



The **power** to do more.

2006

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*AAR Employees (left to right): Mark Trombetta, D'Andre Grubbs, Terry Mottinger, Tracy Adams, Brandy Mason, Ron Eaton, Dennis Riley, Susan Miller and Mike Rathbun.*



**At AAR, our business is more than providing aviation and aerospace products and services.**

**Our focus is on meeting the diverse needs of our customers. We see our business through their eyes and create solutions that solve their unique problems. For us, customers aren't the end of what we do. They're the beginning.**

#### FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEAR ENDED MAY 31

IN THOUSANDS, EXCEPT PER SHARE DATA

	2006	2005	2004	2003
<b>OPERATING PERFORMANCE</b>				
NET SALES	<b>\$897,284</b>	\$747,848	\$644,469	\$599,842
INCOME (LOSS) FROM CONTINUING OPERATIONS	<b>35,163</b>	18,572	4,565	(10,578)
DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	<b>\$0.94</b>	\$0.55	\$0.14	(\$0.33)
<b>FINANCIAL POSITION</b>				
WORKING CAPITAL	<b>\$436,666</b>	\$314,517	\$300,943	\$192,837
TOTAL ASSETS	<b>978,819</b>	732,230	709,292	686,621
TOTAL DEBT	<b>320,865</b>	230,904	252,058	256,914
STOCKHOLDERS' EQUITY	<b>\$422,717</b>	\$314,744	\$301,684	\$294,988



## To Our Stockholders, Customers and Employees,

Financial results for fiscal 2006 were excellent and largely influenced by more favorable conditions in our operating environment and by our ability to position the Company to benefit from changing industry dynamics. Solid execution, a sharp focus on customer service and the dedication of our employees combined to produce improved results in nearly every facet of the Company's performance.

- Sales increased 20% to \$897.3 million
- Income from continuing operations grew 89% to \$35.2 million
- Stockholders' equity increased \$108.0 million to \$422.7 million

We continued to strengthen our competitive position and made progress in all four of the Company's operating groups.

Our Maintenance, Repair and Overhaul (MRO) segment clearly benefited from the success of our Indianapolis Maintenance Center, as we hired and trained an additional 350 technicians and occupied between two and six of the ten hangars available to us. I'm very encouraged by our team's ability to achieve profitable results in the operation's first full year in existence. This accomplishment is the direct result of our team's "heavy lifting" and their quest to be the very best in our industry.

As we worked to establish a world-class aircraft maintenance facility in Indianapolis, we leveraged

the experience and many of the technologies and processes developed at AAR's successful Oklahoma-based MRO operation. Our ability to tap other AAR operating units for support is a competitive strength. Our MRO business is fast becoming a platform for growth as customer requirements create new opportunities for other segments of the Company.

Our Aviation Supply Chain segment benefited as we continued to evolve from a supplier of individual piece parts to a global provider of sophisticated end-to-end supply chain programs. We are taking AAR's "close-to-the-customer" business model further by becoming fully integrated within our customers' operations. In many cases, our people work side-by-side with customers, seamlessly integrating with their teams.

Our parts supply and component repair businesses are integrating their efforts toward the goal of improving our customers' experience. Through this powerful combination, we offer our customers an integrated materials solution encompassing sourcing, inventory valuation, repair and replacement, remarketing and information systems know-how — skills developed over more than half a century of serving the aviation and aerospace industry.

The Company secured a number of long-term commitments with commercial and defense customers and experienced an increase in its parts arbitrage activity, a long-time staple of AAR's diverse business mix. Supporting this activity, we acquired







**“Solid execution, a sharp focus on customer service and the dedication of our employees combined to produce improved results in nearly every facet of the Company’s performance.”**

**20%**  
INCREASE IN  
CONSOLIDATED  
SALES

**50%**  
INCREASE  
IN SHARE  
PRICE

**55**  
YEARS OF SERVICE  
TO AVIATION AND  
AEROSPACE

## “We are taking AAR’s ‘close-to-the-customer’ business model further by becoming fully integrated within our customers’ operations.”

several aircraft and engines for disassembly, which contributed to our improved results.

As traffic growth increases in Asia, the demand for support services in this region creates new opportunities for AAR. Adding to our sales offices in Shanghai, Singapore, Tokyo and Zhuhai, we recently entered into a joint venture to provide landing gear repair services in Kuala Lumpur. We commenced operations late in the year after earning certifications from the Malaysian Department of Civil Aviation and the U.S. Federal Aviation Administration. AAR was selected by a number of airlines in the region to provide landing gear support, signaling a growing recognition of the Company as a reputable service provider for the fast-growing Asian market.

As the worldwide market for air freight continues to grow, we expect demand for our cargo loading systems to increase. AAR’s systems are widely used as certain passenger aircraft are converted to freighters. Additionally, we won a major, long-term original equipment contract to design and manufacture systems for the new Airbus A400M military transport aircraft.

Our defense customers continue to rely on AAR’s rapid deployment and mobility products to position personnel and supplies into theaters of operation and, once there, establish a presence that can support in-theater activity. These products include specialized pallets, containers and shelters. Our

shelters are used for maintenance support and as mobile command, control and communications facilities, and are being developed to support new applications, such as specialized control centers for unmanned aerial vehicles.

Our composites business is also well positioned to benefit as aircraft manufacturers incorporate light-weight, composite materials into their new designs. By using composite materials, the manufacturers are producing lighter, more aerodynamic aircraft that consume less fuel than previous designs.

The market for redeploying commercial aircraft is very active. Throughout the year, working with our joint venture partners, we added 10 aircraft to our portfolio, bringing the total number of aircraft in our fleet to 23. We further benefit by providing support services for aircraft as they reenter service. Our competitive strengths include our institutional knowledge of aircraft and markets and our ability to source, technically assess, structure and finance aircraft transactions.

In February, we strengthened the Company’s balance sheet by issuing \$150 million of 1.75% convertible senior notes. We also acquired \$50.6 million of our convertible notes due in February 2024, in exchange for 2.72 million shares of newly issued common stock. Throughout the year, we retired \$7.2 million of our senior notes due in December 2007. We ended the year with \$122 million of cash on hand.

Sales (\$ in millions)



Operating Income (\$ in millions)



As we position the Company to capitalize on changing industry dynamics, we plan to expand and diversify within aviation and defense markets. We are stepping up our investments in tooling, equipment and training for new-technology aircraft to ensure the highest levels of service for customers as they modernize their fleets. We are complementing our current MRO portfolio with more highly engineered products and services and are developing new supply chain applications that will enable us to become even more tightly integrated with our customers' operations. And we are targeting specific high-growth markets to expand our international presence.

#### IN CLOSING

In October, Ira Eichner, the Company's founder, retired as non-executive Chairman of the Board of Directors of AAR CORP. While it is difficult in the space of this letter to capture the significance of Ira's contributions to the Company, his passion for fiscal responsibility, operational excellence and customer satisfaction will forever be ingrained in the AAR culture. We thank Ira for the opportunity to carry out this mission and take AAR to the next level.

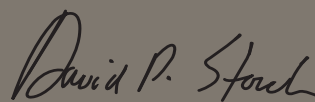
I would like to acknowledge AAR's Board of Directors for their active engagement, focus on corporate governance and their guidance as we position the Company for further growth. We welcomed three new directors, Michael R. Boyce, Gerald F. Fitzgerald, Jr.

and Patrick J. Kelly, each an experienced and active business leader who brings entrepreneurial spirit and a wealth of financial expertise to our Board.

I would like to recognize the great employee team at AAR for their ideas as we encourage innovation throughout the Company, for having the courage to come forward and take ownership of their ideas, and, ultimately, for executing on their ideas to create new and innovative ways to serve our customers and stockholders. Every day, I see their hard work and commitment to excellence.

In closing, I'm excited about the Company's progress and our prospects for the future. We will continue to respond to customer needs by expanding our capabilities and investing in our people. This is certainly an exciting time for AAR, and we remain absolutely committed to creating value for all of our stakeholders.

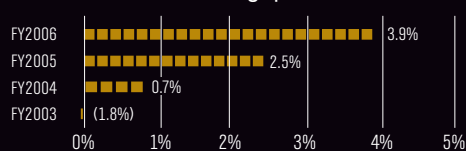
Sincerely,



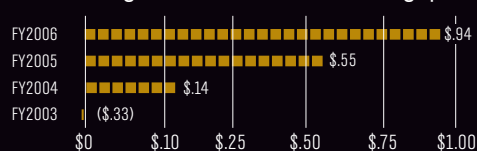
David P. Storch  
Chairman, President and Chief Executive Officer

August 21, 2006

Income (Loss) From Continuing Operations (% of sales)



Diluted Earnings (Loss) Per Share From Continuing Operations



## The Power of Partnership

At AAR, business relationships are a two-way street — we listen carefully to customer needs before we respond.

### PUTTING CUSTOMERS IN THE PICTURE

Simply put: our relationships with customers drive our business. At the center of AAR's approach is a customer-centric business model that defines everything we do — from the selection of our products and services to the ways we make them better.

We remain sharply focused on meeting the diverse needs of a diverse customer base. That requires an in-depth understanding of our customers and the challenges unique to each of them.

For our commercial customers, we ensure that their aircraft are available and airworthy through a variety of airframe and engine products and services. Reliability is critical to helping airlines offer consistent, trouble-free service to attract and retain passengers and to helping original equipment manufacturers bring their products to market. Our partnerships are built upon the understanding that we can achieve more by working together to drive down costs while moving passengers, crews and cargo safely to their destinations.

For defense customers, which range from the United States and its allies to the United Nations and humanitarian relief organizations, AAR plays a mission-critical role by providing reliable products and responsive support services. Our partnerships benefit from years of experience forging joint capabilities — government and industry working together — in the face of a variety of new and emerging threats. From rugged shelters, containers and specialized pallets to dynamic IT-enabled supply chain services, AAR's customers count on our products and services to be there, working the first time and every time.

One thing that all our customers have in common is the need to do more with less. Our mission is to help customers achieve their goals. By collaborating on a daily basis, we've become a seamless extension of their operations — working together to provide maximum value and strengthening our partnerships in the process.





*Sgt. Jeff Hawkins, a soldier in the Michigan National Guard and Production Leader with AAR Mobility Systems, discusses specialized expandable shelters with AAR Mobility Systems Quality Engineer, Steven Mapes.*



AAR's people are dedicated to achieving the highest levels of customer satisfaction through design and manufacturing excellence and by providing world-class service and support. We consider our customers'

confidence and loyalty the ultimate endorsement that we're doing things right. Still, we're always looking for ways to do more and listening for ways in which we can become an even better partner to them.

## The Power of Innovation

Our capacity to innovate keeps us on the leading edge — exactly where our customers expect us to be.

### ON THE RIGHT FREQUENCY

At AAR, the power of innovation is the power to do more for our customers. Ideas fuel a culture of innovation where forward thinking drives new and inventive approaches to serving our customers. For our people, innovation is a passion. For our industry, it's a requirement.

AAR combines technology and business expertise to develop custom solutions that help customers respond to changing dynamics in a turbulent marketplace. Shifting priorities can drive monumental changes in business models and requirements. Keeping pace with these changes requires responsiveness and constant innovation.

AAR's employees are hard at work in a collaborative environment that recognizes risk taking as one of the prerequisites to innovation. We also know that new ideas are just part of the equation. Performance and solid execution is what matters most in turning good ideas into great results that meet the current and future needs of our customers.

One such example is the adoption of RFID (Radio Frequency Identification), as part of AAR's industry-leading supply chain capability.

RFID is an emerging data capture technology that provides exceptional accuracy in inventory and logistics environments. AAR's Information Systems and Technology group implemented RFID, which uses "smart tags," advanced, electronic versions of traditional bar codes. And while this technology has become a requirement with some defense programs, it is ideally suited for commercial applications where speed, accuracy and efficiency can contribute to bottom-line results.

AAR is combining a half century of aviation experience with more than 20 years of IT experience to deliver innovative systems integration solutions for managing our customers' supply chains. Our systems integration capabilities enable us to connect the business systems of commercial airlines, regional airlines, defense forces and repair facilities with our own systems, to provide access to critical operational data and manage even the most complex customer supply chains.

Our customer-centric approach to implementing technologies has become a competitive differentiator for AAR. Using RFID smart tags and providing net-centric systems integration solutions are just two examples of our innovation hard at work.



*Crystal Rosario, Manager of Business Process Improvements for AAR's Defense Systems & Logistics division, uses advanced RFID technology to track inventory bound for the United States Department of Defense.*



At AAR, innovation extends far beyond our technological capabilities. Our people are driven to invent new and original ways to serve customers — from process improvements to new strategic partnerships. We're equally as committed to learning new and better ways to get the job done and, for the second consecutive year, 100% of AAR's eligible

Aviation Maintenance Technicians (AMTs) received FAA Diamond Awards for meeting or exceeding the FAA's requirements for technical and regulatory training, earning AAR special recognition from the FAA. Innovation and the desire to get better every day — two qualities that differentiate AAR in a competitive marketplace.

## The Power to See Beyond the Horizon

At AAR, we're not waiting for the future to reveal itself. Instead, we're actively pursuing it — for our customers, employees and stockholders.

### PAST, PRESENT AND FUTURE

To appreciate AAR's future, look at our past. The AAR we were ten years ago, or even three years ago, is not who we are today. We have grown in many ways. Our financial performance has strengthened. Our global footprint has expanded. And our product and service mix has become far more diverse.

But we're not stopping here. Our collective vision is set on the next 20 years.

The depth of our aviation and aerospace experience and our ability to adapt enable us to successfully navigate the market shifts that characterize our industry. Today, AAR grows by anticipating and meeting the changing needs of our customers. The same holds true for tomorrow.

To AAR, the line of sight that marks our horizon is not a boundary; it is a threshold to greater opportunities and limitless possibilities. No doubt, as we move through the next ten years, AAR will emerge as a different company from the one it is today, but the changes will continue to be shaped by the changing needs of our customers.

Some things that won't change, however, are the attributes that make AAR an industry leader: innovation, partnership, experience, customer dedication and vision. Together, they give AAR the power to do more. More for our industry. More for our customers. More for our stockholders.



Source: Boeing Market Outlook 2006



*Every day brings exciting, new challenges for the aviation and aerospace industry. We strive to anticipate these challenges and align our capabilities to serve the future needs of our customers.*





# The Power of Vision

Ours is a collective vision — one that unites us as a company and brings the future into view.

## ADDING VALUE TO THE SOLUTION

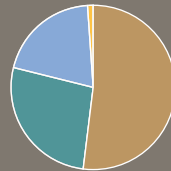
The diversity of our experiences, perspectives and backgrounds shapes the Company's culture and enables us to be successful in the markets where we choose to compete and to capitalize on growth in new, emerging markets.

No two AAR customers are alike. Neither are the solutions we provide. Each is tailored to specific customer needs. That requires channeling the efforts of different organizations into a single, cohesive solution. The result: more value for our customers.

Driving this value is strong leadership throughout the Company — a global team committed to employee empowerment, operational excellence and customer satisfaction. Our shared vision sets the tone for a culture of entrepreneurship, risk taking and the achievement of our goals.

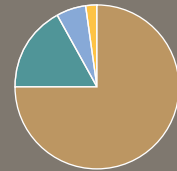


**Members of AAR's Leadership Team** (left to right): John Johnson, Group VP, Aircraft Sales & Leasing; Jim Clark, Group VP, Aviation Supply Chain; Tim Romenesko, VP and CFO; David Storch, Chairman, President and CEO; Mark McDonald, Group VP, Maintenance, Repair & Overhaul and Structures & Systems; Peter Chapman, VP, Marketing and Business Development.



**Sales by Segment**

- Aviation Supply Chain – 51%
- Structures & Systems – 27%
- Maintenance, Repair & Overhaul – 20%
- Aircraft Sales & Leasing – 2%



**Sales by Region**

- North America – 75%
- Europe – 17%
- Asia – 6%
- Other – 2%

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### Aviation Supply Chain

- Airframe Parts Supply & Repair
- Engine Parts Supply
- Inventory Management Programs
- PMA Development & Supply
- Business Systems Integration



### Maintenance, Repair & Overhaul

- Aircraft Maintenance
- Landing Gear Services
- Aircraft Storage

**WORLDWIDE LOCATIONS**

AAR's 3,300 employees are strategically located around the world to serve the needs of our global customers. As we expand into new markets, we'll continue to complement our products and services with an in-depth understanding of different cultures, business environments and regulatory requirements in keeping with our close-to-the-customer business model.

**AAR Corporate Headquarters**  
Wood Dale, Illinois

**Aviation Supply Chain**  
Amsterdam, The Netherlands  
Atlanta, Georgia\*  
College Park, Georgia  
Falls Creek, Pennsylvania\*  
Farmington, New Mexico\*  
Fort Worth, Texas  
Garden City, New York  
Hannover, Germany\*  
Havelock, North Carolina  
Hurlburt Field, Florida\*  
Indianapolis, Indiana  
Jacksonville, Florida  
Little Rock, Arkansas  
Macon, Georgia  
Mitcham, England  
Naples, Italy  
Phoenix, Arizona\*  
San Diego, California\*  
Teterboro, New Jersey

Waddington, England\*  
Wichita, Kansas\*  
Windsor, Connecticut  
Wood Dale, Illinois  
Zhuhai, China\*

**Maintenance, Repair & Overhaul**  
Indianapolis, Indiana  
Kuala Lumpur, Malaysia  
Miami, Florida  
Oklahoma City, Oklahoma  
Roswell, New Mexico

**Structures & Systems**  
Cadillac, Michigan  
Clearwater, Florida  
Frankfort, New York  
Goldsboro, North Carolina  
Livonia, Michigan  
Memphis, Tennessee  
Sacramento, California

**Aircraft Sales & Leasing**  
Wood Dale, Illinois

**Sales & Support**  
Atlanta, Georgia\*  
Dresden, Germany\*  
Huntsville, Alabama  
London, England  
Melbourne, Australia  
Oklahoma City, Oklahoma  
Paris, France  
Rio de Janeiro, Brazil  
Shanghai, China  
Singapore, Republic of Singapore  
Tokyo, Japan

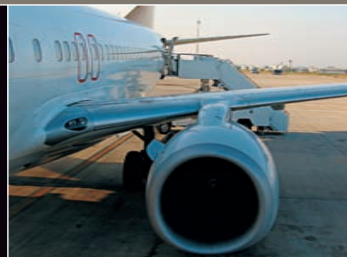


\*Indicates AAR sites within customer facilities



**Structures & Systems**

- Mobility Systems
- Cargo Systems
- Composite Structures
- Heavy Industrial Turbines



**Aircraft Sales & Leasing**

- Sales & Leasing
- Advisory Services

# AAR Leadership

AAR is headed by an accomplished leadership team with extensive experience and a dedication to integrity, fiscal responsibility, operational excellence and customer satisfaction.

## CORPORATE OFFICERS

- David P. Storch**  
*Chairman, President and Chief Executive Officer*
- Michael K. Carr**  
*Vice President, Tax*
- Peter K. Chapman**  
*Vice President, Marketing and Business Development*
- James J. Clark**  
*Group Vice President, Aviation Supply Chain*
- Michael "Mickey" Cohen**  
*Vice President, Operations and Engineering*
- Kevin M. Larson**  
*Vice President, Chief Information Officer*
- J. Mark McDonald**  
*Group Vice President, Structures and Systems; Maintenance, Repair and Overhaul*
- David E. Prusiecki**  
*Vice President, Defense Programs*
- Howard A. Pulsifer**  
*Vice President, General Counsel and Secretary*
- Timothy J. Romenesko**  
*Vice President, Chief Financial Officer and Treasurer*
- Michael J. Sharp**  
*Vice President, Controller and Chief Accounting Officer*
- Timothy O. Skelly**  
*Vice President, Human Resources*

## BOARD OF DIRECTORS

- David P. Storch**  
*Chairman, President and Chief Executive Officer, AAR CORP.*
- Michael R. Boyce**  
*Chairman and Chief Executive Officer, PQ Corporation*  
*Chairman and Chief Executive Officer, Peak Investments*
- James G. Brocksmith, Jr.**  
*Independent Business Consultant*  
*Retired Deputy Chairman and Chief Operating Officer, KPMG LLP*
- Gerald F. Fitzgerald, Jr.**  
*Chairman and President, Cornerstone Bancorp, Inc.*  
*Chairman and President, LaSalle Bancorp, Inc.*
- General Ronald R. Fogleman, USAF (Ret.)**  
*President and Chief Operating Officer, B Bar J Cattle Company*  
*President and Chief Operating Officer, Durango Aerospace, Inc.*
- James E. Goodwin**  
*Independent Business Consultant*  
*Retired Chairman and Chief Executive Officer, UAL, Inc.*
- Patrick J. Kelly**  
*Chief Executive Officer, Resource One*  
*Managing Director, KMK & Associates, LLC*
- Marc J. Walfish**  
*Founder, Merit Capital Partners*
- Ronald B. Woodard**  
*Chairman of MagnaDrive, Inc.*  
*Retired President of the Boeing Commercial Airplane Group*



**Board of Directors** (left to right from top): Ronald R. Fogleman, Michael R. Boyce, James E. Goodwin, Patrick J. Kelly, Ronald B. Woodard, James G. Brocksmith, Jr., Marc J. Walfish, Gerald F. Fitzgerald, Jr. and David P. Storch.

## BOARD COMMITTEES

### Audit

- James E. Goodwin,  
*Chairman*
- James G. Brocksmith, Jr.
- Marc J. Walfish
- Ronald B. Woodard

### Executive

- David P. Storch,  
*Chairman*
- James E. Goodwin
- Marc J. Walfish

### Compensation

- James G. Brocksmith, Jr.,  
*Chairman*
- Ronald R. Fogleman
- Ronald B. Woodard
- Michael R. Boyce

### Nominating & Governance

- Ronald R. Fogleman,  
*Chairman*
- James E. Goodwin
- Marc J. Walfish

## STOCKHOLDER INFORMATION

### Corporate Headquarters

AAR CORP.  
1100 North Wood Dale Road  
Wood Dale, Illinois 60191  
Telephone: 630-227-2000  
Facsimile: 630-227-2019  
[www.aarcorp.com](http://www.aarcorp.com)

### Transfer Agent and Registrar

Computershare Trust Company, N.A.  
Providence, Rhode Island

### Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 9:00 a.m. (CDST) on Wednesday, October 18, 2006, at AAR Corporate Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

### The Investor Service Program

AAR CORP. provides its stockholders the opportunity to purchase additional shares of common stock of the Company by automatic reinvestment of dividends and optional additional investments. Stockholders may obtain information regarding this plan by contacting the Secretary, AAR CORP., 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

### Special Counsel

Schiff Hardin LLP  
Chicago, Illinois

### Ticker Symbol

AAR stock is traded on the New York and Chicago Stock Exchanges. Ticker symbol AIR.



1100 North Wood Dale Road,  
Wood Dale, Illinois 60191