
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended August 31, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **1-6263**

AAR CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation
or organization)

36-2334820

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

60191

(Zip Code)

(630) 227-2000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<i>Title of Each Class</i>	<i>Trading Symbol(s)</i>	<i>Name of Each Exchange on Which Registered</i>
Common Stock, \$1.00 par value	AIR	New York Stock Exchange Chicago Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 31, 2023 there were 35,294,997 shares of the registrant's Common Stock, \$1.00 par value per share, outstanding.

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AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended August 31, 2023
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PART I – FINANCIAL INFORMATION**Item 1 – Financial Statements**

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of August 31, 2023 and May 31, 2023
(In millions, except share data)

ASSETS	August 31, 2023 (Unaudited)	May 31, 2023
Current assets:		
Cash and cash equivalents	\$ 70.3	\$ 68.4
Restricted cash	19.9	13.4
Accounts receivable, less allowances of \$14.1 and \$13.4, respectively	280.6	241.3
Contract assets	99.3	86.9
Inventories	614.2	574.1
Rotable assets and equipment on or available for short-term lease	51.7	50.6
Assets of discontinued operations	12.6	13.5
Prepaid expenses and other current assets	58.6	49.7
Total current assets	<u>1,207.2</u>	<u>1,097.9</u>
Property, plant, and equipment, net of accumulated depreciation of \$272.8 and \$268.8, respectively	<u>131.0</u>	<u>126.1</u>
Other assets:		
Goodwill	177.4	175.8
Intangible assets, net of accumulated amortization of \$7.1 and \$6.0, respectively	62.6	63.7
Operating lease right-of-use assets, net	67.3	63.7
Rotable assets supporting long-term programs	176.8	178.1
Other non-current assets	132.1	127.8
	<u>616.2</u>	<u>609.1</u>
	<u>\$ 1,954.4</u>	<u>\$ 1,833.1</u>

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of August 31, 2023 and May 31, 2023
(In millions, except share data)

LIABILITIES AND EQUITY

	August 31, 2023 (Unaudited)	May 31, 2023
Current liabilities:		
Accounts payable	\$ 222.2	\$ 158.5
Accrued liabilities	158.9	179.6
Liabilities of discontinued operations	12.4	13.4
Total current liabilities	<u>393.5</u>	<u>351.5</u>
Long-term debt	304.8	269.7
Operating lease liabilities	51.5	48.2
Deferred tax liabilities	39.7	33.6
Other liabilities	43.0	31.0
	<u>439.0</u>	<u>382.5</u>
Equity:		
Preferred stock, \$1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, \$1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	481.8	484.5
Retained earnings	910.0	910.6
Treasury stock, 10,005,789 and 10,385,237 shares at cost, respectively	(307.1)	(317.8)
Accumulated other comprehensive loss	(8.1)	(23.5)
Total equity	<u>1,121.9</u>	<u>1,099.1</u>
	<u>\$ 1,954.4</u>	<u>\$ 1,833.1</u>

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Three Months Ended August 31, 2023 and 2022
(Unaudited)
(In millions, except share data)

	Three Months Ended August 31,	
	2023	2022
Sales:		
Sales from products	\$ 337.5	\$ 265.2
Sales from services	212.2	181.1
	<u>549.7</u>	<u>446.3</u>
Cost of sales:		
Cost of products	273.8	214.0
Cost of services	174.6	150.4
	<u>448.4</u>	<u>364.4</u>
Gross profit	101.3	81.9
Provision for credit losses	0.4	—
Selling, general, and administrative	74.7	50.1
Loss from joint ventures	(0.9)	(0.6)
Operating income	25.3	31.2
Pension settlement charge	(26.7)	—
Losses related to sale and exit of business	(0.7)	—
Other income, net	—	0.2
Interest expense	(5.8)	(1.1)
Interest income	0.4	0.1
Income (Loss) from continuing operations before income taxes	(7.5)	30.4
Income tax expense (benefit)	(6.9)	8.1
Income (Loss) from continuing operations	(0.6)	22.3
Income from discontinued operations, net of tax	—	0.4
Net income (loss)	<u>\$ (0.6)</u>	<u>\$ 22.7</u>
Earnings (Loss) per share – basic:		
Earnings (Loss) from continuing operations	\$ (0.02)	\$ 0.63
Earnings from discontinued operations	—	0.01
Earnings (Loss) per share – basic	<u>\$ (0.02)</u>	<u>\$ 0.64</u>
Earnings (Loss) per share – diluted:		
Earnings (Loss) from continuing operations	\$ (0.02)	\$ 0.62
Earnings from discontinued operations	—	0.01
Earnings (Loss) per share – diluted	<u>\$ (0.02)</u>	<u>\$ 0.63</u>

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the Three Months Ended August 31, 2023 and 2022
(Unaudited)
(In millions)

	Three Months Ended	
	August 31,	
	2023	2022
Net income (loss)	\$ (0.6)	\$ 22.7
Other comprehensive income (loss), net of tax:		
Currency translation adjustments	0.5	(3.3)
Pension and other post-retirement plans, net of tax	14.9	0.2
Other comprehensive income (loss), net of tax	15.4	(3.1)
Comprehensive income	<u>\$ 14.8</u>	<u>\$ 19.6</u>

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended August 31, 2023 and 2022
(Unaudited)
(In millions)

	Three Months Ended August 31,	
	2023	2022
Cash flows provided by (used in) operating activities:		
Net income (loss)	\$ (0.6)	\$ 22.7
Less: Income from discontinued operations	—	(0.4)
Income from continuing operations	(0.6)	22.3
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	8.4	6.8
Stock-based compensation	4.3	4.1
Pension settlement charge	26.7	—
Loss from joint ventures	0.9	0.6
Provision for credit losses	0.4	—
Deferred tax benefit	(4.6)	—
Changes in certain assets and liabilities:		
Accounts receivable	(40.5)	(7.7)
Contract assets	(12.3)	(14.2)
Inventories	(39.8)	(26.0)
Prepaid expenses and other current assets	(8.8)	6.6
Rotable assets supporting long-term programs	(1.0)	(3.1)
Accounts payable	64.2	38.4
Accrued and other liabilities	(10.0)	(27.2)
Deferred revenue on long-term programs	(4.3)	6.5
Other	(1.5)	(0.1)
Net cash provided by (used in) operating activities – continuing operations	(18.5)	7.0
Net cash used in operating activities - discontinued operations	(0.2)	(0.2)
Net cash provided by (used in) operating activities	(18.7)	6.8
Cash flows used in investing activities:		
Property, plant, and equipment expenditures	(9.1)	(6.7)
Other	(2.5)	(4.0)
Net cash used in investing activities – continuing operations	(11.6)	(10.7)
Cash flows provided by (used in) financing activities:		
Short-term borrowings on Revolving Credit Facility, net	35.0	15.0
Purchase of treasury stock	—	(21.9)
Stock compensation activity	3.7	0.4
Net cash provided by (used in) financing activities – continuing operations	38.7	(6.5)
Effect of exchange rate changes on cash	—	(0.1)
Increase (Decrease) in cash, cash equivalents, and restricted cash	8.4	(10.5)
Cash, cash equivalents, and restricted cash at beginning of period	81.8	58.9
Cash, cash equivalents, and restricted cash at end of period	\$ 90.2	\$ 48.4

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Three Months Ended August 31, 2023 and 2022
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance, May 31, 2023	\$ 45.3	\$ 484.5	\$ 910.6	\$ (317.8)	\$ (23.5)	\$ 1,099.1
Net loss	—	—	(0.6)	—	—	(0.6)
Stock option activity	—	(0.3)	—	7.0	—	6.7
Restricted stock activity	—	(2.4)	—	3.7	—	1.3
Other comprehensive income, net of tax	—	—	—	—	15.4	15.4
Balance, August 31, 2023	<u>\$ 45.3</u>	<u>\$ 481.8</u>	<u>\$ 910.0</u>	<u>\$ (307.1)</u>	<u>\$ (8.1)</u>	<u>\$ 1,121.9</u>

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance, May 31, 2022	\$ 45.3	\$ 477.5	\$ 820.4	\$ (289.1)	\$ (19.6)	\$ 1,034.5
Net income	—	—	22.7	—	—	22.7
Stock option activity	—	1.0	—	1.5	—	2.5
Restricted stock activity	—	(1.7)	—	3.5	—	1.8
Repurchase of shares	—	—	—	(21.9)	—	(21.9)
Other comprehensive loss, net of tax	—	—	—	—	(3.1)	(3.1)
Balance, August 31, 2022	<u>\$ 45.3</u>	<u>\$ 476.8</u>	<u>\$ 843.1</u>	<u>\$ (306.0)</u>	<u>\$ (22.7)</u>	<u>\$ 1,036.5</u>

The accompanying Notes to Condensed Consolidated Financial
Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2023
(Unaudited)
(Dollars in millions, except per share amounts)

Note 1 – Basis of Presentation

AAR CORP. and its subsidiaries are referred to herein collectively as “AAR,” “Company,” “we,” “us,” or “our,” unless the context indicates otherwise. The accompanying Condensed Consolidated Financial Statements include the accounts of AAR and its subsidiaries after elimination of intercompany accounts and transactions.

We have prepared these statements without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). The Condensed Consolidated Balance Sheet as of May 31, 2023 has been derived from audited financial statements. To prepare the financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”), management has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain information and note disclosures, normally included in comprehensive financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such rules and regulations of the SEC. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the Condensed Consolidated Balance Sheet of AAR CORP. and its subsidiaries as of August 31, 2023, the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income for the three-month periods ended August 31, 2023 and 2022, the Condensed Consolidated Statements of Cash Flows for the three-month periods ended August 31, 2023 and 2022, and the Condensed Consolidated Statement of Changes in Equity for the three-month periods ended August 31, 2023 and 2022. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Note 2 – Discontinued Operations

During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated (“COCO”) business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations.

Following the sale of the last operating contract of the COCO business in 2020, our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of the COCO business. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use (“ROU”) assets and lease-related liabilities.

Note 3 – Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as whether the good or service being provided is significantly integrated with other promises in the contract, whether the service provided significantly modifies or customizes another good or service or whether the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2023
(Unaudited)
(Dollars in millions, except per share amounts)

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products typically represent distinct performance obligations and are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation.

We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved can include customer volume, future labor costs and efficiencies, repair or overhaul costs, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

We utilize the portfolio approach to estimate the amount of revenue to recognize for certain contracts which require over-time revenue recognition. Such contracts are grouped together either by revenue stream, customer or product line with each portfolio of contracts grouped together based on having similar characteristics. The portfolio approach is utilized only when the result of the accounting is not expected to be materially different than if applied to individual contracts.

We also may enter into offset agreements or conditions as part of obtaining orders for our products and services from certain government customers in foreign countries. These agreements are designed to enhance the social and economic environment of the foreign country by requiring the contractor to promote investment in the country. These agreements also may be satisfied through our use of cash or other means of providing financial support for in-country projects with local companies. The amounts ultimately applied against our offset agreements are based on negotiations with the customer and satisfaction of our offset obligations are included in the estimates of our total costs to complete the contract.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Certain contracts with customers have options for the customer to acquire additional goods or services. In most cases, the pricing of these options are reflective of the standalone selling price of the good or service. These options do not provide the customer with a material right and are accounted for only when the customer exercises the option to purchase the additional goods or services. If the option on the customer contract was not indicative of the standalone selling price of the good or service, the material right would be accounted for as a separate performance obligation.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2023
(Unaudited)
(Dollars in millions, except per share amounts)

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

In the ordinary course of business, agencies of the U.S. and other governments audit our claimed indirect costs and conduct inquiries and investigations of our business practices with respect to government contracts to determine whether our operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government agencies, including the Defense Contract Audit Agency (“DCAA”), routinely audit our claimed indirect costs, for compliance with the Cost Accounting Standards and the Federal Acquisition Regulations. These agencies also conduct reviews and investigations and make inquiries regarding our accounting and other systems in connection with our performance and business practices with respect to our government contracts and subcontracts.

Costs to fulfill and obtain a contract are considered for capitalization based on contract specific facts and circumstances. The incremental costs to fulfill a contract, including setup and implementation costs prior to beginning the period of performance, may be capitalized when expenses are incurred prior to the start of satisfying a performance obligation. The capitalized costs are subsequently expensed over the contract’s period of performance.

We have elected to use certain practical expedients permitted under Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Condensed Consolidated Statements of Operations and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statements of Operations are net of any sales or related non-income taxes. We also utilize the “as invoiced” practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Cumulative Catch-up Adjustments

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management, supply chain logistics programs, and/or repair services.

For the three-month period ended August 31, 2023, we recognized favorable and (unfavorable) cumulative catch-up adjustments of \$3.0 million and \$(2.5) million, respectively. For the three-month period ended August 31, 2022, we recognized a favorable cumulative catch-up adjustment of \$2.9 million.

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. For instances where we recognize revenue prior to having an unconditional right to payment, we record a contract asset or liability. When an unconditional right to consideration exists, we reduce our contract asset or liability and recognize an unbilled or trade receivable. When amounts are dependent on factors other than the passage of time in order for payment from a customer to be due, we record a contract asset which consists of costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2023
(Unaudited)
(Dollars in millions, except per share amounts)

Net contract assets and liabilities are as follows:

	August 31, 2023	May 31, 2023	Change
Contract assets – current	\$ 99.3	\$ 86.9	\$ 12.4
Contract assets – non-current	30.8	27.5	3.3
Contract liabilities:			
Deferred revenue – current	(25.4)	(19.7)	(5.7)
Deferred revenue on long-term contracts	(11.7)	(12.7)	1.0
Net contract assets	<u>\$ 93.0</u>	<u>\$ 82.0</u>	<u>\$ 11.0</u>

Contract assets – non-current is reported within Other non-current assets, contract liabilities – current is reported within Accrued liabilities, and deferred revenue on long-term contracts is reported within Other liabilities on our Condensed Consolidated Balance Sheets. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and payments from customers.

To support our power-by-the-hour customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement included certain minimum repair volume guarantees, which we have not met. To date, we have recognized charges of \$8.1 million to reflect our obligations for not achieving the minimum volume guarantees. As of August 31, 2023, our Condensed Consolidated Balance Sheet included remaining loss reserves of \$5.1 million with \$4.4 million classified as current in Accrued liabilities and \$0.7 million classified as long-term in Other liabilities.

Changes in our deferred revenue were as follows for the three-month periods ended August 31, 2023 and 2022:

	Three Months Ended August 31,	
	2023	2022
Deferred revenue at beginning of period	\$ (32.4)	\$ (30.6)
Revenue deferred	(66.8)	(57.5)
Revenue recognized	61.1	53.5
Other ⁽¹⁾	1.0	1.1
Deferred revenue at end of period	<u>\$ (37.1)</u>	<u>\$ (33.5)</u>

⁽¹⁾ Other includes cumulative catch-up adjustments, foreign currency translation, and other adjustments.

Remaining Performance Obligations

As of August 31, 2023, we had approximately \$810 million of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity contracts. We expect that approximately 55% of this backlog will be recognized as revenue over the next 12 months with approximately 45% of the remainder recognized over the next three years. The amount of remaining performance obligations that are expected to be recognized as revenue beyond 12 months, primarily relates to our long-term programs where we provide component inventory management, supply chain logistics programs and/or repair services.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2023
(Unaudited)
(Dollars in millions, except per share amounts)

Disaggregation of Revenue

Third-party sales across the major customer markets for each of our operating segments for the three-month periods ended August 31, 2023 and 2022 were as follows:

	Three Months Ended August 31,	
	2023	2022
Parts Supply:		
Commercial	\$ 206.0	\$ 129.8
Government and defense	30.8	38.8
	<u>\$ 236.8</u>	<u>\$ 168.6</u>
Repair & Engineering		
Commercial	\$ 121.6	\$ 112.7
Government and defense	15.9	14.9
	<u>\$ 137.5</u>	<u>\$ 127.6</u>
Integrated Solutions:		
Commercial	\$ 62.8	\$ 49.6
Government and defense	93.5	78.2
	<u>\$ 156.3</u>	<u>\$ 127.8</u>
Expeditionary Services:		
Commercial	\$ 2.1	\$ 1.5
Government and defense	17.0	20.8
	<u>\$ 19.1</u>	<u>\$ 22.3</u>

Consolidated sales by geographic region for the three-month periods ended August 31, 2023 and 2022 were as follows:

	Three Months Ended August 31,	
	2023	2022
U.S./Canada	\$ 408.9	\$ 345.2
Europe/Africa	91.4	62.8
Asia/South Pacific	41.2	31.0
Other	8.2	7.3
	<u>\$ 549.7</u>	<u>\$ 446.3</u>

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
August 31, 2023
(Unaudited)
(Dollars in millions, except per share amounts)

Note 4 – Accounts Receivable

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. The composition of our accounts receivable is as follows:

	August 31, 2023	May 31, 2023
U.S. Government contracts:		
Trade receivables	\$ 16.0	\$ 13.1
Unbilled receivables	17.0	18.9
	33.0	32.0
All other customers:		
Trade receivables	207.4	179.7
Unbilled receivables	40.2	29.6
	247.6	209.3
	<u>\$ 280.6</u>	<u>\$ 241.3</u>

Note 5 – Accounting for Stock-Based Compensation*Restricted Stock*

In the three-month period ended August 31, 2023, as part of our annual long-term stock incentive compensation, we granted 81,100 shares of performance-based restricted stock and 87,130 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was \$58.27 (the closing price per share of our common stock on the grant date). We also granted 21,834 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of \$51.51 (the closing price per share of our common stock on the grant date).

Expense charged to operations for restricted stock during each of the three-month periods ended August 31, 2023 and 2022 was \$3.4 million and \$3.0 million, respectively.

Stock Options

In July 2023, as part of our annual long-term stock incentive compensation, we granted 141,545 stock options to eligible employees at an exercise price per share of \$58.27 and grant date fair value per share of \$25.31. The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.1 %
Expected volatility of common stock	42.3 %
Dividend yield	0.0 %
Expected option term in years	5.1

The total intrinsic value of stock options exercised during the three-month periods ended August 31, 2023 and 2022 was \$7.6 million and \$0.9 million, respectively. Expense charged to operations for stock options during the three-month periods ended August 31, 2023 and 2022 was \$0.9 million and \$1.1 million, respectively.

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Note 6 – Inventories

The summary of inventories is as follows:

	August 31, 2023	May 31, 2023
Aircraft and engine parts, components and finished goods	\$ 534.1	\$ 488.9
Raw materials and parts	52.4	59.6
Work-in-process	27.7	25.6
	<u>\$ 614.2</u>	<u>\$ 574.1</u>

Note 7 – Supplemental Cash Flow Information

	Three Months Ended August 31,	
	2023	2022
Interest paid	\$ 5.3	\$ 0.8
Income taxes paid	6.7	4.1
Income tax refunds received	—	0.2
Operating lease liabilities arising from obtaining or re-measuring ROU assets	6.9	0.3

Note 8 – Sale of Receivables

On February 23, 2018, we entered into a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to \$150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2024, but, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheets.

During the three-month periods ended August 31, 2023 and 2022, we sold \$35.0 million and \$43.4 million, respectively, of receivables under the Purchase Agreement and remitted \$34.1 million and \$43.5 million, respectively, to the Purchaser on their behalf. As of August 31, 2023 and May 31, 2023, we had collected cash of \$7.6 million and \$1.3 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

We recognize discounts on the sale of our receivables and other fees related to the Purchase Agreement in Other income, net on our Condensed Consolidated Statements of Operations. We incurred discounts on the sale of our receivables of \$0.2 million and \$0.1 million during the three-month periods ended August 31, 2023 and 2022, respectively.

Note 9 – Financing Arrangements

A summary of the carrying amount of our debt is as follows:

	August 31, 2023	May 31, 2023
Revolving Credit Facility with interest payable monthly	\$ 307.0	\$ 272.0
Debt issuance costs, net	(2.2)	(2.3)
Long-term debt	<u>\$ 304.8</u>	<u>\$ 269.7</u>

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At August 31, 2023, our debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy.

On December 14, 2022, we entered into a credit agreement with various financial institutions as lenders and Wells Fargo Bank, N.A. as administrative agent for the lenders (the "Credit Agreement"). The Credit Agreement provides for a \$620 million unsecured revolving credit facility (the "Revolving Credit Facility") that we can draw upon for working capital and general corporate purposes. Under certain circumstances, we may request an increase to the lending commitments under the Credit Agreement by an aggregate amount of up to \$300 million, not to exceed \$920 million in total. The Credit Agreement expires on December 14, 2027. Borrowings under the Credit Agreement bear interest at a variable rate based on the secured overnight financing rate, or SOFR, plus 112.5 to 200 basis points based on certain financial measurements if a SOFR loan, or at the offered fluctuating Base Rate plus 12.5 to 100 basis points based on certain financial measurements if a Base Rate loan.

On December 14, 2022, and in connection with our entry into the Credit Agreement, we terminated our revolving credit facility under the credit agreement dated April 12, 2011, as amended, (the "2011 Credit Agreement") with the outstanding borrowings under the 2011 Credit Agreement at the date of its termination rolled over to the Credit Agreement.

Borrowings outstanding under the Revolving Credit Facility at August 31, 2023 were \$307.0 million and there were approximately \$11.1 million of outstanding letters of credit, which reduced the availability of this facility to \$301.9 million.

Our financing arrangements require us to comply with leverage and interest coverage ratios and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. Our Credit Agreement also requires our significant domestic subsidiaries to provide a guarantee of payment under the Credit Agreement. At August 31, 2023, we were in compliance with the financial and other covenants in our financing agreements.

Note 10 – Other Non-current Assets

Investment in Indian Joint Venture

Our investments in joint ventures include \$9.4 million for our 40% ownership interest in a joint venture in India to operate an airframe maintenance facility. The facility received certain regulatory approvals and commenced airframe maintenance operations in the second quarter of fiscal 2022.

We guarantee 40% of the Indian joint venture's debt and have recognized a guarantee liability of \$9.7 million as of August 31, 2023. Each of the partners in the Indian joint venture also has a loan to the joint venture proportionate to its equity ownership. In addition to the net equity investment of \$6.0 million, our investment in the Indian joint venture includes \$3.4 million for our loan to the joint venture as of August 31, 2023.

We account for our share of the earnings or losses of the Indian joint venture using the equity method with a reporting lag of two months, as the financial statements of the Indian joint venture are not completed on a timely basis that is sufficient for us to apply the equity method on a current basis. Our share of the Indian joint venture's losses for the three-month periods ended August 31, 2023 and 2022 were \$0.6 million and \$0.2 million, respectively. We are currently evaluating a potential exit from our investment in the Indian joint venture.

Note 11 – Earnings per Share

The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options and shares issuable upon vesting of restricted stock awards.

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In accordance with ASC 260-10-45, *Share-Based Payment Arrangements and Participating Securities and the Two-Class Method*, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company.

A reconciliation of the computations of basic and diluted earnings per share information for the three-month periods ended August 31, 2023 and 2022 is as follows:

	Three Months Ended August 31,	
	2023	2022
<i>Basic and Diluted EPS:</i>		
Income (Loss) from continuing operations	\$ (0.6)	\$ 22.3
Less income attributable to participating shares	—	(0.3)
Income (Loss) from continuing operations attributable to common shareholders	(0.6)	22.0
Income from discontinued operations attributable to common shareholders	—	0.4
Net income (loss) attributable to common shareholders for earnings per share	<u>(0.6)</u>	<u>\$ 22.4</u>
<i>Weighted Average Shares:</i>		
Weighted average common shares outstanding-basic	34.7	34.9
Additional shares from assumed exercise of stock options	0.4	0.5
Weighted average common shares outstanding-diluted	<u>35.1</u>	<u>35.4</u>
<i>Earnings (Loss) per share – basic:</i>		
Earnings (Loss) from continuing operations	\$ (0.02)	\$ 0.63
Income from discontinued operations	—	0.01
Earnings (Loss) per share – basic	<u>\$ (0.02)</u>	<u>\$ 0.64</u>
<i>Earnings (Loss) per share – diluted:</i>		
Earnings (Loss) from continuing operations	\$ (0.02)	\$ 0.62
Income from discontinued operations	—	0.01
Earnings (Loss) per share – diluted	<u>\$ (0.02)</u>	<u>\$ 0.63</u>

The potential dilutive effect of 230,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for the three-month period ended August 31, 2022 as the shares would have been anti-dilutive.

Note 12 - Defined Benefit Pension Settlement

During the three-month period ended August 31, 2023, we settled all future obligations under our frozen U.S. defined benefit retirement plan (the “U.S. Retirement Plan”). The settlement included a combination of lump-sum payments to participants who elected to receive them and the transfer of the remaining benefit obligations to a third-party insurance company under group annuity contracts. The purchase of the group annuity contracts was funded directly by assets of the U.S. Retirement Plan and required no additional cash or asset contributions from us. As a result of the settlements, we recognized a non-cash, pre-tax pension settlement charge of \$26.7 million (\$16.1 million after-tax) related to the accelerated recognition of all unamortized net actuarial losses in Accumulated other comprehensive loss.

The remaining surplus plan assets of \$7.6 million are expected to be utilized to fund remaining U.S. Retirement Plan expenses as well as certain contributions associated with one of our qualified 401(k) plans. Surplus plan assets not used for these expenses or 401(k) contributions would be subject to a 20% excise tax upon withdrawal from the plan. The surplus plan assets are included in Other non-current assets on our Condensed Consolidated Balance Sheet.

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Note 13 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss (“AOCL”) by component for the three-month periods ended August 31, 2023 and 2022 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2023	\$ (5.7)	\$ (17.8)	\$ (23.5)
Other comprehensive income before reclassifications	0.5	—	0.5
Amounts reclassified from AOCL	—	14.9	14.9
Total other comprehensive income	0.5	14.9	15.4
Balance at August 31, 2023	<u>\$ (5.2)</u>	<u>\$ (2.9)</u>	<u>\$ (8.1)</u>
Balance at June 1, 2022	\$ (2.8)	\$ (16.8)	\$ (19.6)
Other comprehensive loss before reclassifications	(3.3)	—	(3.3)
Amounts reclassified from AOCL	—	0.2	0.2
Total other comprehensive income (loss)	(3.3)	0.2	(3.1)
Balance at August 31, 2022	<u>\$ (6.1)</u>	<u>\$ (16.6)</u>	<u>\$ (22.7)</u>

Note 14 – Acquisition

On March 20, 2023, we acquired the outstanding shares of Trax USA Corp. (“Trax”) for a purchase price of \$120.0 million plus contingent consideration of up to \$20.0 million based on Trax’s adjusted revenue in calendar years 2023 and 2024. Trax is a leading provider of aircraft maintenance, repair, and overhaul (“MRO”) and fleet management software supporting a broad spectrum of maintenance activities for a diverse global customer base of airlines and MROs.

The purchase price was paid at closing except for \$12.0 million which was placed on deposit with an escrow agent to secure potential indemnification obligations and fund any post-closing adjustments for working capital and indebtedness. The preliminary post-closing adjustments for working capital and indebtedness are estimated to be a reduction in the purchase price of \$1.8 million.

The contingent consideration is based on an adjusted revenue target and requires certain of the former owners’ continued employment through December 31, 2024, and is treated as compensation expense within Selling, general and administrative expenses. The adjusted revenue target is based on revenue recognized under U.S. GAAP adjusted for certain events related to deferred revenue, customer commitments, and other adjustments. We recognized compensation expense of \$1.4 million in the three-months ended August 31, 2023.

We accounted for the acquisition using the acquisition method and included the results of Trax’s operations in our consolidated financial statements from the effective date of the acquisition. Trax’s results are reported within our Integrated Solutions segment. The acquisition was funded using a combination of proceeds from our Revolving Credit Facility and cash on hand. Transaction costs associated with the acquisition of \$5.1 million were expensed as incurred.

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The amounts recorded for certain assets and liabilities are preliminary in nature and are subject to adjustment as additional information is obtained about their acquisition date fair values. The allocation of the purchase price is preliminary and will potentially change in future periods as fair value estimates of the assets acquired and liabilities assumed are finalized, including those related to working capital and income taxes. The final determination of the fair values will be completed within the one-year measurement period. The preliminary fair value of assets acquired and liabilities assumed is as follows:

Accounts receivable	\$ 8.8
Other assets	6.7
Intangible assets	61.7
Deferred revenue	(6.8)
Deferred tax liabilities	(15.8)
Other liabilities	(2.8)
Net assets acquired	<u>51.8</u>
Goodwill	61.7
Purchase price, net of cash acquired	<u>\$ 113.5</u>

Acquired amortizable intangible assets include customer relationships of \$33.6 million and developed technology of \$22.0 million which are being amortized over 12 years and 20 years, respectively. Intangible assets also include tradenames of \$6.1 million which are indefinite-lived. The goodwill associated with the Trax acquisition is not deductible for tax purposes and is primarily attributable to the benefits we expect to derive from expected synergies including complimentary products and services, cross-selling opportunities and intangible assets that do not qualify for separate recognition, such as their assembled workforce.

Note 15 – Business Segment Information

During the first quarter of fiscal 2024, our chief operating decision maker (“CODM”) implemented changes in how he organizes the business, allocates resources, and assesses performance. Specifically, this new structure resulted in the separation of our former Aviation Services segment into three new operating segments: Parts Supply, Repair & Engineering, and Integrated Solutions.

In conjunction with the re-alignment, our CODM now evaluates each segment’s performance based on operating income instead of gross profit as our CODM believes operating income is a more comprehensive profitability measure for each operating segment.

Our previously reported segment financial information has been recast to conform to our new segment structure. The change in our operating segments had no impact on our previously reported consolidated results of operations, financial condition, or cash flows.

Our operating segments are comprised of:

- Parts Supply, primarily consisting of our sales of used serviceable engine and airframe parts and components and distribution of new parts;
- Repair & Engineering, primarily consisting of our maintenance, repair, and overhaul services across airframes and components, including landing gear;
- Integrated Solutions, primarily consisting of our fleet management and operations of customer-owned aircraft, customized performance-based supply chain logistics programs in support of the U.S. Department of Defense, U.S. Department of State, and foreign governments, flight hour component inventory and repair programs for commercial airlines, and integrated software solutions, including Trax; and
- Expeditionary Services, primarily consisting of products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and non-governmental organizations with sales derived from the engineering, design, integration, and manufacture of pallets, shelters, and containers.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2023. Cost of sales consists principally of the cost of products, including material used in manufacturing operations, direct labor, and overhead.

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The Company has not aggregated operating segments for purposes of identifying reportable segments. Inter-segment sales are recorded at fair value, which results in intercompany profit on inter-segment sales that is eliminated in consolidation. Corporate selling, general and administrative expenses include centralized functions such as legal, finance, treasury and human resources with a portion of the costs allocated to our operating segments.

Selected financial information for each segment is as follows:

	Three Months Ended August 31, 2023		
	Third-Party Sales	Inter-segment Sales	Total Sales
Parts Supply	\$ 236.8	\$ 0.8	\$ 237.6
Repair & Engineering	137.5	19.5	157.0
Integrated Solutions	156.3	1.1	157.4
Expeditionary Services	19.1	—	19.1
	<u>\$ 549.7</u>	<u>\$ 21.4</u>	<u>\$ 571.1</u>

	Three Months Ended August 31, 2022		
	Third-Party Sales	Inter-segment Sales	Total Sales
Parts Supply	\$ 168.6	\$ 1.8	\$ 170.4
Repair & Engineering	127.6	20.3	147.9
Integrated Solutions	127.8	—	127.8
Expeditionary Services	22.3	—	22.3
	<u>\$ 446.3</u>	<u>\$ 22.1</u>	<u>\$ 468.4</u>

The following table reconciles segment operating income to income from continuing operations before provision for income taxes:

	Three Months Ended August 31,	
	2023	2022
Segment operating income:		
Parts Supply	\$ 15.1	\$ 18.3
Repair & Engineering	9.1	7.4
Integrated Solutions	7.7	8.3
Expeditionary Services	1.3	2.3
	<u>33.2</u>	<u>36.3</u>
Corporate and other	(7.9)	(5.1)
	<u>25.3</u>	<u>31.2</u>
Pension settlement charge	(26.7)	—
Losses related to sale and exit of business	(0.7)	—
Other income, net	—	0.2
Interest expense	(5.8)	(1.1)
Interest income	0.4	0.1
Income (Loss) from continuing operations before provision for income taxes	<u>\$ (7.5)</u>	<u>\$ 30.4</u>

Note 16 – Legal Proceedings

We are involved in various claims and legal actions, including environmental matters, arising in the ordinary course of business. We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business except for the following:

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Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, in fiscal 2019, we self-reported these matters to the U.S. Department of Justice, the U.S. Securities and Exchange Commission and the UK Serious Fraud Office. The Company is fully cooperating with the reviews by these agencies, although we are unable at this time to predict what action, if any, they may take.

Russian Bankruptcy Litigation

During calendar years 2016 and 2017, certain of the subsidiaries of AAR CORP. (the "Company") purchased four engines from VIM-AVIA Airlines, LLC ("VIM-AVIA"), a company organized in Russia. Subsequent to the purchase of the engines, VIM-AVIA declared bankruptcy in Russian courts, and shortly thereafter the receiver of the VIM-AVIA bankruptcy estate and one of the major creditors of VIM-AVIA filed a claw-back action in the Arbitration Court of the Russian Republic of Tartarstan (the "Russian Trial Court") against our subsidiaries alleging that the contracts entered into with VIM-AVIA in the 2016-2017 timeframe are invalid. The clawback action alleged that our subsidiaries owe the VIM-AVIA bankruptcy estate approximately \$13 million, the alleged fair market value of the four engines at the time of sale. In March 2023, the Russian Trial Court awarded a \$1.8 million judgment against the Company relating to one engine, and dismissed all the other claims against the Company relating to the three remaining engines. The Company recognized a corresponding charge of \$1.8 million in the third quarter of fiscal 2023. The Company thereafter appealed the \$1.8 million judgment entered against it by the Russian Trial Court. The receiver and the creditor thereafter appealed to the Russian Trial Court's judgment dismissing their claims relating to the remaining three engines.

On September 19, 2023, the Russian Eleventh Arbitration Court of Appeal (the "Russian Appellate Court") announced its decision to issue an order (i) affirming the Russian Trial Court's adverse judgment against the Company relating to one of the four engines; (ii) reversing the Russian Trial Court's dismissal of the claims relating to the remaining three engines; and (iii) awarding a judgment against the Company in the total amount of \$13.0 million. The Company strongly disputes the validity of the judgment announced by the Russian Appellate Court and continues to strongly dispute all claims asserted in the clawback action. The Company may seek further appellate review in the Russian courts. During the first quarter of fiscal 2024, the Company recognized a charge for \$11.2 million representing the judgment against the Company for the remaining three engines.

The Company believes that the judgment announced by the Russian Appellate Court is a result of, among other things, a hostile business and legal environment for foreign companies in Russia, which has been caused by developments in the Russia/Ukraine conflict, including the imposition of a range of sanctions and export controls on Russian entities and individuals by the U.S. and its North Atlantic Treaty Organization allies. Given the Company's obligation to comply with U.S. trade restrictions likely applicable to undisclosed creditors of the VIM-AVIA bankruptcy estate, the Company's ability to satisfy any portion of the Russian judgment or to otherwise settle the receiver's claims may be restricted and is unknown. Although there can be no assurances, the Company believes it will have strong defenses to any attempt that may be made to recognize and enforce the adverse judgment announced by the Russian Appellate Court outside of Russia. As of August 31, 2023, our Condensed Consolidated Balance Sheet included a total liability for the matter of \$13.0 million classified as long-term in Other liabilities.

Performance Guarantee

In conjunction with the fiscal 2021 sale of our Composites business, we retained a performance guarantee to a customer of the Composites business (the "Customer") under an existing contract providing flap track fairings on the A220 aircraft ("A220 Contract"). The term of the A220 Contract and our performance guarantee extend for the duration that A220 aircraft are in service and the customer continues to maintain support for the A220 aircraft. The performance guarantee does not contain a financial cap.

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In March 2022, the buyer of the Composites business (the “Buyer”) filed for bankruptcy and moved to have the bankruptcy court reject the A220 Contract. The Customer also notified us that it believes the Buyer has failed to timely deliver products in accordance with the terms of the A220 Contract and that the Customer has incurred losses related to the asserted non-compliance that the Customer believes is covered by our performance guarantee. To date, the Customer has provided us with limited details in support of the extent of the Customer’s claimed losses with respect to the A220 Contract and its contention that we may be responsible under our performance guarantee to reimburse the Customer for any portion of its claimed losses. The Customer filed suit against us during the fourth quarter of fiscal 2023 claiming damages of at least \$32 million.

In this regard, while we are continuing to seek additional detail around the facts and legal basis underlying the claim for losses the Customer attributed to the A220 Contract and the Customer’s corresponding claim under the performance guarantee, we strongly disagree with the premise of the Customer’s claim based on the information available and known to us at this time, and we believe that we have numerous defenses available against this claim that we will vigorously pursue. While it is reasonably possible that we will incur a loss from the claim under the performance guarantee, we are unable to estimate the range of loss on this claim. There can be no assurance that the Customer’s claim under the performance guarantee will not have a material adverse effect on our operations, financial position and cash flows.

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)

General Overview and Outlook

During the first quarter of fiscal 2024, our chief operating decision maker (“CODM”) implemented changes in how he organizes the business, allocates resources, and assesses performance. Specifically, this new structure resulted in the separation of our former Aviation Services segment into three new operating segments: Parts Supply, Repair & Engineering, and Integrated Solutions.

In conjunction with the re-alignment, our CODM now evaluates each segment’s performance based on operating income instead of gross profit as our CODM believes operating income is a more comprehensive profitability measure for each operating segment.

All of our previously reported segment financial information has been recast to conform to our new segment structure. The change in our operating segments had no impact on our previously reported consolidated results of operations, financial condition, or cash flows.

Our operating segments are comprised of:

- Parts Supply, primarily consisting of our sales of used serviceable engine and airframe parts and components and distribution of new parts;
- Repair & Engineering, primarily consisting of our maintenance, repair, and overhaul services across airframes and components, including landing gear;
- Integrated Solutions, primarily consisting of our fleet management and operations of customer-owned aircraft, customized performance-based supply chain logistics programs in support of the U.S. Department of Defense, U.S. Department of State, and foreign governments, flight hour component inventory and repair programs for commercial airlines, and integrated software solutions, including Trax; and
- Expeditionary Services, primarily consisting of products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and non-governmental organizations with sales derived from the engineering, design, integration, and manufacture of pallets, shelters, and containers.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2023. Cost of sales consists principally of the cost of products, including material used in manufacturing operations, direct labor, and overhead.

The Company has not aggregated operating segments for purposes of identifying reportable segments. Inter-segment sales are recorded at fair value which results in intercompany profit on inter-segment sales that is eliminated in consolidation. Corporate selling, general and administrative expenses include centralized functions such as legal, finance, treasury and human resources with a portion of the costs allocated to our operating segments.

Over the long-term, we expect to see strength in our aviation products and services given our offerings of value-added solutions to both commercial and government and defense customers. We believe long-term commercial aftermarket growth trends are favorable. As we continue to invest in the pipeline of opportunities in the government market, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in both the commercial and government markets.

Discussion of Results of Operations

	Three Months Ended August 31,		
	2023	2022	% Change
Sales:			
Commercial	\$ 392.5	\$ 293.6	33.7 %
Government and defense	157.2	152.7	2.9 %
	<u>\$ 549.7</u>	<u>\$ 446.3</u>	23.2 %
Gross Profit:			
Commercial	\$ 75.6	\$ 53.5	41.3 %
Government and defense	25.7	28.4	(9.5)%
	<u>\$ 101.3</u>	<u>\$ 81.9</u>	23.7 %
Gross Profit Margin:			
Commercial	19.3 %	18.2 %	
Government and defense	16.3 %	18.6 %	
Consolidated	18.4 %	18.4 %	

Consolidated sales for the first quarter of fiscal 2024 increased \$103.4 million, or 23.2%, over the prior year quarter primarily due to an increase in sales to commercial customers. Consolidated sales to commercial customers increased \$98.9 million, or 33.7%, over the prior year quarter primarily due to strong demand and volume growth in our Parts Supply segment across both new parts distribution and used serviceable material. Our consolidated sales to government customers increased \$4.5 million, or 2.9%, primarily due to the growth across government programs in our Integrated Solutions segment partially offset by lower sales volume for new parts to government customers in our Parts Supply segment.

Consolidated cost of sales increased \$84.0 million, or 23.1%, over the prior year quarter which was largely in line with the consolidated sales increase of 23.2% discussed above.

Consolidated gross profit for the first quarter of fiscal 2024 increased \$19.4 million, or 23.7%, over the prior year quarter. Gross profit on sales to commercial customers increased \$22.1 million, or 41.3%, over the prior year quarter due to strong demand and volume growth for both new parts and used serviceable material. Gross profit margin on sales to commercial customers increased to 19.3% from 18.2% in the prior year quarter primarily from our actions to reduce both our fixed and variable cost structure.

Gross profit on sales to government customers decreased \$2.7 million, or 9.5%, from the prior year quarter. Gross profit on sales to government customers decreased primarily due to lower sales to government customers in our Parts Supply segment. Gross profit margin on sales to government customers decreased to 16.3% from 18.6% primarily due to changes in the mix of products and services sold.

Selling, General, and Administrative Expenses

Selling, general and administrative expenses increased \$24.6 million, or 49.1%, over the prior year quarter primarily due to the recognition of a charge for \$11.2 million in the current quarter related to an unfavorable Russian court judgment. The remaining increase in selling, general and administrative expenses was largely attributable to investments to support our sales growth. These investments include \$2.8 million of acquisition and amortization expenses for Trax which was acquired in the fourth quarter of fiscal 2023.

Operating Income

Operating income decreased \$5.9 million, or 18.9%, from the prior year quarter primarily due to the recognition of the \$11.2 million charge in the current quarter related to the unfavorable Russian court judgment.

Pension Settlement Charge

During the first quarter of fiscal 2024, we settled all future obligations under our frozen U.S. defined benefit retirement plan. The settlement included a combination of lump-sum payments to participants who elected to receive them and the transfer of the remaining benefit obligations to a third-party insurance company under a group annuity contract. As a result of the settlements, we recognized a non-cash, pre-tax pension settlement charge of \$26.7 million (\$16.1 million after-tax) related to the accelerated recognition of all unamortized net actuarial losses in Accumulated other comprehensive loss.

Interest Expense

Interest expense increased \$4.8 million in the first quarter of fiscal 2024 reflecting the impact of both higher interest rates and higher average borrowings used to fund investments in the business, including our acquisition of Trax in the fourth quarter of fiscal 2023. Our average borrowing rate was 6.47% in the first quarter of fiscal 2024 compared to 2.64% in the prior year quarter.

Income Taxes

Our effective income tax rate for continuing operations was a tax benefit of (92.0)% for the first quarter of fiscal 2024 compared to tax expense of 26.6% in the prior year quarter. The decrease in the effective tax rate was primarily attributable to the deferred tax benefit recognized in conjunction with the pension settlement in the current quarter.

Operating Segment Results of Operations

Three-Month Periods Ended August 31, 2023 and 2022

Parts Supply Segment

	Three Months Ended August 31,		
	2023	2022	% Change
Third-party sales	\$ 236.8	\$ 168.6	40.5 %
Operating income	15.1	18.3	(17.5)%
Operating margin	6.4 %	10.9 %	

Sales in the Parts Supply segment increased \$68.2 million, or 40.5%, over the prior year quarter primarily due to a \$46.2 million increase in sales in our aftermarket parts trading activities as a result of increased demand for used serviceable material. Whole asset sales in our aftermarket parts trading activities increased \$21.0 million in the first quarter of fiscal 2024 over the prior year quarter.

Operating income in the Parts Supply segment decreased \$3.2 million, or 17.5%, from the prior year period, primarily due to the recognition of the \$11.2 million charge in the current quarter related to the unfavorable Russian court judgment.

Repair & Engineering Segment

	Three Months Ended August 31,		
	2023	2022	% Change
Third-party sales	\$ 137.5	\$ 127.6	7.8 %
Operating income	9.1	7.4	23.0 %
Operating margin	6.6 %	5.8 %	

Sales in the Repair & Engineering segment increased \$9.9 million, or 7.8%, over the prior year quarter primarily due to a \$13.5 million increase in sales in our airframe maintenance facilities. This increase was partially offset by lower sales volume of \$4.5 million in our landing gear and component repair facilities.

Operating income in the Repair & Engineering segment increased \$1.7 million, or 23.0%, over the prior year quarter primarily due to the sales volume increase in our airframe maintenance facilities. Operating margin increased to 6.6% from 5.8% in the prior year quarter, primarily due to our actions to reduce both our fixed and variable cost structure.

Integrated Solutions Segment

	Three Months Ended August 31,		
	2023	2022	% Change
Third-party sales	\$ 156.3	\$ 127.8	22.3 %
Operating income	7.7	8.3	(7.2)%
Operating margin	4.9 %	6.5 %	

Sales in the Integrated Solutions segment increased \$28.5 million, or 22.3%, over the prior year quarter primarily due to the continued recovery in commercial passenger air traffic from the impact of COVID-19.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In the first quarter of fiscal 2024, we recognized net favorable cumulative catch-up adjustments of \$0.5 million compared to a favorable cumulative catch-up adjustment of \$2.9 million in the prior year quarter. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Operating income in the Integrated Solutions segment decreased \$0.6 million, or 7.2%, from the prior year quarter primarily due to the decrease in favorability from the cumulative catch-up adjustments discussed above. Operating margin decreased to 4.9% from 6.5% in the prior year quarter as the decreased favorability from cumulative catch-up adjustments more than offset the benefit from the contribution of Trax's higher margin digital services.

Expeditionary Services Segment

	Three Months Ended August 31,		
	2023	2022	% Change
Third-party sales	\$ 19.1	\$ 22.3	(14.3)%
Operating income	1.3	2.3	(43.5)%
Operating margin	6.8 %	10.3 %	

Sales in the Expeditionary Services segment decreased \$3.2 million, or 14.3%, from the prior year period primarily due to lower sales volumes for containers.

Operating income in the Expeditionary Services segment decreased \$1.0 million, or 43.5%, from the prior year quarter primarily due to the lower sales volumes during the current quarter. Operating margin decreased to 6.8% from 10.3% in the prior year quarter, primarily due to increased selling, general, and administrative expenses over the prior year quarter.

Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital. In addition to operations, our current capital resources include an unsecured revolving credit facility under the Credit Agreement referred to below and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance.

At August 31, 2023, our liquidity and capital resources included working capital of \$813.7 million inclusive of cash of \$70.3 million.

On December 14, 2022, we entered into a new credit agreement with various financial institutions as lenders and Wells Fargo Bank, N.A. as administrative agent for the lenders (the "Credit Agreement"). The Credit Agreement provides for a \$620 million unsecured revolving credit facility (the "Revolving Credit Facility") that we can draw upon for working capital and general corporate purposes. Under certain circumstances, we may request an increase to the lending commitments under the Credit Agreement by an aggregate amount of up to \$300 million, not to exceed \$920 million in total. The Credit Agreement expires on December 14, 2027.

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At August 31, 2023, borrowings outstanding under the Revolving Credit Facility were \$307.0 million and there were approximately \$11.1 million of outstanding letters of credit, which reduced the availability under this facility to \$301.9 million. There are no other terms or covenants limiting the availability of the Revolving Credit Facility.

As of August 31, 2023, we also had other financing arrangements that did not limit availability on our Revolving Credit Facility, including outstanding letters of credit of \$11.7 million and foreign lines of credit of \$9.4 million.

We maintain a Purchase Agreement with Citibank N.A. (“Purchaser”) for the sale, from time to time, of certain accounts receivable due from certain customers (the “Purchase Agreement”). Under the Purchase Agreement, the maximum amount of receivables sold is limited to \$150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement expires after February 22, 2024, but, the Purchase Agreement may be terminated earlier under certain circumstances. The term of the Purchase Agreement is automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term.

We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Consolidated Balance Sheet. At August 31, 2023, we have utilized \$6.0 million which reduced the availability under the Purchase Agreement to \$144.0 million.

At August 31, 2023, we were in compliance with all financial and other covenants under each of our financing arrangements.

On December 16, 2021, our Board of Directors authorized a renewal of our stock repurchase program, under which we may repurchase up to \$150 million of our common stock with no expiration date. During fiscal 2023, we repurchased 1.2 million shares for an aggregate purchase price of \$50.1 million. No repurchases were made during the three-month period ended August 31, 2023. Since inception of the renewal authorization, we have repurchased 2.2 million shares for an aggregate purchase price of \$92.4 million. The timing and amount of repurchases are subject to prevailing market conditions and other considerations, including our liquidity and acquisition and other investment opportunities.

Cash Flows from Operating Activities

Net cash used in operating activities—continuing operations was \$18.5 million in the first quarter of fiscal 2024 compared to cash provided of \$7.0 million in the prior year quarter. The decrease from the prior year of \$25.5 million was primarily attributable to working capital changes, including increased inventory investments in both new parts and used serviceable material in the current year quarter.

Cash Flows from Investing Activities

Net cash used in investing activities was \$11.6 million during the first quarter of fiscal 2024 compared to \$10.7 million in the prior year period. The increase in cash used in investing activities over the prior year of \$0.9 million was primarily related to increased expenditures for capital equipment in the current year quarter.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$38.7 million during the first quarter of fiscal 2024 compared to cash used of \$6.5 million in the prior year quarter. The increase in cash provided by financing activities over the prior year of \$45.2 million was primarily related to stock repurchases of \$21.9 million in the prior year quarter compared to no repurchases in fiscal 2024. In addition, borrowings on our Revolving Credit Facility increased in the first quarter of fiscal 2024 to support operating activities, including inventory investments.

Critical Accounting Policies and Significant Estimates

We make a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See *Management’s Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended May 31, 2023 for a discussion of our critical accounting policies. There have been no significant changes to the application of our critical accounting policies during the first quarter of fiscal 2024.

Forward-Looking Statements

This report contains certain 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 our management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including those factors set forth under Part I, Item 1A in our Annual Report on Form 10-K for the year ended May 31, 2023. Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume 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.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended May 31, 2023 for a discussion of accounts receivable exposure.

Foreign Currency Risk. Revenues and expenses of our foreign operations are translated at average exchange rates during the period, and balance sheet accounts are translated at period-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders' equity as a component of accumulated other comprehensive loss. A hypothetical 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations for the quarter ended August 31, 2023.

Interest Rate Risk. Refer to the section Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended May 31, 2023. There were no significant changes during the quarter ended August 31, 2023.

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of August 31, 2023. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and our Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of August 31, 2023 to provide reasonable assurance that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported in a timely manner.

There were no changes in our internal control over financial reporting during the quarter ended August 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

The information in Note 16 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference. There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 16 to our Condensed Consolidated Financial Statements for the quarter ended August 31, 2023 contained in this Quarterly Report on Form 10-Q.

Item 1A – Risk Factors

There is no material change in the information reported under Part I-Item 1A “Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

Item 5 – Other Information

During the three months ended August 31, 2023, none of our directors or “officers” (as defined in Rule 16a-1(f) promulgated under the Exchange Act) adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement” as such terms are defined under Item 408 of Regulation S-K.

Item 6 – Exhibits

The exhibits to this report are listed on the following index:

Exhibit No.	Description	Exhibits
10.	Material Contracts	10.1* Form of AAR CORP. Fiscal 2024 Short-Term Incentive Plan (filed herewith).
		10.2* Form of AAR CORP. Fiscal 2024 Non-Qualified Stock Option Agreement (filed herewith).
		10.3* Form of AAR CORP. Fiscal 2024 Restricted Stock Agreement (filed herewith).
		10.4* Form of AAR CORP. Fiscal 2024 Performance Restricted Stock Agreement (filed herewith)'
		10.5* Form of Fiscal 2024 Director Restricted Stock Agreement (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2023).
		10.6* AAR CORP. 2013 Stock Plan, as amended and restated effective July 13, 2020 (reflecting amendments since July 13, 2020) (incorporated by reference to Appendix C to the Company's Proxy Statement filed on August 8, 2023).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1 Section 302 Certification of Chief Executive Officer of Registrant (filed herewith).
		31.2 Section 302 Certification of Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1 Section 906 Certification of Chief Executive Officer of Registrant (filed herewith).
		32.2 Section 906 Certification of Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101 The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended August 31, 2023, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at August 31, 2023 and May 31, 2023, (ii) Condensed Consolidated Statements of Operations for the three-months ended August 31, 2023 and 2022, (iii) Condensed Consolidated Statements of Comprehensive Income for the three-months ended August 31, 2023 and 2022, (iv) Condensed Consolidated Statements of Cash Flows for the three-months ended August 31, 2023 and 2022, (v) Condensed Consolidated Statement of Changes in Equity for the three-months ended August 31, 2023 and 2022, and (vi) Notes to Condensed Consolidated Financial Statements.**
104.	Cover Page Interactive Data File	104 Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

* Management contract and compensatory arrangement.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AAR CORP.

(Registrant)

Date: September 26, 2023

/s/ SEAN M. GILLEN

Sean M. Gillen

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

AAR CORP.
Fiscal 2024 Short-Term Incentive Plan

1. Purpose.

The purpose of the AAR CORP. 2024 Short-Term Incentive Plan (“STIP”) is to provide an incentive for selected senior executives of AAR CORP. (the “Company”) and its subsidiaries to achieve the Company’s short-term performance goals by providing them with an annual cash incentive payment based on the financial and operating success of the Company. The STIP payment for the fiscal year ending May 31, 2024 (“Fiscal 2024”) will be based on Earnings Per Share and Working Capital Turns.

2. Definitions.

- (a) “Board” means the Board of Directors of the Company.
 - (b) “Bonus” means the annual cash incentive paid to a Participant under this STIP for Fiscal 2024.
 - (c) “Cause” means the Participant’s unsatisfactory performance or conduct detrimental to the Company and its subsidiaries, as solely determined by the Company.
 - (d) “Committee” means the Compensation Committee of the Board (the “Committee”).
 - (e) “Company” means AAR CORP.
 - (f) “Disability” means the inability of the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.
 - (g) “Earnings Per Share” means adjusted diluted earnings per share from continuing operations as disclosed by the Company in its periodic reports filed with the Securities and Exchange Commission, excluding non-GAAP items included on the Company’s quarterly earnings releases, special charges or unusual or infrequent items incurred during the performance period, and as may be adjusted for changes in generally accepted accounting principles.
 - (h) “Fiscal 2024” means the Company’s fiscal year ending May 31, 2024.
 - (i) “Participant” means any active executive of the Company or subsidiary who has been selected by the Committee as eligible to earn a Bonus under the STIP.
 - (j) “Retirement” means the Participant’s voluntary termination of his employment, or his termination of employment by the Company or a subsidiary without Cause, when he has (i) attained age 65 or (ii) attained age 55 and his age plus the number of his consecutive years of service with the Company and subsidiaries is at least 75.
 - (k) “Salary” means a Participant’s base annual salary earned during Fiscal 2024 while a Participant.
 - (l) “STIP” means this AAR CORP. 2024 Short-Term Incentive Plan.
 - (m) “Working Capital Turns” means net sales from continuing operations divided by average working capital, where working capital is defined as net accounts receivable plus net
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inventories minus accounts payable, excluding non-GAAP items included on the Company's quarterly earnings releases, special charges or unusual or infrequent items incurred during the performance period, including changes in the Company's accounts receivable financing program, and as may be adjusted for changes in generally accepted accounting practices.

3. Administration.

The STIP shall be administered by the Committee. The Committee has full authority to select the senior executives eligible to participate in the STIP and determine when the senior executive's participation in the STIP will begin and end. Subject to the express provisions of the STIP, the Committee shall be authorized to interpret the STIP and to establish, amend and rescind any rules and regulations relating to the STIP and to make all other determinations deemed necessary or advisable for the proper administration of the STIP. The determinations of the Committee in the proper administration of the STIP shall be conclusive and binding.

4. Eligibility and Participation.

Participation in the STIP is limited to those senior executives of the Company or a subsidiary who the Committee designates as Participants. When the Committee selects an executive to become a Participant under the STIP, it shall designate the date as of which the executive's participation shall begin.

5. Annual Bonus Awards.

(a) Determination of Participants, Performance Goals and Target Bonus Amounts. In the beginning of Fiscal 2024, the Committee shall (i) determine the Participants for Fiscal 2024, (ii) establish threshold, target and maximum Earnings Per Share and Working Capital Turns performance goals, and (iii) approve the target Bonus payment for each Participant expressed as a percentage of the Participant's Salary.

(b) Bonus Payment. As soon as reasonably practicable after the end of Fiscal 2024, the Committee shall determine the extent to which each of the Earnings Per Share and Working Capital Turns targets were attained for Fiscal 2024. The Bonus payable to each Participant will be equal to the sum of (i) 80% of the Participant's target Bonus multiplied by the applicable Earnings Per Share Multiplier Percentage, and (ii) 20% of the Participant's target Bonus multiplied by the Working Capital Turns Multiplier Percentage (except in each case for such lower amounts as otherwise determined by the Committee in its discretion):

Earnings Per Share (80%)		Working Capital Turns (20%)	
Percentage Achievement of Earnings Per Share	Payout Against Associated Target STIP	Percentage of Achievement of Working Capital Turns Target	Payout Against Associated STIP
<75%	0%	<75%	0%
75%	50%	75%	50%
100%	100%	100%	100%
125%	200%	125%	200%

Achievement of Earnings Per Share and Working Capital Turns targets between established ranges will be paid out on a straight-line basis within the targeted payout ranges, up to the maximum 200% payout.

6. STIP Limitations.

Notwithstanding Section 5, (a) the Committee retains full discretion to determine whether any Bonus will be payable for Fiscal 2024, regardless of performance results and (b) no Bonus shall be paid under the STIP to a Participant whose employment with the Company and all subsidiaries terminates during Fiscal 2024 unless the termination is due to death, Disability or Retirement, or as otherwise approved by the Committee. If the Participant terminates during Fiscal 2024 due to death, Disability or Retirement, the Participant shall be entitled to a pro rata portion of the Bonus the Participant would have earned under the STIP had the Participant remained employed through the end of Fiscal 2024. Such Bonus will be paid at the same time Bonuses are paid to active Participants, unless otherwise directed by the Committee.

7. Payment of Bonuses.

A Participant's Bonus for Fiscal 2024 shall be paid in cash to the Participant, or to the Participant's beneficiary (or beneficiaries) in the event of the Participant's death, within three months after the end of Fiscal 2024, unless the Participant has previously elected to have all or a portion of the Bonus deferred in accordance with the AAR CORP. Supplemental Key Executive Retirement Plan. The Company shall deduct all taxes required by law to be withheld from all Bonus payments.

8. No Assignment.

Except in the event of a Participant's death, the rights and interests of a Participant under the STIP shall not be assigned, encumbered or transferred.

9. Termination of Participation.

The Committee reserves the right to cancel a Participant's participation in the STIP at any time.

10. Employment Rights.

Nothing contained in the STIP shall be construed as conferring a right upon any Participant to continue in the employment of the Company or any subsidiary.

11. Recoupment. Notwithstanding any other provision of the STIP, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of a Bonus (including by forfeiture of any outstanding Bonus opportunity or by the Participant's remittance to the Company of previously paid Bonus amounts). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Participant.

AAR CORP.

Non-Qualified Stock Option Agreement
("Agreement")

Subject to the provisions set forth herein and the terms and conditions of the AAR CORP. 2013 Stock Plan and the Long-Term Incentive Plan for Fiscal 2024 (together, the "Plan"), the terms of which are hereby incorporated by reference, and in consideration of the agreements of the Grantee herein provided, AAR CORP., a Delaware corporation ("Company"), hereby grants to the Grantee an option, effective July 24, 2023 ("Date of Grant") entitling the Grantee to purchase from the Company common stock of the Company, par value \$1.00 per share ("Common Stock"), at an exercise price of \$58.27 per share, and in the number of shares set forth in the Company's notification of option grant letter to the Grantee and incorporated herein by reference ("Option"), subject to the terms and conditions set forth herein:

1. **Acceptance by Grantee.** The exercise of the Option is conditioned upon the acceptance by the Grantee of the terms and conditions of the Option as set forth in this Agreement. The Grantee must confirm acceptance of the Option and this Agreement on Morgan Stanley's web site (www.stockplanconnect.com). If the Grantee does not accept the Option and this Agreement within 30 days from the date of the notification of the Option, the Option grant referenced herein shall expire unless the acceptance date is extended in writing signed by the Company.

2. **Vesting Provisions.** Subject to the provisions of paragraph 3 below, the Option shall vest 33⅓% on each of July 31, 2024, July 31, 2025, and July 31, 2026, except as follows:

(a) ***In General.*** If the Grantee's employment with the Company and all Subsidiaries of the Company is terminated for any reason other than for Retirement, death, Disability or Cause, the unvested portion of the Grantee's Option shall expire on the date of such termination of employment and the vested portion of the Grantee's Option shall continue to be exercisable until the earlier of (i) three months after such termination of employment or (ii) the date the Option expires in accordance with its terms.

(b) ***Retirement.*** If the Grantee's employment with the Company and all Subsidiaries of the Company is terminated by reason of Retirement, the Option shall continue to vest and become exercisable in accordance with its terms and may be exercised by the retired Grantee in the same manner and to the same extent as if the Grantee had continued employment during that period; provided, however, that (i) if the Grantee dies within three months following Retirement but before the Option expires, paragraph 2(c)(ii) shall apply and (ii) if the Grantee dies later than three months following Retirement but before the Option expires, the then unvested portion of the Option shall expire on the date of such death and the vested portion of the Option shall continue to be exercisable by the Grantee's Successor until the date that the Option expires by its terms. For this purpose, "Retirement" means the Grantee's voluntary termination of employment, or his termination of employment by the Company or a Subsidiary without Cause, when he has (i) attained age 65 or (ii) attained age 55 and his age plus the number of his consecutive years of service with the Company and Subsidiaries is at least 75.

(c) *Death.* If (i) the Grantee's employment with the Company and all Subsidiaries of the Company is terminated by reason of death or (ii) the Grantee dies within three months after the termination of employment with the Company and all Subsidiaries for reasons other than Cause, the unvested portion of the Option shall expire on the date of such death and the vested portion of the Option shall continue to be exercisable until the earlier of (i) one year after the Grantee's death or (ii) the date the Option expires in accordance with its terms.

(d) *Disability.* If the Grantee's employment with the Company and all Subsidiaries is terminated by reason of Disability, the Option shall continue to vest and become exercisable until the earlier of (i) one year after such termination of employment or (ii) the date the Option expires in accordance with its terms, and during such period the Option may be exercised by the disabled Grantee; provided, however, that if the Grantee dies after termination of employment but prior to the date the Option expires, the unvested portion of the Option shall expire on the date of such death and the vested portion of the Option shall continue to be exercisable as described herein. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(e) *Cause.* If the Grantee's employment is terminated by the Company or any Subsidiary of the Company for Cause, the Option shall expire immediately upon such termination of employment and no portion of the Option shall be exercisable thereafter. For this purpose, "Cause" means (i) the Grantee's dishonesty, fraud or breach of trust, gross negligence or substantial misconduct in the performance of, or substantial nonperformance of, his assigned duties or willful violation of Company policy, (ii) any act or omission by the Grantee that is a substantial cause for a regulatory body with jurisdiction over the Company to request or recommend the suspension or removal of the participant or to impose sanctions upon the Company or the Grantee, or (iii) a material breach by the Grantee of any applicable employment agreement between him and the Company. The Company shall have the sole discretion to determine whether a Grantee's termination of employment is for Cause.

(f) *Restrictive Covenant.* If at any time prior to the expiration of the Option, the Grantee, without the Company's express written consent, directly or indirectly, alone or as a member of a partnership, group or joint stock venture or as an employee, officer, director, or greater than 1% stockholder of any corporation, or in any capacity engages in any activity which is competitive with any of the businesses conducted by the Company or its affiliated companies any time during the Grantee's term of employment, (i) the Option shall immediately expire and become unexercisable, (ii) the Grantee shall forfeit and return all shares of Common Stock acquired and then held by the Grantee pursuant to the exercise of any portion of this Option, and (iii) the Grantee shall immediately pay to the Company an amount equal to the appreciation realized on any shares of Common Stock acquired and sold or otherwise disposed of in connection with the exercise of this Option, as of the date sold.

3. Change in Control. If in connection with a Change in Control of the Company the Option is continued or assumed by the acquiring or surviving entity, and within two years following such Change in Control, either the Grantee's employment is terminated by the Company or a Subsidiary of the Company without Cause, or the Grantee terminates his employment with

the Company and all Subsidiaries for Good Reason, then notwithstanding any conditions or restrictions contained in this Agreement, the outstanding Option shall become immediately exercisable on the date of such termination of employment with respect to all shares of common stock covered thereby, whether vested or not and shall remain exercisable until the Option expires. For this purpose, (a) "Cause" shall have the meaning set forth in Section 2(e) above and (b) "Good Reason" means (i) a material reduction in the nature or scope of the Grantee's duties, responsibilities, authority, power or functions from those enjoyed by the Grantee immediately prior to the Change in Control, or a material reduction in the Grantee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control, or (ii) a relocation of the Grantee's primary place of employment of at least 100 miles.

4. Change in Outstanding Shares. Any increase or decrease in the number of outstanding shares of Common Stock of the Company occurring through stock splits, stock dividends, stock consolidations, spin-offs, other distributions of assets to stockholders or assumption or conversion of outstanding Options due to an acquisition after the Date of Grant of the Option shall be reflected proportionately in the number of shares of Common Stock subject to the Option, and a proportionate reduction or increase, as applicable, shall be made in the Option Price Per Share hereunder. Any fractional shares resulting from such adjustment shall be eliminated. If changes in capitalization other than those considered above shall occur, the Board shall make such adjustment in the number or class of shares purchasable upon exercise of the Option and in the Option Price Per Share as the Board in its discretion may consider appropriate, and all such adjustments shall be conclusive upon all persons.

5. Exercise of Option. Notice of an election to exercise any portion of the Option, specifying the portion thereof being exercised and the exercise date, shall be given by the Grantee, or the Grantee's personal representative in the event of the Grantee's death or Disability necessitating a Court approved personal representative, by notifying Morgan Stanley pursuant to the on-line exercise procedures set forth on the AAR 2013 Stock Benefit Plan online exercise web site (www.stockplanconnect.com).

6. Payment of Exercise Price and Withholding. Upon any exercise of the Option, an amount necessary to pay the exercise price and to satisfy applicable tax withholding requirements, including those arising under federal, state and local income tax laws, will be due and payable at the time of exercise prior to the issuance of any shares of Common Stock pursuant to such exercise. The Grantee may pay the exercise price and satisfy the minimum withholding requirements by one or more of the following methods: (a) in cash, (b) in cash received from a broker-dealer to whom the Grantee has submitted an exercise notice and irrevocable instructions to deliver the purchase price and amount of tax withholding to the Company from the proceeds of the sale of shares of Common Stock subject to the Option, (c) by delivery to the Company of other Common Stock owned by the Grantee that is acceptable to the Company, valued at its fair market value on the date of exercise, (d) by certifying to ownership by attestation of such previously owned Common Stock, or (e) by having shares withheld from the Common Stock otherwise distributable to the Grantee upon exercise of the Option. A Grantee's election pursuant to the preceding sentence must be made at the time of exercise of such Option and must be irrevocable. Payment shall be made pursuant to the online procedures set forth on the AAR 2013 Stock Benefit Plan online website through Morgan Stanley (www.stockplanconnect.com).

7. Option Not Transferable. The Option may be exercised only by the Grantee during the Grantee's lifetime and may not be transferred other than by will, the applicable laws of descent or distribution, or an assignment subject to and meeting the requirements of the Plan and made in accordance with Company procedures in effect from time to time for approval by the Company and consummation of the assignment (copies of procedures and forms are available from the Corporate Secretary upon request). The Option shall not otherwise be transferred, assigned, pledged or hypothecated for any purpose whatsoever and is not subject, in whole or in part, to execution, attachment, or similar process. Any attempted assignment, transfer, pledge or hypothecation or other disposition of the Option, other than in accordance with the terms set forth herein, shall be void and of no effect.

8. No Rights as a Stockholder. Neither the Grantee nor any other person entitled to exercise the Option under the terms hereof shall be, or have any of the rights or privileges of, a stockholder of the Company in respect of any of the shares of Common Stock issuable on exercise of the Option, unless and until such shares shall have been actually issued.

9. Recoupment. Notwithstanding any other provision of this Agreement, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of an Option (including by forfeiture of the then outstanding and unexercised portion of the Option (whether vested or unvested) or by the Grantee's remittance to the Company of Common Stock acquired on exercise of the Option or of a cash payment for the value thereof). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Grantee.

10. Miscellaneous.

(a) In the event the Option shall be exercised in whole or in part, the number of Shares of Common Stock subject to the Option shall be reduced accordingly.

(b) When the Option expires, such expiration shall occur at the Company's close of business on the date of expiration.

(c) The Option shall be exercised only in accordance with such Company administrative procedures as may be in effect from time to time.

(d) The Option and this Agreement shall be construed, administered and governed in all respects under and by the laws of the State of Illinois.

(e) Capitalized terms used herein and not defined herein will have the meanings set forth in the Plan or the notification of grant letter.

(f) Nothing in the Option shall confer on the Grantee any right to be or to continue in the employ of the Company or any of its Subsidiaries or shall interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment of the Grantee at any time for any reason or no reason.

(g) This Agreement has been examined by the parties hereto, and accordingly the rule of construction that ambiguities be construed against a party which causes a document to be drafted shall have no application in the construction or interpretation hereof. If any part of this Agreement is held invalid for any reason, the remainder hereof shall nevertheless remain in full force and effect.

(h) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein; provided, however, that this Agreement, including paragraphs 2 and 3, shall be subject to the provisions of any written employment or severance agreement that has been or may be executed by the Grantee and the Company, and the provisions in such employment or severance agreement concerning the Option shall supercede any inconsistent or contrary provision of this Agreement. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

(i) This Agreement shall be construed consistent with the provisions of the Plan and in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control and any terms of this Agreement which conflict with Plan terms shall be void.

Questions concerning the provisions of this Agreement should be directed to the Company's General Counsel: 630/227-2060; fax 630/227-2058.

AAR CORP.**Restricted Stock Agreement**
("Agreement")

Subject to the provisions of the AAR CORP. 2013 Stock Plan and the Long-Term Incentive Plan for Fiscal 2024 (together, the "Plan"), the terms of which are hereby incorporated by reference, and in consideration of the agreements of the Grantee herein provided, AAR CORP. a Delaware corporation ("Company"), hereby grants to Grantee a restricted stock award ("Award"), effective July 24, 2023 ("Date of Award"), for the number of shares of common stock ("Common Stock") of the Company, \$1.00 par value ("Award Shares") set forth in the Company's notification of Award grant letter to the Grantee, and incorporated herein by reference, subject to the forfeiture and nontransferability provisions hereof and the other terms and conditions set forth herein:

1. **Acceptance by Grantee.** The Award is conditioned upon the acceptance by the Grantee of the terms and conditions of the Award as set forth in this Agreement. The Grantee must confirm acceptance of the Award and this Agreement on Morgan Stanley's web site (www.stockplanconnect.com). If the Grantee does not accept the Award and this Agreement within 30 days from the date of the notification of the Award, the Award referenced herein shall expire unless the acceptance date is extended in writing by the Company.

2. **Restrictions.** The Grantee represents that he is accepting the Award Shares without a view to the distribution of said Shares and that he will not sell, assign, transfer, pledge or otherwise encumber the Award Shares during the period commencing on the Date of Award and ending on the date restrictions applicable to such Award Shares are released pursuant to paragraph 3 of this Agreement ("Restrictive Period").

3. **Release of Restrictions.** Subject to the provisions of paragraph 4 below, the restrictions described in paragraph 2 above shall be released with respect to 100% of the Award Shares on July 31, 2026, except as follows:

(a) ***In General.*** If the Grantee's employment with the Company and all Subsidiaries of the Company terminates prior to the last day of the Restrictive Period for any reason other than Retirement, death or Disability, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 2 hereof.

(b) ***Retirement.*** If the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of Retirement prior to the last day of the Restrictive Period, the Restrictive Period shall terminate on July 31, 2026.

For this purpose, "Retirement" means the Grantee's voluntary termination of employment, or his termination of employment by the Company or a Subsidiary without Cause (as defined in Section 4 below), when he has (i) attained age 65 or (ii) attained age 55 and his age plus the number of his consecutive years of service with the Company and Subsidiaries is at least 75.

(c) *Death or Disability.* If the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of death or Disability occurring on or after the Date of Award and on or before July 31, 2026, the Restrictive Period shall terminate as to a pro-rata share of Award Shares determined by multiplying the number of Award Shares by a fraction, the numerator of which is the number of full months that have elapsed from the Date of Award to the date of death or Disability, and the denominator of which is 36 (the number of full months in the Restrictive Period). The remaining shares shall be forfeited and returned to the Company. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(d) *Restrictive Covenant.* If at any time prior to release from the restrictions hereunder, Grantee, without the Company's express written consent, directly or indirectly, alone or as a member of a partnership, group, or joint venture or as an employee, officer, director, or greater than 1% stockholder of any corporation, or in any capacity engages in any activity which is competitive with any of the businesses conducted by the Company or its affiliated companies at any time during the Grantee's term of employment, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 2 hereof.

4. Change in Control. If in connection with a Change in Control of the Company the Award is continued or assumed by the acquiring or surviving entity, and within two years following such Change in Control, either the Grantee's employment is terminated by the Company or a Subsidiary of the Company without Cause, or the Grantee terminates his employment with the Company and all Subsidiaries for Good Reason, then notwithstanding any conditions or restrictions contained in this Agreement, the Restrictive Period shall terminate as to all Award Shares not previously released. For this purpose, (a) "Cause" means (i) the Grantee's dishonesty, fraud or breach of trust, gross negligence or substantial misconduct in the performance of, or substantial nonperformance of, his assigned duties or willful violation of Company policy, (ii) any act or omission by the Grantee that is a substantial cause for a regulatory body with jurisdiction over the Company to request or recommend the suspension or removal of the participant or to impose sanctions upon the Company or the Grantee, or (iii) a material breach by the Grantee of any applicable employment agreement between him and the Company, and in each case, the Company shall have the sole discretion to determine whether a Grantee's termination of employment is for Cause; and (b) "Good Reason" means (i) a material reduction in the nature or scope of the Grantee's duties, responsibilities, authority, power or functions from those enjoyed by the Grantee immediately prior to the Change in Control, or a material reduction in the Grantee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control, or (ii) a relocation of the Grantee's primary place of employment of at least 100 miles.

5. Change in Outstanding Shares. In the event of any change in the outstanding shares of Common Stock by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, the Award Shares shall be treated in the same manner in any such transaction as other shares of Common Stock. Any additional shares of stock received by Grantee with respect to the Award Shares in any such

transaction shall be subject to the same restrictions as are then applicable to those Award Shares for which the additional shares have been issued.

6. Rights of Grantee. As the holder of the Award Shares, the Grantee is entitled to all of the rights of a stockholder of AAR CORP. with respect to any of the Award Shares, when issued, including, but not limited to, the right to receive dividends declared and payable since the Date of Award; provided, however, that such dividends shall be accumulated and held by the Company until the restrictions are released in accordance with Section 3 or 4, at which time such accumulated dividends shall be paid to the Grantee in cash. Any accumulated or unpaid dividends relating to Award Shares that are forfeited shall also be forfeited.

7. Shares. In aid of the restrictions set forth in paragraph 2, the Grantee will be required to execute a stock power in favor of the Company, which will be cancelled upon release of restrictions with respect to Award Shares released. Award Shares shall be held by the Company in electronic book entry form on the records of the Company's Transfer Agent, together with the executed stock power, for the account of the Grantee until such restrictions are released pursuant to the terms hereof, or such Award Shares are forfeited to the Company as provided by the Plan or this Agreement. The Grantee shall be entitled to the Award Shares as to which such restrictions have been released, and the Company agrees to issue such Award Shares in electronic form on the records of the Transfer Agent. Upon request by the Grantee, the Transfer Agent will transfer such released Award Shares in electronic form to the Grantee's broker for the Grantee's account or issue certificates in the name of the Grantee representing the Award Shares for which restrictions have been released.

8. Legend. The Company may, in its discretion, place a legend or legends on any electronic shares or certificates representing Award Shares issued to the Grantee that the Company believes is required to comply with any law or regulation.

9. Committee Powers. The Committee may subject the Award Shares to such conditions, limitations or restrictions as the Committee determines to be necessary or desirable to comply with any law or regulation or with the requirements of any securities exchange. At any time during the Restrictive Period, the Committee may reduce or terminate the Restrictive Period otherwise applicable to all or any portion of the Award Shares.

10. Withholding Taxes. The Grantee shall pay to the Company an amount sufficient to satisfy all minimum tax withholding requirements, including those arising under federal, state and local income tax laws, prior to the delivery of any Award Shares. Payment of the minimum withholding requirement may be made by one or more of the following methods: (a) in cash, (b) in cash received from a broker-dealer to whom the Grantee has submitted irrevocable instructions to deliver the amount of withholding tax to the Company from the proceeds of the sale of shares of Common Stock subject to the Award, (c) by delivery to the Company of other Common Stock owned by the Grantee that is acceptable to the Company, valued at its fair market value on the date of payment, (d) by certifying to ownership by attestation of such previously owned Common Stock, or (e) by having shares of Common Stock withheld from the Award Shares otherwise distributable to the Grantee. Payment shall be made pursuant to the on-line procedures set forth on the AAR 2013 Stock Benefit Plan online web site through Morgan Stanley (www.stockplanconnect.com).

11. Postponement of Distribution. Notwithstanding anything herein to the contrary, the distribution of any portion of the Award Shares shall be subject to action by the Board taken at any time in its sole discretion (a) to effect, amend or maintain any necessary registration of the Plan or the Award Shares distributable in satisfaction of this Award under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (b) to permit any action to be taken in order to (i) list such Award Shares on a stock exchange if the Common Stock is then listed on such exchange or (ii) comply with restrictions or regulations incident to the maintenance of a public market for its Shares of Common Stock, including any rules or regulations of any stock exchange on which the Award Shares are listed, or (c) to determine that such Award Shares and the Plan are exempt from such registration or that no action of the kind referred to in (b)(ii) above needs to be taken; and the Company shall not be obligated by virtue of any terms and conditions of this Award or any provision of this Agreement or the Plan to issue or release the Award Shares in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not shorten the term of any restriction attached to the Award Shares and neither the Company nor its directors or officers shall have any obligation or liability to the Grantee or to any other person as to which issuance under the Award Shares was delayed.

12. Recoupment. Notwithstanding any other provision of this Agreement, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of an Award (including by forfeiture of any outstanding Award Shares or by the Grantee's remittance to the Company of Award Shares pursuant to which the restrictions previously lapsed or of a cash payment equal to Award Shares pursuant to which the restrictions previously lapsed). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Grantee.

13. Miscellaneous.

(a) This Award and this Agreement shall be construed, administered and governed in all respects under and by the laws of the State of Illinois.

(b) Capitalized terms used herein and not defined herein will have the meanings set forth in the Plan.

(c) Nothing in the Award shall confer on the Grantee any right to be or to continue in the employ of the Company or any of its Subsidiaries or shall interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment of the Grantee at any time for any reason or no reason.

(d) This Agreement has been examined by the parties hereto, and accordingly the rule of construction that ambiguities be construed against a party which causes a document to be drafted shall have no application in the construction or interpretation hereof. If any part of this Agreement is held invalid for any reason, the remainder hereof shall nevertheless remain in full force and effect.

(e) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein; provided, however, that this Agreement, including paragraphs 3 and 4, shall be subject to the provisions of any written employment or severance agreement that has been or may be executed by the Grantee and the Company, and the provisions in such employment or severance agreement concerning the Award shall supercede any inconsistent or contrary provision of this Agreement. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

(f) This Agreement shall be construed consistent with the provisions of the Plan and in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control and any terms of this Agreement which conflict with Plan terms shall be void.

Questions concerning the provisions of this Agreement should be directed to the Company's Corporate Secretary: 630/227-2060; fax 630/227-2058.

AAR CORP.

Performance Restricted Stock Agreement
("Agreement")

Subject to the provisions of the AAR CORP. 2013 Stock Plan and the Long-Term Incentive Plan for Fiscal 2024 (together, the "Plan"), the terms of which are hereby incorporated by reference, and in consideration of the agreements of the Grantee herein provided, AAR CORP., a Delaware corporation ("Company"), hereby grants to the Grantee a performance restricted stock award ("Award"), effective July 24, 2023 ("Date of Award"), for the number of shares of common stock ("Common Stock") of the Company, \$1.00 par value ("Award Shares") set forth in the Company's notification of Award grant letter to the Grantee and incorporated herein by reference, subject to the forfeiture and nontransferability provisions hereof and the other terms and conditions set forth herein:

1. **Acceptance By Grantee.** The Award is conditioned upon the acceptance by the Grantee of the terms and conditions of the Award as set forth in this Agreement. The Grantee must confirm acceptance of the Award and this Agreement on Morgan Stanley's web site (www.stockplanconnect.com). If the Grantee does not accept the Award and this Agreement within 30 days from the date of the notification of the Award, the Award referenced herein shall expire unless the acceptance date is extended in writing signed by the Company.

2. **Performance Condition.** The Award is conditioned upon the Company meeting the income from continuing operations, return on invested capital and relative total stockholder return performance goal targets for the three-year performance period beginning June 1, 2023 and ending May 31, 2026, as set forth in the Plan. If the Company does not meet these performance goal targets at the threshold level set forth in the Plan, the Grantee shall forfeit to the Company all Award Shares. If the Company meets these performance goal targets at or above the threshold level but less than the target level, the Grantee shall forfeit that number of Award Shares as determined under the Plan. If the Company meets these performance goal targets at or above the target level, the number of Award Shares granted shall be as determined under the Plan.

3. **Restrictions.** The Grantee represents that he is accepting the Award Shares without a view toward distribution of said Award Shares and that he will not sell, assign, transfer, pledge or otherwise encumber the Award Shares during the period commencing on the Date of Award and ending on the date the restrictions applicable to such Award Shares are released pursuant to paragraph 4 of this Agreement ("Restrictive Period").

4. **Release of Restrictions.** Subject to the provisions of paragraphs 2 and 5, the restrictions described in paragraph 3 above shall be released with respect to 100% of the Award Shares on July 31, 2026, except as follows:

(a) ***In General.*** Subject to the provisions of paragraph 2, if the Grantee's employment with the Company and all Subsidiaries of the Company terminates prior to the last day of the Restrictive Period for any reason other than Retirement, death or Disability, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 3 hereof.

(b) *Retirement.* Subject to the provisions of paragraph 2, if the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of Retirement prior to the last day of the Restrictive Period, the Restrictive Period shall terminate on July 31, 2026.

For this purpose, "Retirement" means the Grantee's voluntary termination of employment, or his termination of employment by the Company or a Subsidiary without Cause (as defined in Section 5 below), when he has (A) attained age 65 or (B) attained age 55 and his age plus the number of his consecutive years of service with the Company and Subsidiaries is at least 75.

(c) *Death or Disability.* Subject to the provisions of paragraph 2, if the Grantee's employment with the Company and all Subsidiaries of the Company terminates by reason of death or Disability occurring on or after the Date of Award and on or before July 31, 2026, the Restrictive Period shall terminate as to a pro-rata share of Award Shares determined by multiplying the number of Award Shares by a fraction, the numerator of which is the number of full months that have elapsed from the Date of Award to the date of death or Disability, and the denominator of which is 36 (the number of full months in the Restrictive Period). The remaining shares shall be forfeited and returned to the Company. For this purpose, "Disability" means the inability of the Grantee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

(d) *Restrictive Covenant.* If at any time prior to the Award Shares' release from the restrictions hereunder, the Grantee, without the Company's express written consent, directly or indirectly, alone or as a member of a partnership, group, or joint venture or as an employee, officer, director, or greater than 1% stockholder of any corporation, or in any capacity engages in any activity which is competitive with any of the businesses conducted by the Company or its affiliated companies at any time during the Grantee's term of employment, the Grantee shall forfeit to the Company all Award Shares not previously released from the restrictions of paragraph 3 hereof.

5. Change in Control. If in connection with a Change in Control of the Company the Award is continued or assumed by the acquiring or surviving entity, and within two years following such Change in Control, either the Grantee's employment is terminated by the Company or a Subsidiary of the Company without Cause, or the Grantee terminates his employment with the Company and all Subsidiaries for Good Reason, then notwithstanding any conditions or restrictions contained in this Agreement, the Grantee shall be entitled to that number of Award Shares that would be available if the cumulative net income performance goal were met at the target level, and the Restrictive Period shall terminate as to all such Award Shares. For this purpose, (a) "Cause" means (i) the Grantee's dishonesty, fraud or breach of trust, gross negligence or substantial misconduct in the performance of, or substantial nonperformance of, his assigned duties or willful violation of Company policy, (ii) any act or omission by the Grantee that is a substantial cause for a regulatory body with jurisdiction over the Company to request or recommend the suspension or removal of the participant or to impose sanctions upon the Company or the Grantee, or (iii) a material breach by the Grantee of any applicable employment agreement between him and the Company, and in each case, the Company shall have the sole discretion to

determine whether a Grantee's termination of employment is for Cause; and (b) "Good Reason" means (i) a material reduction in the nature or scope of the Grantee's duties, responsibilities, authority, power or functions from those enjoyed by the Grantee immediately prior to the Change in Control, or a material reduction in the Grantee's compensation (including benefits), occurring at any time during the two-year period immediately after the Change in Control, or (ii) a relocation of the Grantee's primary place of employment of at least 100 miles.

6. Change in Outstanding Shares. In the event of any change in the outstanding shares of Common Stock occurring through stock splits, stock dividends, stock consolidations, spin-offs, other distributions of assets to stockholders or assumption or conversion of outstanding Awards due to an acquisition after the Date of Award, the Award Shares shall be treated in the same manner in any such transaction as other shares of Common Stock. Any additional shares of Common Stock received by the Grantee with respect to the Award Shares in any such transaction shall be subject to the same restrictions as are then applicable to those Award Shares for which the additional shares have been issued.

7. Rights of Grantee. As the holder of the Award Shares, the Grantee is entitled to all of the rights of a stockholder of AAR CORP. with respect to any of the Award Shares, when issued, including, but not limited to, the right to receive dividends declared and payable since the Date of Award; provided, however, that such dividends shall be accumulated and held by the Company until the performance condition described in paragraph 2 is met, or if earlier, as described in paragraph 5, at which time such accumulated dividends shall be paid to the Grantee in cash to the extent the performance condition is met or if applicable, as described in Section 5. Any accumulated or unpaid dividends relating to Award Shares that are forfeited shall also be forfeited.

8. Shares. In aid of the restrictions set forth in paragraph 3, the Grantee will be required to execute a stock power in favor of the Company which will be cancelled upon release of restrictions with respect to Award Shares released. Award Shares shall be held by the Company in electronic book entry form on the records of the Company's Transfer Agent, together with the executed stock power, for the account of the Grantee until such restrictions are released pursuant to the terms hereof, or such Award Shares are forfeited to the Company as provided by the Plan or this Agreement. The Grantee shall be entitled to the Award Shares as to which such restrictions have been released, and the Company agrees to issue such Award Shares in electronic form on the records of the Transfer Agent. Upon request by the Grantee, the Transfer Agent will transfer such released Award Shares in electronic form to the Grantee's broker for the Grantee's account or issue certificates in the name of the Grantee representing the Award Shares for which restrictions have been released.

9. Legend. The Company may, in its discretion, place a legend or legends on any electronic shares or certificates representing Award Shares issued to the Grantee that the Company believes is required to comply with any law or regulation.

10. Committee Powers. The Committee may subject the Award Shares to such conditions, limitations or restrictions as the Committee determines to be necessary or desirable to comply with any law or regulation or with the requirements of any securities exchange. At any time during the Restrictive Period, the Committee may reduce or terminate the Restrictive Period otherwise applicable to all or any portion of the Award Shares.

11. Withholding Taxes. The Grantee shall pay to the Company an amount sufficient to satisfy all minimum tax withholding requirements, including those arising under federal, state and local income tax laws, prior to the delivery of any Award Shares. Payment of the minimum withholding requirement may be made by one or more of the following methods: (a) in cash, (b) in cash received from a broker-dealer to whom the Grantee has submitted irrevocable instructions to deliver the amount of withholding tax to the Company from the proceeds of the sale of shares of Common Stock subject to the Award, (c) by delivery to the Company of other Common Stock owned by the Grantee that is acceptable to the Company, valued at its fair market value on the date of payment, (d) by certifying to ownership by attestation of such previously owned Common Stock, or (e) by having shares of Common Stock withheld from the Award Shares otherwise distributable to the Grantee. Payment shall be made pursuant to the on-line procedures set forth on the AAR 2013 Stock Benefit Plan online web site through Morgan Stanley (www.stockplanconnect.com).

12. Postponement of Distribution. Notwithstanding anything herein to the contrary, the distribution of any portion of the Award Shares shall be subject to action by the Board taken at any time in its sole discretion (a) to effect, amend or maintain any necessary registration of the Plan or the Award Shares distributable in satisfaction of this Award under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (b) to permit any action to be taken in order to (i) list such Award Shares on a stock exchange if the Common Stock is then listed on such exchange or (ii) comply with restrictions or regulations incident to the maintenance of a public market for its Shares of Common Stock, including any rules or regulations of any stock exchange on which the Award Shares are listed, or (c) to determine that such Award Shares and the Plan are exempt from such registration or that no action of the kind referred to in (b)(ii) above needs to be taken; and the Company shall not be obligated by virtue of any terms and conditions of this Award or any provision of this Agreement or the Plan to issue or release the Award Shares in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not shorten the term of any restriction attached to the Award Shares and neither the Company nor its directors or officers shall have any obligation or liability to the Grantee or to any other person as to which issuance under the Award Shares was delayed.

13. Recoupment. Notwithstanding any other provision of this Agreement, to the extent required by applicable law, including the Dodd-Frank Wall Street Reform and Consumer Protection Act, or pursuant to the Company's policy as may be in effect, the Company shall have the right to seek recoupment of all or any portion of an Award (including by forfeiture of any outstanding Award Shares or by the Grantee's remittance to the Company of Award Shares pursuant to which the restrictions previously lapsed or of a cash payment equal to Award Shares pursuant to which the restrictions previously lapsed). The value with respect to which such recoupment is sought shall be determined by the Company. The Company shall be entitled, as permitted by applicable law, to deduct the amount of such payment from any amounts the Company may owe to the Grantee.

14. Miscellaneous.

(a) The Award and this Agreement shall be construed, administered and governed in all respects under and by the laws of the State of Illinois.

(b) Capitalized terms used herein and not defined herein will have the meanings set forth in the Plan.

(c) Nothing in the Award shall confer on the Grantee any right to be or to continue in the employ of the Company or any of its Subsidiaries or shall interfere in any way with the right of the Company or any of its Subsidiaries to terminate the employment of the Grantee at any time for any reason or no reason.

(d) This Agreement has been examined by the parties hereto, and accordingly the rule of construction that ambiguities be construed against a party which causes a document to be drafted shall have no application in the construction or interpretation hereof. If any part of this Agreement is held invalid for any reason, the remainder hereof shall nevertheless remain in full force and effect.

(e) This Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and any prior understanding or representation of any kind antedating this Agreement concerning such subject matter shall not be binding upon either party except to the extent incorporated herein; provided, however, that this Agreement, including paragraphs 4 and 5, shall be subject to the provisions of any written employment or severance agreement that has been or may be executed by the Grantee and the Company, and the provisions in such employment or severance agreement concerning the Award shall supercede any inconsistent or contrary provision of this Agreement. No consent, waiver, modification or amendment hereof, or additional obligation assumed by either party in connection herewith, shall be binding unless evidenced by a writing signed by both parties and referring specifically hereto. No consent, waiver, modification or amendment with respect hereto shall be construed as applicable to any past or future events other than the one in respect of which it was specifically made.

(f) This Agreement shall be construed consistent with the provisions of the Plan and in the event of any conflict between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control and any terms of this Agreement which conflict with Plan terms shall be void.

Questions concerning the provisions of this Agreement should be directed to the Company's Corporate Secretary: 630/227-2060; fax 630/227-2058.

SECTION 302
CERTIFICATION

I, John M. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AAR CORP. (the "Registrant") for the quarterly period ended August 31, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: September 26, 2023

/s/ JOHN M. HOLMES

John M. Holmes

Chairman, President, and Chief Executive Officer

(Principal Executive Officer)

SECTION 302
CERTIFICATION

I, Sean M. Gillen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AAR CORP. (the "Registrant") for the quarterly period ended August 31, 2023;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: September 26, 2023

/s/ SEAN M. GILLEN

Sean M. Gillen

Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the AAR CORP. (the "Company") quarterly report on Form 10-Q for the period ended August 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Holmes, Chairman, President, and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 26, 2023

/s/ JOHN M. HOLMES

John M. Holmes

Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the AAR CORP. (the "Company") quarterly report on Form 10-Q for the period ended August 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean M. Gillen, Senior Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: September 26, 2023

/s/ SEAN M. GILLEN

Sean M. Gillen

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)
