



One billion
and beyond



CONTENTS

Financial Highlights

Letter to Stockholders

One Billion and Beyond

Maintenance, Repair and Overhaul

Aviation Supply Chain

Structures and Systems

Aircraft Sales and Leasing

AAR Leadership



In fiscal 2007, AAR surpassed \$1 billion in sales.

This is an important milestone. Coupled with record earnings and strong growth across all four of our operating segments, it's evidence of our intense, successful focus on innovation and execution. It validates our strategy to build a strong, diversified, trend-aligned business and, most important, demonstrates AAR's dedication to making a real contribution to our customers' success.

So we've reached a billion. There's no pause, no rest. Our focus is on beyond.

FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEAR ENDED MAY 31

IN THOUSANDS, EXCEPT PER SHARE DATA

	2007	2006	2005	2004	2003
OPERATING PERFORMANCE					
NET SALES	\$1,061,169	\$885,518	\$740,427	\$632,223	\$589,085
INCOME (LOSS) FROM CONTINUING OPERATIONS	59,447	35,823	19,498	5,430	(9,589)
DILUTED EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS	\$1.42	\$0.96	\$0.57	\$0.17	(\$0.30)
FINANCIAL POSITION					
WORKING CAPITAL	\$389,215	\$436,666	\$314,517	\$300,943	\$192,837
TOTAL ASSETS	1,067,633	978,819	732,230	709,292	686,621
TOTAL DEBT	327,856	320,865	230,904	252,058	256,914
STOCKHOLDERS' EQUITY	494,243	422,717	314,744	301,684	294,988

TO OUR EMPLOYEES, CUSTOMERS AND STOCKHOLDERS,

Fiscal 2007 was a *great* year for AAR.

We achieved record sales and earnings while positioning the Company for the future.

We made numerous investments to support our robust organic growth and completed two acquisitions that expand and deepen our capabilities. We made moves to strengthen our senior leadership team and continued to invest in our people.

Our markets are ripe with opportunity, and our unique portfolio of products and services, combined with our close-to-the-customer business model, places us in a strong competitive position.

Following are select financial highlights from fiscal 2007:

- 20% sales growth
- 66% increase in income from continuing operations
- Record net income of \$58.7 million

We surpassed \$1 billion in sales, achieved a 5.5 percent after-tax margin, saw operating margins improve 160 basis points to 9 percent and lowered SG&A as a percentage of sales to just below 10 percent.

Sales to our commercial customers grew 24 percent driven by supply chain programs, increased MRO activities and momentum in our Aircraft Sales and Leasing segment. The U.S. domestic airline industry's financial results are improving and many of our international airline customers are growing — both contributing to a more favorable environment for the products and services that we provide.

Sales to defense customers increased 14 percent during the year and represent 36 percent of consolidated revenues. We continue to expand our mobility systems capability to support the warfighter and our supply chain solutions for “behind-the-scenes” logistics support. The U.S. Department of Defense (DoD) also presents numerous opportunities for AAR's MRO businesses.

Segment Highlights

Our Aviation Supply Chain business remained strong. We benefited from an expansion of our global parts business and new programs, including one to support U.S. Army ground vehicles. We are looking to more fully integrate our supply chain capability into our customers' operations, relieving them of this non-core, yet essential, activity.

In our Maintenance, Repair and Overhaul segment, we increased our customer base, ramped up operations at our Indianapolis MRO facility and expanded our regional maintenance capabilities. Results at our Oklahoma City MRO and Landing Gear Services businesses were strong. The Indianapolis operation has grown from a start-up in 2004 to one of the premier MRO facilities in the U.S. today. We are doing an excellent job earning our customers' confidence and are focused on improving profitability. Based on total man-hours performed in 2006, AAR now ranks among the top ten MRO providers in the world. In January 2007, we acquired the assets of Reebaire Aircraft, Inc., a move that more than doubled our MRO capacity for regional aircraft.

In our Structures and Systems segment, we continued to experience higher demand for specialized mobility products that support the movement of troops and supplies into theaters of operation and sustain in-theater activity. We are keeping pace with changing requirements and, in April 2007, acquired Brown International, adding sophisticated systems integration capabilities. The Brown acquisition establishes an AAR presence in Huntsville, Alabama, strategically near the Redstone Arsenal, an increasingly important army installation that is growing as a result of the DoD's Base Realignment and Closure (BRAC) Act and is home to the U.S. Army's strategic aviation and missile commands and major civilian contractors. With this acquisition, we are taking our services deeper into theaters of operation, including Iraq and Kuwait. This work includes uparmoring ground vehicles to provide better protection for soldiers in harm's way. Additionally, we are developing new services for the sustainment of equipment aging from harsh environments and higher operational tempos. By offering a wider range of integrated solutions, we are positioning the Company as a full-service provider to the defense market.

AAR has established a leadership position in the design and manufacture of cargo systems for military transport aircraft and we are currently developing a system for the next-generation Airbus A400M. We opened a new 200,000-square-foot manufacturing facility to build these and other products as we look to capitalize on the robust build cycles underway in commercial and defense markets.

Our Aircraft Sales and Leasing segment benefits from AAR's global presence in the commercial aviation market. We leveraged our long-standing relationships in the Asian marketplace and, working with a joint venture partner, acquired 18 Boeing 737-400s in the first quarter of fiscal 2008. These aircraft are operated by MAS, a leading airline in the region. We were successful because of our ability to provide certainty of closure, our knowledge of the aircraft and our ability to move quickly. Our sales and leasing activity also serves as a portal for AAR's supply chain and MRO businesses.

Our People

Creating a dynamic work environment and developing our employees remain top priorities. We continue to invest in facilities and training to provide our people with the tools they need to be the best they can be. We are very proud that for the third consecutive year, 100 percent of AAR's eligible aviation maintenance technicians (AMT) received FAA Diamond Awards for meeting or exceeding FAA training requirements, earning AAR special recognition from the FAA. We want to extend our personal congratulations to the 1,279 AMTs who earned this prestigious recognition.

We made a number of moves to strengthen our senior leadership team, beginning the new fiscal year with Tim Romenesko as AAR's new President and Chief Operating Officer. Tim has a deep understanding of our operations and culture, having joined AAR in 1981 and served as our CFO since 1994. Tim was also elected to AAR's Board of Directors. Additionally, we promoted Rick Poulton to Chief Financial Officer and Treasurer. Rick has more than 15 years of financial and leadership experience, including senior executive-level positions with UAL Corp. and United Airlines.

Subsequent to year-end, Terry Stinson, an industry veteran with outstanding credentials, joined AAR to head up our Structures and Systems segment. Terry previously served as Chairman and CEO of Bell Helicopter Textron Inc., a leading manufacturer of vertical lift aircraft, and as President and CEO of Hamilton Standard, a division of United Technologies.

Looking Forward

As we look to the future, we have several strategic and tactical initiatives underway. We expect to grow our revenues at a rate faster than the industry growth rate by capturing new supply

“I am committed to strengthening AAR's position in strategic, high-growth markets and advancing AAR's culture of innovation and execution.”

— David P. Storch

“I will continue to invest in our people and capabilities while bringing a razor-sharp focus on operational excellence and profitability.”

— Timothy J. Romenesko

chain programs, expanding our capabilities for defense customers, leveraging our position in support of the growing regional aircraft fleet, increasing sales in the rapidly expanding Asian market and complementing our organic growth with acquisitions.

We look to improve our margins by leveraging our cost structure, increasing our efficiency through lean initiatives and integrating more higher-margin engineering content into our products and services.

Our vision is to build upon AAR's solid reputation as a provider of products and services by moving further “upstream” in our customers' operations — forging stronger and more strategic partnerships and becoming an integral part of our customers' success.

As we sit here in the middle of August putting the finishing touches on this letter, there is turbulence in the world's financial markets. We are monitoring the situation very closely for its effects on our customers, markets and business. Since the beginning of the decade we have significantly strengthened our balance sheet and improved our liquidity, putting us in a strong position to weather this period of uncertainty.

In Closing

We are grateful to the many people who contributed to AAR's successful fiscal 2007. We thank our partners, customers and stockholders for their confidence and support. We value the contributions of our Board of Directors and appreciate their active engagement and sage counsel. We wish to thank our 4,000 fellow employees for their energy, enthusiasm and dedication to excellence and are proud of the work they're doing to build strong, enduring relationships with our customers. It's the people of AAR that make things happen.

With one billion dollars as our new baseline, we look forward to taking AAR to new heights in fiscal 2008 and beyond.

Sincerely,

David P. Storch
Chairman and Chief Executive Officer

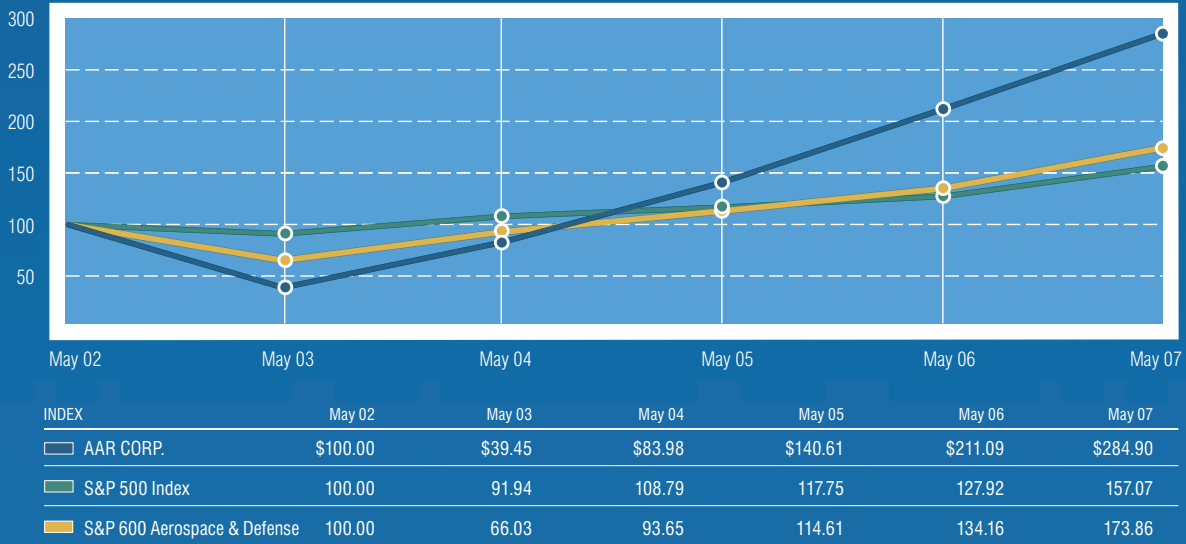
Timothy J. Romenesko
President and Chief Operating Officer

August 17, 2007

Stockholder Return Performance Graph

The following graph compares the five-year cumulative total stockholder return (including reinvestment of dividends) of the Company, the S&P 500 Index and the S&P 600 Aerospace/Defense Index.

Comparison of Cumulative Five-Year Total Return¹



Source: Standard & Poor's

¹Assumes \$100 invested on June 1, 2002, and reinvestment of dividends in the Company's Common Stock, the S&P 500 Index and the S&P 600 Aerospace/Defense Index.

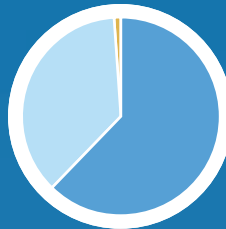
The S&P Index is comprised of domestic industry leaders in four major sectors: Industrials, Financials, Utilities and Transportation, and serves as a broad indicator of the performance of the U.S. equity market. The S&P 600 Aerospace/Defense Index is comprised of small cap companies engaged in aerospace/defense business activities, including: AAR CORP., Applied Signal Technology, Inc., Armor Holdings, Inc., Ceradyne Inc., Cubic Corp., Curtiss-Wright Corp., EDO Corp., Esterline Technologies Corp., GenCorp Inc., Kaman Corp., Moog Inc., Teledyne Technologies Inc. and Triumph Group, Inc.

Sales by Segment, Market and Region



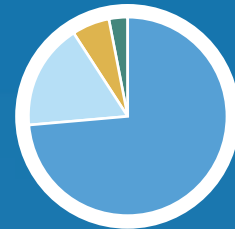
Sales by Segment

- 51% Aviation Supply Chain
- 25% Structures and Systems
- 20% Maintenance, Repair and Overhaul
- 4% Aircraft Sales and Leasing



Sales by Market

- 63% Commercial Aviation
- 36% Defense Services
- 1% Other



Sales by Region

- 73% North America
- 18% Europe
- 6% Asia/Pacific
- 3% Other

Beyond

Beyond a billion. Beyond what we've done
We're moving forward — doing what it takes

First and foremost, we work to stay close to our customers, always and everywhere. The key to AAR's success is our ability to understand our customers' needs, apply innovative thinking and execute consistently.



before. Beyond all expectations.
to continue to improve and grow profitably.



MAINTENANCE, REPAIR AND OVERHAUL

Helping Southwest fly high

AAR is an increasingly valuable partner to one of the airline industry's best-performing carriers, providing heavy maintenance and winglet installations at our state-of-the-art Indianapolis facility.



Our Indianapolis facility's unique docking structure enables two complete crews to work simultaneously above and below the floor level of the aircraft, minimizing the need for ladders and stands while increasing both the safety and speed of operations.

AAR's MRO services are backed by a proven AAR-developed safety management system that leverages best practices from the world's most successful air carriers and the FAA, and includes a companywide airworthiness awareness program.

Southwest Airlines has a well-earned reputation as an on-time, no frills, always-there kind of carrier. With its quick-turn approach to managing assets, Southwest requires maximum efficiency and reliability from its MRO providers. It gets exactly that from AAR. > Selected in December 2006 to perform nose-to-tail heavy maintenance services and winglet installations for

Southwest's Boeing 737 aircraft, AAR quickly established itself as a top performer. Our FAA Diamond Award-winning technical personnel are one factor; another is our advanced MRO facility located at the Indianapolis International Airport, where we do the work. > Our Indianapolis facility is equipped to provide a wide range of maintenance, repair and overhaul services.

Built from the ground up to support lean principles, the facility has features like two-level docking structures, in-hangar production control and high-speed HVAC recovery systems designed to engineer waste out of the MRO process and maximize productivity. More and more, airlines are aligning themselves with AAR for cost-effective MRO services.

Since January 2007, AAR has expanded its business for Southwest Airlines from one line of nose-to-tail heavy maintenance and one line of winglet installations, adding two more lines of heavy maintenance and increasing winglet installations by 40 percent.

Winglets improve aircraft performance by reducing wingtip drag — vortices that develop at the end of the wing during flight. AAR's winglet installations enable Southwest to realize benefits that include improved fuel efficiency, reduced maintenance costs and lower emissions.

AAR's MRO segment provides nose-to-tail support for our customers, including everything from major structural repairs to the replacement of a single part. In addition to Indianapolis, we operate MRO facilities in Oklahoma City, Oklahoma, and Hot Springs, Arkansas; Landing Gear Services facilities in Miami, Florida, and Kuala Lumpur, Malaysia; and an aircraft storage and maintenance operation in Roswell, New Mexico.

"AAR has met or exceeded our expectations from day one. They've been an excellent fit for the way we like to run our airline."

— Jim Sokol, Vice President, Maintenance & Engineering, Southwest Airlines

AVIATION SUPPLY CHAIN

Supply chain support for the USAF's eye in the sky

JSTARS is a mission-critical airborne ground surveillance capability for U.S. defense forces. AAR Aviation Supply Chain plays a key role in keeping it mission capable.

To ensure uninterrupted supply and manage costs, AAR assists Northrop Grumman with the Diminishing Manufacturing Sources and Material Shortages (DMSMS) function by communicating with suppliers, making volume buys and qualifying new sources for older, increasingly hard-to-obtain parts.

JSTARS utilizes sophisticated radar technology aboard specially modified Boeing 707s to detect, identify, track and target hostile ground movements and relay real-time information to U.S. Army and Marine Corps command posts. Because of the extent of aircraft modifications, Northrop Grumman operates as the OEM.

“The ease of communication and shared commitment to providing efficient, cost-effective support has significantly contributed to making our supply chain performance a benchmark for the industry.”

— Terry Jones, Supply Chain Program Manager, TSSR Robins AFB Operations, Northrop Grumman Corporation

The Joint Surveillance Target Attack Radar System (JSTARS) is the most advanced airborne ground surveillance and battle management system in the world. Through secure, real-time tracking and communication of hostile-force ground position and movement, JSTARS is a critical tool for U.S. defense forces. ▶ AAR partners with Northrop Grumman under a performance-based logistics (PBL) contract to manage

the supply chain for JSTARS components. Northrop Grumman is the prime Total Support Systems Responsibility (TSSR) contractor to sustain the 17 JSTARS aircraft and systems. ▶ Awarded the contract in September 2000, AAR was up and running quickly, interfacing with USAF, commercial and AAR IT software systems and establishing a new, dedicated program warehouse near the JSTARS home

base in less than 45 days, well ahead of contractual requirements. ▶ PBLs focus on desired outcomes, such as system reliability, operational availability and reduced logistical footprint. By consistently exceeding goal metrics for inventory availability and accuracy as well as on-time delivery, AAR has developed a reputation for excelling in PBLs and is now involved in 10 PBL programs.

AAR's Aviation Supply Chain segment provides comprehensive supply chain solutions to help commercial and defense customers increase parts availability, minimize downtime and reduce costs. AAR manages everything from individual spare parts to end-to-end programs. In addition, we maintain an extensive inventory of new and refurbished parts for virtually every aircraft type.



AAR monitors and maintains inventory levels in the flyaway kits for JSTARS jets to enable crews to handle many maintenance and repair functions while deployed. AAR has consistently exceeded the required fill rates metric since the beginning of the program.

Operational tempo is a key measurement of equipment deployment that drives demand in a PBL program. The higher the ops tempo, the greater the pressure on the supply chain. AAR has exceeded all outcome metrics in the face of consistently high JSTARS ops tempo, driven by U.S. counter-terrorism operations overseas.

STRUCTURES AND SYSTEMS

Capability and responsiveness for military mobility

AAR Mobility Systems delivers both quality and quantity as a supplier of shelter units for Medium Tactical Vehicles manufactured by BAE Systems (formerly Armor Holdings' Stewart & Stevenson).

AAR shelters contain benches, rack systems and workstations to support such field operations as electronics and vehicle repair, supply management and intelligence planning. AAR delivers the units with basic HVAC, lighting and electrical infrastructure in place.

AAR engineers provided value in the beginning of the process, developing a series of Engineering Change Proposals (ECP) after reviewing the government data drawing package to improve product performance and make it more cost-effective to produce.



BAE Systems signed AAR to provide logistics support for repair and maintenance of the FMTVs, once deployed. AAR will manage logistics and parts inventory out of a warehousing facility located near the Red River Army Depot in Texarkana, Texas.

The 2.5-ton M1079 shop van and M1087 expansible van are part of the Family of Medium Tactical Vehicles (FMTV) designed to support mobile field operations for the U.S. military. Specially designed shelter units attached to the truck chassis are used to provide environmentally protected work space for a variety of activities from maintenance to intelligence planning functions.

› AAR was awarded the contract to manufacture the shelters in 2003 and demand has escalated rapidly, more than doubling the original quantity. Now in year four of the contract, AAR has leveraged lean processes and expanded its production footprint to increase capacity, improving on-time delivery and quality for the program.

› We see continued growth in demand for

the product over the next two years. To meet that growth, we anticipate increasing the delivery of systems from our current 24 per month to 40 systems per month. Adding to our manufacturing role in the program, BAE Systems selected AAR in 2007 to provide logistics and inventory management support for FMTV repair.

AAR's Structures and Systems segment specializes in mobility products, including custom pallets, containers and shelters used by the U.S. defense forces and their allies. Other products include customized in-aircraft cargo loading systems and advanced composite structures for the aviation and transportation industries.

AAR's new manufacturing facility in North Carolina is capable of providing additional capacity and flexibility to meet the growing demand of the FMTV program.

“We have enjoyed a growing, mutually beneficial relationship with AAR based on clear, honest communication and professional respect throughout our organizations. The ultimate benefit of this has been to our customers.”

— Tammara Maiden, Vice President, Contracts and Supply Chain, BAE Systems Sealy

AIRCRAFT SALES AND LEASING

A new relationship in Asia

Responsiveness, flexibility, global teamwork and aircraft expertise were essential to conducting our largest aircraft transaction to date and expanding AAR's presence in a key Asian market.

AAR successfully structured and managed the transaction to make sure there were no service disruptions for MAS, a top-tier Malaysian airline that's passionate about maintaining its award-winning customer experience.

The relationship with PMB and MAS supports AAR's overall strategy to diversify its geographic mix and grow its Asian presence. A deal of this scale with the flagship carrier of a major Asian nation enhances our position and ability to pursue future transactions in the region.

PMB, MAS and AAR were proficient and responsive throughout the entire process, which is crucial to smoothly and rapidly completing a transaction of this magnitude.

AAR's Aircraft Sales and Leasing segment comprises a team of experts in the sourcing, purchasing and remarketing of a broad range of aircraft. They also provide technical services, including aircraft evaluation, lease return condition analysis, aircraft and engine records audits, aircraft preparation and storage, and asset management.



Penerbangan Malaysia Berhad (PMB) — a subsidiary of the Malaysian government and parent company of Malaysian Airlines (MAS) — tendered for sale 18 Boeing 737-400 aircraft in two lots of nine on April 30, 2007. On May 1, AAR was at PMB's offices in Malaysia with an offer to purchase all 18. We completed the PMB transaction and leased the aircraft back to MAS in a matter

of weeks. ▶ The opportunity fit perfectly with key AAR strengths — specialized expertise in midlife, midsize aircraft, and extensive experience with airlines. Working with this type of aircraft affords us the opportunity to interface with our other divisions to get maximum value throughout the life of the asset; our airline experience helped ensure that MAS's needs

were met in the transaction. ▶ The market for midlife aircraft is strong. New aircraft deliveries are falling short of orders while global air traffic continues to grow. This, plus the high cost of capital, makes the purchase or leasing of midlife aircraft a better, more flexible option for many carriers.



The PMB/MAS transaction represented a strategic buy for AAR, the first 18-aircraft purchase in our history. Working with a joint venture partner, we leveraged our specialized knowledge of aircraft and understanding of airline requirements.

“Despite tight time constraints and working from different locations and time zones, the transaction was completed successfully as a result of the fine cooperation and flexibility of all parties involved.”

— PMB & MAS Sales and Leasing Team

AAR LEADERSHIP

Officers, Directors and Committees

An accomplished and experienced leadership team dedicated to integrity, fiscal responsibility, operational excellence, customer satisfaction and generating shareholder value.

Corporate Officers

David P. Storch
Chairman and Chief Executive Officer

Timothy J. Romenesko
President and Chief Operating Officer

Michael K. Carr
Vice President, Tax

Peter K. Chapman
Vice President and Chief Commercial Officer

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

Richard J. Poulton
Vice President, Chief Financial Officer and Treasurer

David E. Prusiecki
Vice President, Defense Programs

Howard A. Pulsifer
Vice President, General Counsel and Secretary

Michael J. Sharp
Vice President, Controller and Chief Accounting Officer

Timothy O. Skelly
Vice President, Human Resources

Terry D. Stinson
Group Vice President, Structures and Systems

Board of Directors

David P. Storch
Chairman 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
Chairman, Durango Group, LLC

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

Timothy J. Romenesko
President and Chief Operating Officer,
AAR CORP.

Marc J. Walfish
Founder, Merit Capital Partners

Ronald B. Woodard
Chairman of MagnaDrive, Inc.
Retired President of the Boeing
Commercial Airplane Group

Honorary
Ira A. Eichner
Founder and
Chairman of the Board Emeritus

Board Committees

Audit
James E. Goodwin,
Chairman
James G. Brocksmith, Jr.
Gerald F. Fitzgerald, Jr.
Marc J. Walfish
Ronald B. Woodard

Executive
David P. Storch,
Chairman
James E. Goodwin
Timothy J. Romenesko
Marc J. Walfish

Compensation
James G. Brocksmith, Jr.,
Chairman
Michael R. Boyce
Ronald R. Fogleman
Patrick J. Kelly
Ronald B. Woodard

Nominating & Governance
Ronald R. Fogleman,
Chairman
Michael R. Boyce
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

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 17, 2007, 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
www.aarcorp.com