

NEWS

For immediate release

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AAR REPORTS SECOND QUARTER RESULTS

- Fiscal year 2010 second quarter sales of \$329 million
- \$0.34 diluted earnings per share
- Second quarter cash flow from operations of \$24 million
- Announced significant new business wins

WOOD DALE, ILLINOIS (December 15, 2009) — AAR (NYSE: AIR) today reported fiscal year 2010 second quarter sales of \$328.7 million and net income attributable to AAR of \$13.3 million or \$0.34 per diluted share. Sales to defense and government customers increased 4%, year-over-year, and represented 48% of total sales while sales to commercial customers declined 15%. For the second quarter of last fiscal year, the Company reported sales of \$353.6 million and net income attributable to AAR of \$10.4 million or \$0.27 per diluted share. The prior year second quarter results included a \$21.0 million impairment charge related to aircraft and a gain on extinguishment of debt of \$11.2 million.

“Against a reasonably tough economic environment, the Company delivered solid second quarter results. We achieved strong sequential earnings growth, had solid margin expansion, and generated cash as we gained the benefits of process improvement initiatives, cost reductions, and improved mix,” said David P. Storch, Chairman and Chief Executive Officer of AAR CORP. “I am also pleased with several new business wins. The Company won a meaningful contract to provide supply chain services and logistics support for the USAF’s KC-10 fleet. Additionally, in the face of a soft commercial market, we increased our market share by winning several previously unannounced awards providing MRO and supply chain services. We will begin to see the benefits of these new business awards in our third quarter and will be fully ramped in our fourth quarter.”

Following are the highlights for each segment:

Aviation Supply Chain - Sales declined 11% to \$134.5 million for the second quarter and gross profit was \$29.2 million, resulting in a gross profit margin of 21.7% compared to 10.9% in last



year's second quarter. Excluding the prior year aircraft impairment charge of \$21.0 million, last year's second quarter gross profit margin was 24.8%.

During the second quarter of Fiscal Year 2010, the Company won a contract to provide supply chain services and logistics support on the KC-10 Extender Contractor Logistics Support program, as a member of the Northrop Grumman team. The Company's portion of the indefinite delivery/indefinite quantity contract is valued at approximately \$600 million over nine years and is expected to begin generating revenue in February 2010.

Maintenance, Repair, and Overhaul - Sales declined 18% to \$71.4 million for the second quarter and gross profit declined 35% to \$8.8 million, resulting in a gross profit margin of 12.3% compared to 15.4% last year. Revenues and margins in this segment were lower as the Company completed two programs and the Company experienced lower shop inputs from its airline customers in the second quarter.

During the second quarter, the Company won significant maintenance and engineering business from new and existing customers. This work began in December and will increase through January. Once fully operational, the new business is expected to generate incremental revenue at a run rate of between \$5 million and \$10 million per quarter.

Structures and Systems - Sales increased 7% to \$122.8 million for the second quarter and gross profit increased 38% to \$25.9 million, resulting in a gross profit margin of 21.1% compared to 16.4% last year. Sales were favorably impacted by increased demand for the Company's specialized mobility products. The gross profit margin improvement was driven by cost reduction and process improvement initiatives, favorable product mix and increased volume.

The Company signed an agreement with Sikorsky Aircraft Corporation naming AAR as the exclusive provider of composite interiors for the Sikorsky S-92 Offshore/Airline Program. In addition, the agreement formalizes an arrangement between the two companies to explore opportunities to align AAR's diverse capabilities with Sikorsky's manufacturing and support requirements, strengthening AAR's presence in the rotorcraft market.

During the second quarter, the Company generated \$24 million of cash flow from operations and ended the period with \$105.7 million of cash and cash equivalents on hand. The Company also reduced its borrowings under its revolving credit agreement by \$30 million. For the six-month period ended November 30, 2009, the Company generated \$58 million of cash flow from operations. At November 30, 2009, cash on hand and borrowing capacity under the Company's credit agreements totaled \$329 million.

Selling, general and administrative expenses were \$37.6 million, 2% lower than the prior year, and included \$2.2 million of costs associated with AAR Global Solutions, which was launched in

fiscal year 2010. Net interest expense decreased \$1.7 million year-over-year as a result of the decline in debt outstanding.

AAR is a leading provider of products and value-added services to the worldwide aerospace and defense industry. With facilities and sales locations around the world, AAR uses its close-to-the-customer business model to serve aviation and defense customers through its operating segments: Aviation Supply Chain; Maintenance, Repair and Overhaul; and Structures and Systems. More information can be found at www.aarcorp.com.

AAR will hold its quarterly conference call at 7:30 a.m. CST on December 16, 2009. The conference call can be accessed by calling 866-219-5631 from inside the U.S. or 703-639-1122 from outside the U.S. A replay of the call will be available by calling 888-266-2081 from inside the U.S. or 703-925-2533 from outside the U.S. (access code 1417889) from 11:30 a.m. CST on December 16, 2009 until 11:59 p.m. CDT on December 23, 2009.

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This press release contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of Company management, as well as assumptions and estimates based on information currently available to the Company, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, including those factors discussed under Item 1A, entitled "Risk Factors", included in the Company's May 31, 2009 Form 10-K. Should one or more of these risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. These events and uncertainties are difficult or impossible to predict accurately and many are beyond the Company's control. The Company assumes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. For additional information, see the comments included in AAR's filings with the Securities and Exchange Commission.

AAR CORP. and Subsidiaries

| <u>Consolidated Statements of Operations</u> <i>(In thousands except per share data - unaudited)</i> | <u>Three Months Ended</u> <u>November 30,</u> | | <u>Six Months Ended</u> <u>November 30,</u> | |
|---|--|-------------|--|-------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Sales | \$328,684 | \$ 353,572 | \$670,207 | \$713,476 |
| Cost and expenses: | | | | |
| Cost of sales | 264,824 | 283,730 | 552,324 | 576,496 |
| Cost of sales – impairment charges | --- | 21,033 | --- | 21,033 |
| Selling, general and administrative | 37,591 | 38,205 | 74,483 | 75,003 |
| Earnings from aircraft joint ventures | 11 | 4,364 | 94 | 5,812 |
| Operating income | 26,280 | 14,968 | 43,494 | 46,756 |
| Gain on extinguishment of debt | --- | 11,187 | 913 | 10,503 |
| Interest expense | 6,463 | 8,418 | 13,020 | 16,567 |
| Interest income | 290 | 496 | 606 | 862 |
| Income from continuing operations before income taxes | 20,107 | 18,233 | 31,993 | 41,554 |
| Income tax expense | 6,914 | 6,208 | 9,642 | 14,223 |
| Income from continuing operations | 13,193 | 12,025 | 22,351 | 27,331 |
| Discontinued operations, net or tax | --- | (1,618) | --- | (1,949) |
| Net income attributable to AAR and noncontrolling interest | 13,193 | 10,407 | 22,351 | 25,382 |
| Loss attributable to noncontrolling interest | 119 | --- | 1,165 | --- |
| Net income attributable to AAR | \$13,312 | \$10,407 | \$23,516 | \$25,382 |
| Share Data: | | | | |
| Earnings per share - Basic: | | | | |
| Earnings from continuing operations | \$ 0.35 | \$ 0.32 | \$ 0.62 | \$0.72 |
| Loss from discontinued operations | --- | (0.04) | --- | (0.05) |
| Earnings per share – Basic | \$ 0.35 | \$ 0.27 | \$ 0.62 | \$ 0.67 |
| Earnings per share – Diluted: | | | | |
| Earnings from continuing operations | \$ 0.34 | \$ 0.31 | \$ 0.61 | \$ 0.70 |
| Loss from discontinued operations | --- | (0.04) | --- | (0.04) |
| Earnings per share – Diluted | \$ 0.34 | \$ 0.27 | \$ 0.61 | \$ 0.66 |
| Share Data: | | | | |
| Average shares outstanding – Basic | 38,143 | 38,079 | 38,121 | 38,088 |
| Average shares outstanding – Diluted | 42,869 | 42,802 | 42,764 | 42,877 |

| <u>Consolidated Balance Sheet Highlights</u> (In thousands except per share data) | <u>November 30,</u> <u>2009</u> | <u>May 31,</u> <u>2009</u> |
|--|------------------------------------|-------------------------------|
| | (Unaudited) | |
| Cash and cash equivalents | \$ 105,703 | \$ 112,505 |
| Current assets | 794,590 | 851,312 |
| Current liabilities (excluding debt accounts) | 158,364 | 190,818 |
| Net property, plant and equipment | 130,020 | 125,048 |
| Total assets | 1,317,706 | 1,375,905 |
| Total recourse debt | 318,921 | 353,028 |
| Total non-recourse obligations | 27,360 | 38,781 |
| Stockholders' equity | 724,777 | 696,734 |
| Book value per share | \$ 18.62 | \$ 17.92 |
| Shares outstanding | 38,932 | 38,884 |

| <u>Sales By Business Segment</u> (In thousands - unaudited) | <u>Three Months Ended</u> <u>November 30,</u> | | <u>Six Months Ended</u> <u>November 30,</u> | |
|--|--|-------------------|--|-------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Aviation Supply Chain | \$ 134,471 | \$ 151,423 | \$ 275,556 | \$ 308,248 |
| Maintenance, Repair & Overhaul | 71,373 | 87,437 | 150,117 | 173,747 |
| Structures and Systems | 122,840 | 114,712 | 244,534 | 231,481 |
| | <u>\$ 328,684</u> | <u>\$ 353,572</u> | <u>\$ 670,207</u> | <u>\$ 713,476</u> |

| <u>Gross Profit By Business Segment</u> (In thousands - unaudited) | <u>Three Months Ended</u> <u>November 30,</u> | | <u>Six Months Ended</u> <u>November 30,</u> | |
|---|--|------------------|--|-------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Aviation Supply Chain | \$ 29,151 | \$ 16,450 | \$ 51,887 | \$ 53,381 |
| Maintenance, Repair & Overhaul | 8,759 | 13,503 | 19,354 | 26,256 |
| Structures and Systems | 25,950 | 18,856 | 46,642 | 36,310 |
| | <u>\$ 63,860</u> | <u>\$ 48,809</u> | <u>\$ 117,883</u> | <u>\$ 115,947</u> |

| <u>Diluted Earnings Per Share Calculation</u> (In thousands except per share data - unaudited) | <u>Three Months Ended</u> <u>November 30,</u> | | <u>Six Months Ended</u> <u>November 30,</u> | |
|---|--|------------------|--|------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| Net income attributable to AAR | \$13,312 | \$ 10,407 | \$ 23,516 | \$ 25,382 |
| Add: After-tax interest on convertible debt | 1,308 | 1,398 | 2,596 | 2,807 |
| Net income for diluted EPS calculation | <u>\$ 14,620</u> | <u>\$ 11,805</u> | <u>\$ 26,112</u> | <u>\$ 28,189</u> |
| Diluted shares outstanding | 42,869 | 42,802 | 42,764 | 42,877 |
| Diluted earnings per share | <u>\$ 0.34</u> | <u>\$ 0.27</u> | <u>\$ 0.61</u> | <u>\$ 0.66</u> |

Adoption of New Accounting Standards:

Effective June 1, 2009, we adopted a new accounting standard that requires companies that have issued convertible debt that may be settled wholly or partly in cash when converted, to account for the debt and equity components separately. The value assigned to the bond liability is the estimated value of a similar bond without the conversion feature as of the issuance date. The difference between the proceeds received for the convertible debt and the amount reflected as a bond liability is recorded as Capital Surplus, net of tax. The bifurcation of the debt and equity components results in a discounted carrying value of the debt component compared to the principal amount. The discount is accreted to the carrying value of the debt component through interest expense over the expected life of the debt using the effective interest method. The standard requires retrospective application and impacts the accounting for our 1.625% and 2.25% convertible notes issued in February 2008 and our 1.75% convertible notes issued in February 2006.

The following table sets forth the impact of retrospective application of the new standard on certain previously reported items for the three-month period ended November 30, 2008.

| | Previously Reported | FSP APB 14-1 Impact | As Adjusted |
|--|------------------------|------------------------|-------------|
| Gain on extinguishment of debt | \$22,098 | (\$10,911) | 11,187 |
| Interest expense | 4,981 | 3,437 | 8,418 |
| Income tax expense | 11,229 | (5,021) | 6,208 |
| Income from continuing operations | 21,352 | (9,327) | 12,025 |
| Net income attributable to AAR | 19,734 | (9,327) | 10,407 |
| Earnings per share – basic | | | |
| Continuing operations | \$0.56 | (\$0.24) | \$0.32 |
| Discontinued operations | (0.04) | --- | (0.04) |
| | \$0.52 | (\$0.24) | \$0.27 |
| Earnings per share – diluted | | | |
| Continuing operations | \$0.51 | (\$0.20) | \$0.31 |
| Discontinued operations | (0.04) | --- | (0.04) |
| | \$0.47 | (\$0.20) | \$0.27 |

Note: Pursuant to SEC Regulation G, the Company has included the following reconciliations of financial measures reported on a non-GAAP basis to comparable financial measures reported on the basis of Generally Accepted Accounting Principles (“GAAP”). The Company believes that the adjusted gross margin percentage for the three-month period ended November 30, 2008 is an important ratio to use for comparison purposes to the current year’s gross profit margin.

| <u>Aviation Supply Chain</u> (In thousands) | Three Months Ended <u>November 30, 2008</u> |
|--|--|
| Sales | <u>\$151,423</u> |
| Gross margin as reported | \$16,450 |
| Impairment charge | <u>21,033</u> |
| Gross margin adjusted for impairment charge | <u>\$37,483</u> |
| Gross margin % as reported | 10.9% |
| Gross margin % adjusted for impairment charge | 24.8% |
