-set, including his knowledge of the commercial aviation and government and defense services markets; his understanding of the Company's culture, businesses, employees and customers; and his leadership role in the Company's transformation from a supplier of aircraft parts and aftermarket services for commercial airlines into a leading international provider of products and services to the commercial aviation and government and defense services markets, with both front-end manufacturing and after-market support to domestic and international customers.

As Chairman and Chief Executive Officer of the Company, Mr. Storch leads the Board and senior management in the development and implementation of the Company's business strategy and its relationships with its core constituents, including its stockholders, customers and employees.

The Board of Directors, particularly the non-management directors, provides substantial independent oversight of the conduct of the Company's business. The Company does not have a lead director in title, but the Chairman of the Nominating and Governance Committee (currently, Ronald R. Fogleman) acts in that capacity and chairs all executive sessions of the non-management directors. The non-management directors meet regularly in executive sessions, including at every regularly scheduled Board meeting, after which the Chairman of the Nominating and Governance Committee briefs Mr. Storch, as appropriate.

The Board of Directors conducts an annual evaluation of the Chairman and Chief Executive Officer that focuses on Mr. Storch's performance in carrying out the responsibilities of the two positions. In Fiscal 2011, the Board concluded at this evaluation

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that Mr. Storch's performance as Chairman and Chief Executive Officer continues to justify maintaining the combined position.

Risk Management Oversight

The Board of Directors, directly and through its committees, is responsible for overseeing management's process for assessing and managing the Company's exposure to risks. In that role, the Board regularly reviews and responds to management's business strategies and initiatives, the Company's quarterly and annual financial results and information relating to the Company's competitive position, customer base, and capital and liquidity position. The Board meets each year with senior management to review and discuss the Company's strategic plan. This meeting includes an assessment of the key challenges and risks of the Company's businesses, and the opportunities for addressing and responding to these challenges and risks.

The Audit Committee, on behalf of the Board, oversees the enterprise risk management committee, which is responsible for identifying the principal risks to the Company, developing and implementing risk mitigation strategies and reporting to the Audit Committee. In Fiscal 2011, the enterprise risk management committee reviewed and discussed with the Audit Committee the Company's principal risks and outlined its risk mitigation approach for addressing these risks. The Audit Committee reviews and reports to the Board on risks relating to accounting, financial reporting and legal compliance, risks identified by the Company's internal and external auditors, and matters raised through the Company's Ethics Assist Line. The Compensation Committee oversees and reports to the Board on the Company's incentive compensation programs to assure that they are appropriately structured to incentivize officers and key employees while assuring appropriate risk. The Nominating and Governance Committee oversees and reports to the Board on corporate governance risks, including director independence and related party transactions.

The Board and its committees receive information from and have regular access to the individual members of management responsible for managing risk, including the Company's Chief Executive Officer, President, Chief Financial Officer, Group Vice Presidents, Controller, General Counsel and Internal Auditor. The directors also meet each quarter with a broader group of the Company's employees at regularly scheduled Board dinners as an informal way of learning more about the Company's businesses and its employees.

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

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

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Corporate Governance Guidelines

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

Director Nominations and Qualifications

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

- Professional background and relevant business and industry experience;
- Current employment, leadership experience and other board service;
- Demonstrated business acumen or special technical skills or expertise (e.g., auditing, financial, legal or aviation/aerospace), particularly in areas where the Board currently lacks specific skills;
- A commitment to enhancing stockholder value and serving the interests of all stockholders;
- Independence (including within the meaning of the applicable NYSE rules) and freedom from any conflicts of interest that would interfere with a director's ability to discharge his duties; and
- Willingness and ability to make the commitment of time and attention necessary for effective Board service; and
- A high level of integrity and professional and personal ethics and values consistent with those of the Company.

The Nominating and Governance Committee considers the racial, ethnic and gender diversity of the Board and director candidates, as well as the diversity of their knowledge, skills, experience, background and perspective, to assure that the Company maintains the benefit of a diverse, balanced and effective Board. In Fiscal 2011, the Board engaged an independent executive search firm to consider Board diversity and to provide information on the identification and recruitment of women and minority Board candidates. The Board expressed its view that Board diversity is a key priority for the Company, to be addressed no later than the next director vacancy.

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

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

Stockholders may submit a proposed nomination to the Nominating and Governance Committee for consideration with respect to the 2012 annual meeting of stockholders by writing to the Secretary, AAR CORP., One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191. To be considered, proposed nominations must be received by the Secretary of the Company no later than April 18, 2012, must state the reasons for the proposed nomination and contain the information required under the Company's By-Laws, including the full name and address of each proposed nominee, as well as a brief biographical history setting forth past and present directorships, employment and occupations, information as to stock ownership, other arrangements regarding the Common Stock, and any other qualifications. Proposed nominations must also include a statement indicating that the proposed nominees have consented to being named in the proxy statement and to serve if elected.

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.

Code of Business Ethics and Conduct

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

The Board reviewed and revised the Code of Business Ethics and Conduct in Fiscal 2011. The revisions strengthened the rules relating to the offering and receipt of gifts and updated the Code's provisions regarding the Foreign Corrupt Practices Act and the Federal Government Contractor Code of Business Ethics and Conduct.

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Related Person Transaction Policy

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

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

The Policy provides that the Company may undertake certain pre-approved related person transactions 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.

The Board approved a "Founder's Agreement" dated October 19, 2010 between the Company and Ira A. Eichner, the Founder and a former director and Chairman of the Board of the Company. The Founder's Agreement recognizes Mr. Eichner's extraordinary contributions to the Company over 55 years and the value to the Company of an ongoing relationship with Mr. Eichner. Under the Founder's Agreement, upon request of the Company and subject to his availability, Mr. Eichner will serve as an ambassador for the Company and provide consulting services on operational and strategic issues. Mr. Eichner receives a quarterly retainer of $25,000 and is reimbursed for business expenses incurred in service to the Company. Mr. Eichner also participates in the Company's Non-Employee Directors' Retirement Plan until December 1, 2015 (see "   Director Compensation Table," footnote 5). Mr. Eichner is Mr. Storch's father-in-law.

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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 current membership of each committee:

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

Audit Committee

The Audit Committee is comprised entirely of independent directors qualified to serve on the Audit Committee under applicable SEC and NYSE rules, and the Company's Categorical Standards and Policy for Determining Director Independence. Its members are James E. Goodwin (Chairman), Norman R. Bobins, James G. Brocksmith, Jr., Patrick J. Kelly, Marc J. Walfish, and Ronald B. Woodard. The Board of Directors has determined that each Audit Committee member is an "audit committee financial expert" within the meaning of applicable SEC rules.

The Audit Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Audit Committee and the Board of Directors at their July 2011 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 public accounting firm. The Audit Committee performs the specific functions described in its charter, including:

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

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- Pre-approves all non-audit and audit-related services furnished by the independent registered public accounting firm;
- Maintains communication between the Board and the independent registered public accounting firm;
- Monitors the qualifications, independence and performance of the independent registered public accounting firm;
- Oversees and reviews the Company's financial reporting processes and practices;
- Oversees and reviews the quality and adequacy of internal controls over financial reporting, disclosure controls and the organization and performance of the Company's internal audit department;
- Reviews the scope and results of audits;
- Oversees the Company's enterprise risk management committee; and
- Meets with the independent registered public accounting firm representatives and internal audit department representatives without members of management present.

The Audit Committee held seven meetings during Fiscal 2011. The Audit Committee Report for Fiscal 2011 appears on page 18.

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 Ronald B. Woodard (Chairman), Norman R. Bobins, Michael R. Boyce, James G. Brocksmith, Jr., Ronald R. Fogleman, and Peter Pace.

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 2011 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 AAR CORP. Stock Benefit Plan and any other compensation and employee benefit plans. The Compensation Committee performs the specific functions described in its charter, including:

- Reviews and approves compensation policies and practices for all elected corporate officers, including named executive officers;
- Sets the compensation of the Chief Executive Officer and, together with the full Board, evaluates the Chief Executive Officer's performance;
- Administers the Company's annual cash incentive and long-term stock incentive programs for officers, the AAR CORP. Stock Benefit Plan, and the AAR Section 162(m) Incentive Goal Program;

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- 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 2011. The Compensation Committee Report on Executive Compensation for Fiscal 2011 appears on page 51.

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, Patrick J. Kelly, Peter Pace, and Marc J. Walfish.

The Nominating and Governance Committee acts pursuant to a written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Nominating and Governance Committee and the Board of Directors at their July 2011 meetings. The full text of the Nominating and Governance Committee charter appears on the Company's website and is available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this proxy statement.

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

- Oversees the composition, structure and evaluation of the Board and its committees;
- Reviews, considers, and acts upon related person transactions;
- Develops and recommends Corporate Governance Guidelines for Board approval; and
- Monitors and screens directors for independence and recommends to the Board qualified candidates for election as directors and to serve on Board committees.

The Nominating and Governance Committee held five meetings during Fiscal 2011.

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 2011 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.

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The Executive Committee did not meet during Fiscal 2011.

Board Meetings and Attendance

During Fiscal 2011, the Board held four meetings and acted by unanimous written consent on two occasions. All persons who were directors during Fiscal 2011 attended at least 75% of the Board meetings and meetings of Board committees on which they served.

The Company's Corporate Governance Guidelines provide that directors are expected to attend all stockholder meetings. All the members of the Company's Board of Directors attended the Company's 2011 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 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.

In Fiscal 2011, the Compensation Committee, with the assistance of its independent compensation consultant, reviewed the Company's existing director compensation program. Based on the review and subsequent discussions involving the full Board, senior management and representatives of the independent compensation consultant, the Board approved a new director compensation program effective June 1, 2011, designed to provide competitive compensation that fairly rewards directors for their service to the Company.

The following table identifies the elements of director compensation in effect during Fiscal 2011 and the new director compensation program that became effective June 1, 2011:

Compensation Element	Fiscal 2011 Non-Employee Director Compensation Program	New Non-Employee Director Compensation Program
Annual Retainer	$45,000	$50,000
Annual Committee Chair Retainer	$5,000	$10,000
Board and Committee Meeting Fees	$2,500 ($1,250 for telephone meetings)	Same
Annual Equity Grant	4,000 shares of Common Stock (vesting over three years)	5,000 shares of Common Stock (vesting over one year)

Annual retainer fees are paid quarterly, Committee Chairman retainer fees are paid annually, and meeting fees are paid promptly following each meeting attended. The annual equity grant is typically made at the Board's July meeting, but in Fiscal 2011 it was made at the April meeting with an effective date of June 1, 2011. Each Non-Employee Director may elect to defer receipt of the retainers and meeting fees pursuant to the Company's Non-Employee Directors' Deferred Compensation Plan (the "Director Plan"). Under the Director Plan, deferred retainer fees are converted into stock units equivalent to shares of Common Stock, and deferred meeting fees are

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credited with interest quarterly based on the 10-Year United States Treasury Bond rate. Distributions of deferred retainer fees under the Director 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 or on the happening of certain other events, as specified in the Director Plan.

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

Director Compensation Table

The following table details the total compensation paid to the Company's Non-Employee Directors for Fiscal 2011:

Name[1]	Fees Earned or Paid in Cash ($)[2]	Stock Awards ($)[3]	Option Awards ($)[4]	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings ($)[5]	All Other Compensation ($)[6]	Total ($)
Norman R. Bobins	73,750	71,640	0	0	0	3,220	148,610
Michael R. Boyce	78,750	71,640	0	0	0	720	151,110
James G. Brocksmith, Jr.	86,250	71,640	0	0	76,428	7,336	241,654
Gerald F. Fitzgerald, Jr. *(retired October 2010)*	25,625	71,640	0	0	0		97,265
Ronald R. Fogleman	78,750	71,640	0	0	0	2,142	152,532
James E. Goodwin	85,000	71,640	0	0	0	12,220	168,860
Patrick J. Kelly	72,500	71,640	0	0	0	720	144,860
Peter Pace *(elected January 2011)*	31,375	55,600	0	0	0	720	87,695
Marc J. Walfish	80,000	71,640	0	0	0	720	152,360
Ronald B. Woodard	82,500	71,640	0	0	0	720	154,860

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 in 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 2011 (the amounts for Mr. Fitzgerald and General Pace reflect their service for less than the full year):

Name	Annual Retainer ($)	Committee Chair Retainer Fees ($)	Meeting Fees ($)	Total ($)
Norman R. Bobins	45,000	0	28,750	73,750
Michael R. Boyce	45,000	0	33,750	78,750
James G. Brocksmith, Jr.	45,000	5,000	36,250	86,250
Gerald F. Fitzgerald, Jr.	16,875	0	8,750	25,625
Ronald R. Fogleman	45,000	5,000	28,750	78,750
James E. Goodwin	45,000	5,000	35,000	85,000
Patrick J. Kelly	45,000	0	27,500	72,500
Peter Pace	16,375	0	15,000	31,375
Marc J. Walfish	45,000	0	35,000	80,000
Ronald B. Woodard	45,000	0	37,500	82,500

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The amounts in this column reflect the aggregate grant date fair value of the Fiscal 2011 restricted stock awards granted to each Non-Employee Director computed in accordance with FASB ASC Topic 718. All of Mr. Fitzgerald's unvested restricted shares, including those granted in Fiscal 2011, were cancelled in connection with his termination of service from the Board. As of May 31, 2011, each Non-Employee Director (other than General Pace) held 7,501 unvested restricted shares, and General Pace held 2,000 unvested restricted shares.

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No stock options were granted to Non-Employee Directors in Fiscal 2011. The aggregate number of shares issuable pursuant to stock options held by each Non-Employee Director as of May 31, 2011 was as follows: Mr. Bobins, 0; Mr. Boyce, 0; Mr. Brocksmith, 7,000; General Fogleman, 7,000; Mr. Goodwin, 7,000; Mr. Kelly, 0; General Pace, 0; Mr. Walfish, 17,000; and Mr. Woodard, 3,500.

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Mr. Brocksmith is the only current director eligible to receive benefits under the Company's Non-Employee Directors' Retirement Plan upon retirement from the Board. Effective April 10, 2001, the Company terminated this Plan, which provides for quarterly cash payments following retirement in an amount equal to 25% of the annual retainer for a period equal to the total number of years of service as a director, up to a maximum of 10 years, or until death. The amount in this column represents the increase in the present value of accumulated benefits under this Plan during Fiscal 2011, determined using assumptions consistent with those used for reporting purposes in the Company's 2011 Form 10-K. There were no preferential or above-market earnings credited under the Company's Non-Employee Directors' Deferred Compensation Plan.

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

Compensation Committee Interlocks and Insider Participation

Messrs. Bobins, Boyce, Brocksmith, Fogleman, Woodard and General Pace, all of whom are independent Non-Employee Directors, are the current members of the Compensation Committee of the Board of Directors of the Company. During Fiscal 2011, none of the executive officers of the Company served on the board of directors or compensation committee of any entity whose officers served either on the Board of Directors of the Company or on the Compensation Committee of the Board of Directors of the Company.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The purpose of the Compensation Discussion and Analysis ("CD&A") is to describe our executive compensation program. In this section, we provide the following information about the compensation of our Chief Executive Officer, Chief Financial Officer and the other three most highly compensated executive officers of the Company (our "named executive officers"):

- An "Executive Summary" identifying the primary goals of our executive compensation program and describing our Fiscal 2011 business performance and executive compensation;
- The principal compensation elements of our executive compensation program;
- Our Fiscal 2011 executive compensation decisions, focusing on the relationship between business performance and executive compensation; and
- Our key executive compensation policies and practices.

I. Executive Summary

A. ***Goals of Our Executive Compensation Program***

The primary goals of our executive compensation program are to:

- Attract and retain talented executives capable of producing outstanding business results for the Company;
- Motivate and reward executives by paying for performance in a manner that takes into account Company, business group and individual performance; and
- Provide for compensation that strikes a proper balance between short-term and long-term compensation, and between cash and equity compensation, with an emphasis on equity compensation to align the interests of executives with the interests of the Company's stockholders.

B. ***Fiscal 2011 Business Performance Highlights***

The Company delivered exceptional business performance results in Fiscal 2011. We achieved record consolidated sales of $1.78 billion (a 34.9% increase over Fiscal 2010) and earned net income of $69.8 million (a 56.5% increase over Fiscal 2010) and diluted earnings per share of $1.73 (a 49.1% increase over Fiscal 2010). Our businesses generated $108.6 million in cash flow from operations during Fiscal 2011, most of which was reinvested to strengthen and broaden our product and service capabilities for the future. We also began paying an annual dividend of $.30 per share in the fourth quarter of Fiscal 2011.

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The table below summarizes our key business performance results in Fiscal 2011 compared to Fiscal 2010 (dollars in thousands, except per share data):

	Fiscal 2011 ($)	Fiscal 2010 ($)	Change (%)
Sales	1,775,782	1,316,416	34.9
Operating Income	138,727	93,769	47.9
Net Income	69,826	44,628	56.5
Diluted Earnings Per Share	1.73	1.16	49.1
Stockholders' Equity	835,845	746,906	11.9

For more information about our business, please see "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K filed with the SEC on July 13, 2011.

C. *Fiscal 2011 Executive Compensation Highlights*

The compensation awarded to the Company's named executive officers in Fiscal 2011 reflected and, in the Compensation Committee's view, contributed to, the Company's exceptional business performance for the year. Fiscal 2011 executive compensation also underlined the Company's commitment to pay for performance.

Below is a summary of the Fiscal 2011 compensation paid to the named executive officers of the Company:

Base salaries for the named executive officers increased marginally in Fiscal 2011 compared to Fiscal 2010 as a result of a Company-wide 2% merit pool increase in the base salaries for all employees (except that the Compensation Committee increased Mr. Storch's base salary by 6% per the terms of his employment agreement, and Mr. Romenesko received a 3% increase).

Annual cash incentives for the named executive officers paid out just below the maximum level in Fiscal 2011 based on the Company's net income and leverage ratio performance for the June 1, 2010 through May 31, 2011 performance period. The Company significantly exceeded the performance targets established by the Compensation Committee in July 2010. The result was an annual cash incentive ranging from 120% to 165% of base salary for the named executive officers.

Long-term incentive compensation consisting of performance-based restricted stock, stock options and time-based restricted stock was significantly lower for the named executive officers in Fiscal 2011 due to the re-design of the Company's long-term incentive plan. The Fiscal 2011 long-term incentive plan provided for a single grant of performance-based restricted stock with a single, three-year performance period. In contrast, in Fiscal 2010 there were two grants of performance-based restricted stock: one grant for the Fiscal 2010 performance period and a second grant for the combined Fiscal 2009 and Fiscal 2010 performance period.

Principally as a result of the difference between the value of Fiscal 2011 and Fiscal 2010 performance-based restricted stock, total direct compensation (defined as base salary plus

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annual cash incentive plus long-term incentive compensation) *decreased* for each named executive officer (other than Mr. Regan who was not a named executive officer in Fiscal 2010) in Fiscal 2011 versus Fiscal 2010, as shown in the table below:

Named Executive Officer	Total Direct Compensation (Base Salary + Annual Cash Incentive + Grant Date Value of Long-Term Incentive Compensation) Fiscal 2011($)	Fiscal 2010 ($)	Change
David P. Storch	$ 4,614,913	$ 5,737,452	-19.6%
Timothy J. Romenesko	$ 2,311,827	$ 2,842,332	-18.7%
Richard J. Poulton	$ 1,488,173	$ 1,669,742	-10.9%
Terry D. Stinson	$ 1,053,933	$ 1,491,437	-29.3%
Robert J. Regan	$ 1,488,173	N/A	N/A

In addition, "Total" compensation reported in the Summary Compensation Table on page 52 *decreased* for four of the named executive officers in Fiscal 2011, as compared to Fiscal 2010.

In support of the Company's emphasis on pay-for-performance compensation and to align the Company's executive compensation program more closely to market practice, the Compensation Committee made the following decisions in Fiscal 2011 with respect to the Company's executive compensation program:

Retained the Use of Two Performance Goals under the Short-Term Incentive Plan. The Company believes that income statement and balance sheet strength are critical to the Company's financial success and its ability to compete in the marketplace. Accordingly, the Company decided to retain two separate performance goals in the design of its short-term incentive plan: net income, as a measure of income statement performance, and a leverage ratio, as a measure of balance sheet performance. Each performance goal is given equal weight (50%) in the determination of an executive's annual cash bonus. In addition, the Compensation Committee established threshold, target and maximum performance goals designed to provide proper incentives to the Company's executive officers. The Compensation Committee believes this incentive structure aligns the interests of the executives and the Company in a way that ultimately benefits the Company's stockholders.

Re-Designed the Long-Term Incentive Plan. The Company made several changes to its long-term incentive plan in Fiscal 2011. It retained the use of performance-based restricted stock and added a stock option component to the long-term incentive plan. The addition of stock options emphasized the significance of stock price appreciation: an executive does not realize any value from the award unless the Company's stock price increases over the exercise price of the stock option. To round out the long-term incentive plan and promote executive retention, the Company also provided for the use of time-based restricted stock. The Company believes that the use of three different types of stock awards incentivizes executives to achieve stock price appreciation, thereby aligning the executives' interests with the interests of stockholders, and promotes the long-term retention of executives. The Company also adjusted the design of its performance-based

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restricted stock awards, using cumulative net income over a three-year period as the applicable performance goal. The reason for this change was to emphasize the Company's commitment to long-term net income performance.

Adopted Protection for the Recovery of Incentive Compensation ("Clawback"). The Company revised its standard stock award agreements to include a Clawback provision that gives the Company the right to recover all or a portion of an equity incentive award under certain circumstances. These circumstances relate principally to those instances in which an award was paid based upon the achievement of financial results that were subsequently restated and the restated financial results would have yielded a lower incentive award.

II. Principal Compensation Elements of Our Executive Compensation Program

The table below identifies the principal elements of our Fiscal 2011 executive compensation program, with the ensuing narrative providing a brief description of each element.

Compensation Element	Form of Compensation	Performance Criteria
Base salary	Cash	Recognition of individual performance/contributions
Annual cash incentive	Cash	Net income Leverage ratio Specific business unit goals
Long-term incentives	Stock options	Stock price appreciation
	Restricted stock	Recognition of individual performance/contributions
	Performance-based restricted stock	Cumulative net income over three years (subject to stock price triggers)
Retirement benefits	Eligibility to participate in and receive Company contributions to our 401(k) plan (available to all employees) and, for certain officers a supplemental deferred compensation plan	Not applicable
Perquisites	Various (see below)	Not applicable

A.
Base Salary

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

The executive's current salary;

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

The executive's qualifications and responsibilities;

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

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

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

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

B.

Annual Cash Incentives

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

Within the first 90 days of each fiscal year, the Company establishes specific performance goals for its executive officers, including the named executive officers, that govern the payment of annual cash incentive awards for that fiscal year. The Company pays an annual cash incentive award to each named executive officer, typically measured as a percentage of the executive officer's base salary, based on the extent to which the Company and the executive officer achieve applicable performance goals. Performance at a target level results in a target annual cash incentive award, and performance above or below target results in payment of an annual cash incentive award at a higher or lower percentage of base salary, respectively. Performance below a minimum threshold results in no annual cash incentive award. For named executive officers at the corporate level, the annual cash incentive in recent years has been based on two performance goals: net income and a leverage ratio (average total recourse net debt to capital). For a named executive officer in charge of a business group, the annual cash incenti