



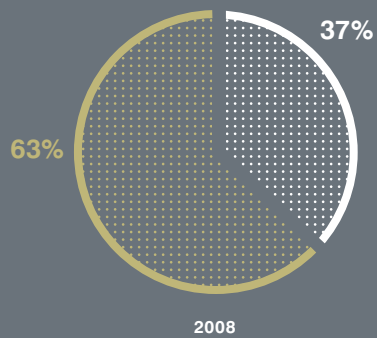
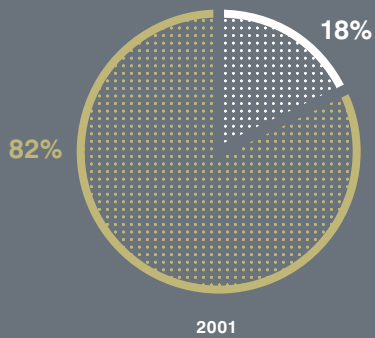
BUILDING **BALANCE.**
BUILDING **DEPTH.**
BUILDING **STRENGTH.**

BUILDING BALANCE



Balanced Business Mix

- Commercial
- Defense





As we delivered 2008's record results, we continued to diversify our business, strengthening our ability to deliver long-term value to customers and investors in a cyclical marketplace.

We continued to invest to deepen AAR capabilities within our core businesses and our customer base.



BUILDING DEPTH



Balanced Sales Growth (in thousands)

Aviation Supply Chain

| | | |
|------|---|-----------|
| FY08 |  | \$606,490 |
| FY07 |  | \$543,674 |


Maintenance, Repair and Overhaul

| | | |
|------|---|-----------|
| FY08 |  | \$300,871 |
| FY07 |  | \$211,516 |

Structures and Systems

| | | |
|------|---|-----------|
| FY08 |  | \$389,428 |
| FY07 |  | \$264,083 |

Aircraft Sales and Leasing

| | | |
|------|---|----------|
| FY08 |  | \$88,130 |
| FY07 |  | \$41,896 |

BUILDING STRENGTH



We worked to further strengthen AAR in fiscal 2008 — we took action to bolster our financial position, continue to engage our people and improve our operations throughout the year.



Annual Sales 2004–2008 (in thousands)

| | | |
|------|--|-------------|
| FY08 | | \$1,384,919 |
| FY07 | | \$1,061,169 |
| FY06 | | \$885,518 |
| FY05 | | \$740,427 |
| FY04 | | \$632,223 |

TO OUR STOCKHOLDERS, CUSTOMERS AND EMPLOYEES:

FISCAL 2008 WAS AN OUTSTANDING YEAR FOR THE COMPANY. WE ACHIEVED RECORD SALES AND EARNINGS, WITH ALL FOUR OF OUR BUSINESS SEGMENTS REPORTING DOUBLE-DIGIT GROWTH.

Financial Highlights

FOR THE FISCAL YEAR ENDED MAY 31

IN THOUSANDS, EXCEPT PER SHARE DATA

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|-------------|-------------|-----------|-----------|-----------|
| OPERATING PERFORMANCE | | | | | |
| Net Sales | \$1,384,919 | \$1,061,169 | \$885,518 | \$740,427 | \$632,223 |
| Income From Continuing Operations | 75,745 | 59,447 | 35,823 | 19,498 | 5,430 |
| Diluted Earnings Per Share From Continuing Operations | \$1.77 | \$1.42 | \$0.96 | \$0.57 | \$0.17 |
| FINANCIAL POSITION | | | | | |
| Working Capital | \$564,932 | \$389,215 | \$436,666 | \$314,517 | \$300,943 |
| Total Assets | 1,362,010 | 1,067,633 | 978,819 | 732,230 | 709,292 |
| Total Debt | 518,946 | 327,856 | 320,865 | 230,904 | 252,058 |
| Stockholders' Equity | 585,255 | 494,243 | 422,717 | 314,744 | 301,684 |

We broadened our capabilities through two acquisitions, continued to enhance our product mix to better meet customer needs and capture market share, strengthened our liquidity and bolstered our senior leadership team.

Highlights of our financial results from the fiscal year:

- *Record sales of \$1,385 million, an increase of 31 percent*
- *Net income of \$75.1 million, an increase of 28 percent*
- *Operating margin improved to 9.7 percent of sales*
- *Commercial sales increased 28 percent*
- *Defense sales increased 37 percent*
- *International sales increased 13 percent*

This record performance is the result of our intense focus on innovation and execution, expanding and diversifying our product lines and customer base both in North America and abroad, and continuing to increase our value proposition for commercial and defense customers as they seek ways to operate more efficiently and cost-effectively.

Since January 2008, there has been significant pressure on our share price, driven by the broad-based decline in capital markets and further influenced by concerns over the price of

crude oil, the state of the U.S. economy and the health of the commercial airline industry. While a softening in the commercial airline industry, on the surface, does not bode well for our Company, many of the services that we provide help the airlines lower their operating expenses, thus making our value proposition increasingly attractive. Additionally, while the U.S. airlines reduce their fleets to compensate for the high cost of fuel and a weakening U.S. economy, the worldwide fleet continues to grow, creating opportunities for AAR.

In February, the Company strengthened its liquidity position with the issuance of \$250 million of convertible notes consisting of \$137.5 million of 1.625% notes due 2014 and \$112.5 million of 2.25% notes due 2016. A portion of these proceeds was used to fund the acquisitions as well as the retirement of \$64 million of debt.

Segment Highlights

Sales in our Aviation Supply Chain segment grew by approximately 12 percent in fiscal 2008, reflecting our industry-leading position providing parts and related services and high-value supply chain program support. International sales in this segment increased by 15 percent.

We achieved 42 percent year-over-year sales growth in our Maintenance, Repair and Overhaul (MRO) segment, driven by solid performance at our Indianapolis heavy maintenance facility and record sales at our Landing Gear business. Our acquisition of Avborne Heavy Maintenance in March 2008 added a 226,000-square-foot hangar at the Miami International Airport, expanded our customer base and broadened our capabilities to include heavy maintenance for Airbus and wide-body aircraft.

AAR's Structures and Systems segment posted a 47 percent sales increase, fueled by strength in our Mobility Systems business, the acquisition of Summa Technology and a full year of revenue from our previous acquisition of Brown International. Summa Technology brings precision machining and fabrication of highly engineered structural components for business jets, military fighter aircraft and a variety of industrial applications. In February 2008, we announced a significant increase to our composites manufacturing capacity with the expansion into the former McClellan Air Force Base composite facility in Sacramento, California.

During fiscal 2008, sales in our Aircraft Sales and Leasing segment increased \$46 million. We achieved a 15.5 percent return on our portfolio, which currently consists of 37 aircraft — 29 of which are owned through joint ventures and eight of which are wholly owned. All of these aircraft are currently on lease, with 24 of the planes leased to carriers outside of North

America. We added 22 aircraft during the first half of the fiscal year and did not acquire any aircraft during the second half.

Aircraft retirements and capacity reductions by U.S. airlines create both challenges and opportunities for AAR. Near term, we expect aircraft to change hands, creating opportunities for AAR to remarket aircraft outside the U.S. and acquire planes for disassembly to support customers through our Supply Chain businesses.

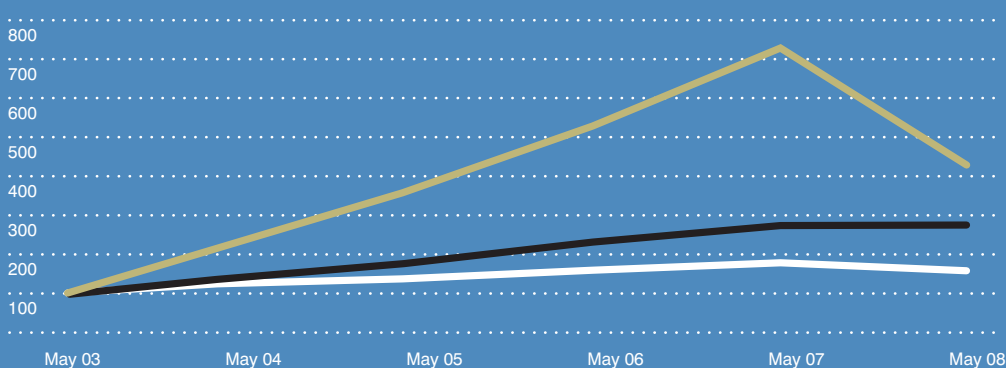
Building the AAR Team

We are very impressed with the dedication of our workforce and their relentless commitment to customer satisfaction, continuous improvement and airworthiness. For example, AAR's worldwide team of Aviation Maintenance Technicians (AMTs) earned the FAA's Diamond Award of Excellence for the fourth consecutive year, with 100 percent of our 1,731 eligible technicians recognized for meeting or exceeding FAA training requirements. Congratulations to our AMTs for again earning this prestigious award.

We strengthened our senior management team with the appointment of several outstanding individuals to key positions. Rick Poulton has added a new dimension to our leadership team and has done an excellent job during his first year as CFO, allowing Tim to transition smoothly into his new leadership role as President and Chief Operating Officer.

Comparison of Cumulative Five-Year Total Return¹

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

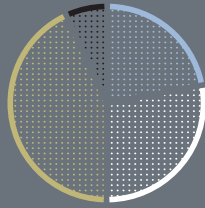


¹Assumes \$100 invested on May 31, 2003, and reinvestment of dividends in the Company's common stock, the S&P 500 Index and the S&P 600 Aerospace/Defense Index.

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

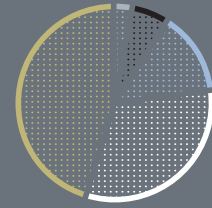
Sales by Segment

| | |
|-----|----------------------------------|
| 44% | Aviation Supply Chain |
| 28% | Structures and Systems |
| 22% | Maintenance, Repair and Overhaul |
| 6% | Aircraft Sales and Leasing |



Sales by Region

| | |
|-----|----------------------------|
| 45% | North America – Commercial |
| 32% | North America – Defense |
| 14% | Europe |
| 6% | Asia/Pacific |
| 3% | Other |



At the beginning of fiscal 2008 Terry Stinson joined AAR to lead the Structures and Systems segment. Terry has brought a deep understanding of the aerospace industry to the Company and has provided excellent leadership for this group of businesses. Additionally, Donald J. Wetekam joined AAR and was appointed Group Vice President, MRO. Don retired from the U.S. Air Force in July 2007 as a Lieutenant General and in his last assignment served as Deputy Chief of Staff for Installations and Logistics. Don is a recognized leader in the area of process improvement techniques and Lean methodologies.

After 20 years of exemplary service at AAR, Howard A. Pulsifer retired as General Counsel in June of 2008. Howard provided sound guidance as chief legal counsel and will continue to serve as Secretary through the remainder of fiscal 2009. Assuming the position of General Counsel was Robert J. Regan, who was a partner at Schiff Hardin LLP, a leading Chicago-based law firm that has served as outside legal counsel to AAR for more than 40 years.

In October 2007, Norman R. Bobins joined our Board of Directors. Norm is widely recognized as one of Chicago's top bankers and civic leaders, and makes an outstanding addition to an already strong board.

We have a focused and energized leadership team in place that is committed to growing the business while providing the best workplace possible for our employees — a place where our people can make a difference and have the opportunity to be the best they can be.

Moving Forward

Today, AAR is well positioned to capitalize on changing industry dynamics. As the new millennium unfolded, many major U.S. airlines sought to lower their cost structures by outsourcing a larger percentage of their airframe maintenance activities, and we responded by adding substantial new capacity to service this market. Additionally, we opened a new low-cost manufacturing center in North Carolina and added several new sites to support defense logistics programs.

We also expanded our integration and engineering services and high-end manufacturing capabilities, further diversifying our product mix. Strengthening our portfolio and solid execution have contributed to an almost doubling in sales over the past three years.

As we look at the global marketplace, we see growth opportunities as well as risks due to regional conflicts, crude oil volatility and tightening credit markets. The Company's priorities remain squarely on identifying new niches and opportunities, adding more engineering content to our products and services, capturing market share and strengthening our balance sheet.

In Appreciation

We are committed to creating shareholder value and are grateful to our stockholders for their continued support and investment in our future. We would like to thank our customers for their confidence and for the opportunity to support them. We would also like to acknowledge our Board of Directors for their active participation in our strategic development and for their commitment to the best in corporate governance. And, we wish to express our appreciation for the outstanding contributions of our 6,100 employees who embody the AAR spirit.

Our goal is to make AAR "the place to be" for our customers, employees and stockholders.

Sincerely,

David P. Storch
Chairman and Chief Executive Officer

Timothy J. Romenesko
President and Chief Operating Officer

August 15, 2008

AAR AT A GLANCE



In today's market environment, a diversified business is a solid business. We have worked steadily to build balance, depth and strength across AAR.



AAR BUSINESS SEGMENTS

AAR PROVIDES A WIDE RANGE OF PRODUCTS AND VALUE-ADDED SERVICES FOR COMMERCIAL AND GOVERNMENT CUSTOMERS THROUGH FOUR OPERATING SEGMENTS:



AVIATION SUPPLY CHAIN

- Airframe Parts Supply and Repair
- Engine Parts Supply
- Inventory Management Programs
- PMA Development and Supply
- Enterprise Application Integration



MAINTENANCE, REPAIR AND OVERHAUL (MRO)

- Aircraft Maintenance
- Landing Gear Services
- Aircraft Storage
- Engineering Services



STRUCTURES AND SYSTEMS

- Mobility Systems
- Cargo Systems
- Composite Structures
- Precision Fabrication
- Systems Integration



AIRCRAFT SALES AND LEASING

- Sales and Leasing
- Advisory Services

BUILDING BALANCE

Expanding capabilities with Summa and adding capacity in Composites.

The acquisition of Summa Technology and the lease of a 90,000-square-foot Composites manufacturing facility in Sacramento, California, represent two big steps forward in our ongoing efforts to build a stronger, more diversified AAR — with a broad array of high-value capabilities in growth markets.

The acquisition of Summa Technology adds a strong suite of engineering and manufacturing capabilities to AAR's business. As an established source of precision-machined components and assemblies for customers in the government, commercial aviation and industrial sectors — from the Space Shuttle, Tomahawk Cruise Missiles and air defense systems to commercial and military aircraft, even lawn tractors — AAR Summa Technology represents an important new growth platform for the Company.

In our Composites business, the new Sacramento facility more than quadrupled our capacity virtually overnight. With its superior strength-to-weight properties, composite technology is critical to the future in both commercial and military aviation markets. AAR is now in a stronger position to compete for significant involvement in a number of major commercial and defense programs.

By growing our capabilities in high-technology, high-value manufacturing, we're increasing the value we offer our customers and improving our ability to enter new markets.



AAR Summa Technology adds more than 400,000 square feet of high-end manufacturing capacity, along with design and engineering capabilities, to AAR's Structures and Systems segment. With involvement in an increasing number of long-term commercial and government programs, we expect the new business to be a strong contributor to future growth.

Composite content is on the rise in new aviation technology, and with it, demand from major OEMs. Autoclaves, large cylindrical chambers for fabricating composite components, are a key measure of capacity. In fiscal 2008, AAR added four autoclaves to the one it previously operated.

BUILDING DEPTH

Helicopters: tapping AAR strengths to grow in a high-potential niche.

As a provider of cargo systems and containers, parts and logistics services, component repair and, most recently, precision-machined and composite parts for major helicopter programs, AAR is in a strong position to expand. Multiple AAR businesses are working together to pursue growth opportunities in the rotorcraft market.

For more than 20 years, AAR has provided engineering, manufacturing, parts and repair, and specialized containers for the Helicopter Internal Cargo Handling System (HICHS) on the Boeing CH-47 Chinook.

Today, AAR has a growing presence in a variety of rotorcraft programs. AAR's Aviation Supply Chain sector supplies Auxiliary Power Unit parts for the Sikorsky H-60 Blackhawk. AAR's Composites business provides interior shell components for the Sikorsky S-92 and flare dispensers for the Boeing MH-47. We also provide a range of local support services for Bell Helicopter from eight AAR facilities, including supply chain and logistics, forecasting and kitting.

We are actively pursuing opportunities to leverage our relationships and form new ones to grow this business — from engineering and manufacturing to supply chain and MRO, our strong capabilities and a close-to-the-customer operating philosophy make AAR an ideal fit.

We've heightened our focus on the rotorcraft area. There are some excellent opportunities to leverage our core strengths and form new partnerships to grow the business.



AAR's expertise in CH-47s spans the life of the current program, beginning in 1983. AAR helps the United States and its allies keep this rugged, versatile rotorcraft in the air with proven logistics support, design, fabrication, installation and maintenance capabilities for cargo handling and other systems. AAR professionals collaborate across the business to meet our customers' emerging needs — including exploring ways to reduce weight without compromising system performance in new models.

BUILDING DEPTH

Systems integration: an increasingly sophisticated, high-value offering.

From small scale to large, from theater of operations to homeland security, from training and R&D to humanitarian relief, AAR has added advanced design, engineering and systems integration capabilities to its manufacturing and support leadership to meet robust and still-growing market demand.

AAR's Structures and Systems segment is steadily deepening its capabilities and extending its product lines to increase the value it offers customers. In addition to its leadership in rapid deployment equipment, AAR's design and systems integration expertise positions the Company to be a strong competitor in an increasingly broad range of applications.

In command and control (C2), AAR transit case systems provide value for secure and nonsecure voice communications. In larger-scale applications, our mobile platforms and fixed facilities provide highly tailored, scalable and network-centric solutions for a variety of C2 requirements.

Increasingly complex product lines demand a wide range of aftermarket services. AAR technicians provide system upgrades, maintenance services and on-site technical support for C2 systems, tracked and wheeled vehicles, and expeditionary systems across Southwest Asia, the Middle East and other customer locations worldwide.

Our involvement now includes front-end systems engineering, development and integration — and a wider range of life-cycle support services, both for our own and other companies' products.



AAR develops and supports integrated systems for battlefield management that merge data from multiple sources and sensors into one unified “track” of warfighter-friendly, actionable information. This “track fusion” technology improves situational awareness and speeds decision-making in today’s data-rich tactical environment. The result is improved operational effectiveness, better use of tactical assets and safer troops on the ground.

BUILDING STRENGTH

Gaining altitude: our enterprise-wide focus on operational excellence.

For the last several years, AAR has been systematically putting in place tools to reduce cycle time, improve quality and workplace safety, and eliminate waste. In fiscal 2008, our efforts continued to show in our results — and there is still significant room for improvement.

Lean. Six Sigma. TOC. These are among the tools AAR is utilizing to pursue and achieve operational excellence across the enterprise.

But they are just tools. More important, programs are becoming part of a cultural change. Increasingly, our people are taking a new approach to their day-to-day work. They're learning to constantly look for anything that doesn't add value, and they have a greater voice in the continuous improvement process. These programs are mobilizing the AAR workforce, creating greater individual accountability and an increased sense of connection to the goals of the Company.

Ongoing improvements in the areas of waste reduction, cycle time and quality contributed to our record fiscal 2008 performance, and we expect the impact to increase as our efforts continue to gain momentum.

*Across AAR, we are focusing on efficiency and on what adds value in our work.
Even more important, we're defining value in our customers' terms.*



Continuous process improvement is key in operational excellence initiatives. Across AAR, people are working in teams, using process mapping and other common-sense techniques to identify and eliminate any steps that do not add value. The initiatives aim to create a culture of continuous improvement, embodied by empowered, customer-value-focused employees. The benefits — cost and cycle time reduction, waste elimination, quality improvements — are increasingly evident as we implement initiatives across our businesses.

AAR LEADERSHIP

Officers, Directors and Committees

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

Corporate Officers

David P. Storch

Chairman and Chief Executive Officer

Timothy J. Romenesko

President and Chief Operating Officer

Michael K. Carr

Vice President, Tax

Peter K. Chapman

Vice President and Chief Commercial Officer

James J. Clark

Group Vice President, Aviation Supply Chain

Michael "Mickey" Cohen

Vice President, Operations and Engineering

John P. Johnson

Vice President, Aircraft Sales and Leasing

Kevin M. Larson

Vice President, Chief Information Officer

Richard J. Poulton

Vice President, Chief Financial Officer and Treasurer

David E. Prusiecki

Vice President, Defense Programs

Robert J. Regan

Vice President and General Counsel

Michael J. Sharp

Vice President, Controller and Chief Accounting Officer

Timothy O. Skelly

Vice President, Human Resources

Terry D. Stinson

Group Vice President, Structures and Systems

Board of Directors

David P. Storch

Chairman and Chief Executive Officer, AAR CORP.

Norman R. Bobins

*Chairman, The PrivateBank — Chicago
Chairman Emeritus, LaSalle Bank Corporation*

Michael R. Boyce

Chairman and Chief Executive Officer, PQ Corporation

Chairman and Chief Executive Officer, Peak Investments

James G. Brocksmith, Jr.

Independent Business Consultant

Retired Deputy Chairman

and Chief Operating Officer, KPMG LLP

Gerald F. Fitzgerald, Jr.

Chairman and President, Cornerstone Bancorp, Inc.

Chairman and President, LaSalle Bancorp, Inc.

General Ronald R. Fogleman, USAF (Ret.)

President and Chief Operating Officer, B Bar J Cattle Company

Chairman, Durango Group, LLC

James E. Goodwin

Interim President and CEO, Federal Signal Corporation

Independent Business Consultant

Retired Chairman and Chief Executive Officer, UAL, Inc.

Patrick J. Kelly

Chief Executive Officer, Resource One

Managing Director, KMK & Associates, LLC

Timothy J. Romenesko

President and Chief Operating Officer, AAR CORP.

Marc J. Walfish

Founder, Merit Capital Partners

Ronald B. Woodard

Chairman, MagnaDrive, Inc.

Retired President, Boeing Commercial Airplane Group

Honorary

Ira A. Eichner, *Founder and Chairman of the Board Emeritus*

Board Committees

Audit

James E. Goodwin, *Chairman*

Norman R. Bobins

James G. Brocksmith, Jr.

Gerald F. Fitzgerald, Jr.

Marc J. Walfish

Ronald B. Woodard

Executive

David P. Storch, *Chairman*

James E. Goodwin

Marc J. Walfish

Compensation

James G. Brocksmith, Jr., *Chairman*

Michael R. Boyce

Ronald R. Fogleman

Patrick J. Kelly

Ronald B. Woodard

Nominating and Governance

Ronald R. Fogleman, *Chairman*

Michael R. Boyce

James E. Goodwin

Marc J. Walfish

STOCKHOLDER INFORMATION

Corporate Headquarters

AAR CORP.
1100 North Wood Dale Road
Wood Dale, Illinois 60191
Telephone: 630-227-2000
Facsimile: 630-227-2019
www.aarcorp.com

Transfer Agent and Registrar

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

Annual Meeting of Stockholders

The annual meeting of stockholders will be held at 9:00 a.m. (CDST) on Wednesday, October 8, 2008, at AAR Corporate Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

The Investor Service Program

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

Special Counsel

Schiff Hardin LLP
Chicago, Illinois

Ticker Symbol

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



AAR CORP.
1100 NORTH WOOD DALE ROAD
WOOD DALE, ILLINOIS 60191
WWW.AARCORP.COM