

AAR CORP
Form DEF 14A
August 31, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-12

AAR CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies:
(2)	Aggregate number of securities to which transaction applies:
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
(4)	Proposed maximum aggregate value of transaction:
(5)	Total fee paid:
- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

One AAR Place
1100 N. Wood Dale Road
Wood Dale, IL 60191

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, OCTOBER 17, 2007**

The Annual Meeting of Stockholders of AAR CORP. for the year 2007 will be held at AAR CORP.'s headquarters, One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois, on Wednesday, October 17, 2007, at 9:00 A.M. (Chicago time). At the meeting, stockholders will be asked to:

1. Elect four Class II directors to serve until the 2010 Annual Meeting of Stockholders;
2. Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2008;
3. Transact any other business that may properly come before the 2007 Annual Meeting or any adjournment(s) or postponement(s) of the meeting.

By Order of the Board of Directors
Howard A. Pulsifer
Secretary

August 31, 2007

YOUR VOTE IS IMPORTANT

PLEASE DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN THE ENCLOSED STAMPED, ADDRESSED ENVELOPE, OR SUBMIT YOUR PROXY BY TELEPHONE OR THE INTERNET SO THAT IF YOU ARE UNABLE TO ATTEND THE MEETING, YOUR SHARES MAY NEVERTHELESS BE VOTED. NO POSTAGE IS REQUIRED FOR MAILING IN THE UNITED STATES.

2007 Annual Meeting of Stockholders

PROXY STATEMENT

One AAR Place
1100 N. Wood Dale Road
Wood Dale, Illinois 60191

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One AAR Place
1100 N. Wood Dale Road
Wood Dale, Illinois 60191

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS
October 17, 2007

I. VOTING INFORMATION

This Proxy Statement and the enclosed proxy card were mailed to stockholders on or about August 31, 2007, in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 2007 Annual Meeting (Annual Meeting).

Who is entitled to vote?

If you were a stockholder of record (i.e., you hold your shares in your own name rather than through a broker, bank or other nominee) on August 20, 2007, the Company's record date, you may vote your shares at the Annual Meeting. If you were a street-name stockholder (i.e., you hold your shares through a broker, bank or other nominee) on that date, you are considered a beneficial owner of the stock. To vote those shares at the Annual Meeting, you must give voting instructions to your broker, bank or other intermediary who is the nominee holder of your shares. The Company has directed brokers, banks and other nominee holders to obtain voting instructions from their beneficial owners. Proxies submitted by nominee holders on behalf of beneficial owners will count toward a quorum and will be voted as instructed by the nominee holder. You will receive additional instructions from your broker, bank or other nominee explaining how you may vote your shares held in street name. A list of registered stockholders entitled to vote will be available at the Company's offices, 1100 N. Wood Dale Road, Wood Dale, Illinois, for 10 days prior to the meeting and at the meeting location during the meeting.

How do stockholders vote by proxy or in person?

If you owned common stock of the Company (Common Stock) outstanding at the close of business on the record date, August 20, 2007, you may vote at the Annual Meeting by completing, signing, dating and returning your proxy card in the postage-paid, addressed envelope provided, or you may vote in person at the Annual Meeting. On that date, 37,882,324 shares of Common Stock were outstanding. You will have one vote on each matter to be voted on for each share you owned on the record date.

How do stockholders vote by telephone or through the internet?

You are encouraged to vote either by telephone or through the internet. This will eliminate the need to sign, date and return your proxy card. You can vote by telephone or through the internet 24 hours a day, seven days a week, until 1:00 a.m. (central time) until the day of the Annual Meeting. If you vote by telephone or through the internet, please do not return your proxy card.

- **To vote by telephone:**

Ø **using a touch-tone phone, call 1-800-652-VOTE (8683) toll-free, enter the control number imprinted on your proxy card, and follow the voice prompts**

- **To vote through the internet:**

Ø **Log onto the internet website at <http://www.investorvote.com/expressvote> and enter your voter control number imprinted on your proxy card and mark the appropriate boxes to enter voting instructions**

How does a stockholder revoke a proxy?

You may revoke your vote at any time before your proxy is exercised, but only by (i) voting in person at the Annual Meeting, (ii) submitting another proxy by telephone or through the internet, or (iii) delivering a later dated, signed proxy to the Secretary of the Company.

How will proxy holders vote shares?

Proxies will be voted in accordance with instructions on the proxy. If no instructions are specified, the proxy will be voted **FOR** the election of the nominees for Class II director designated by the Board, **FOR** the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm, and upon any other matter that may properly come before the Annual Meeting in the discretion and best judgment of the named proxy holders. If any director nominee becomes unavailable for election for any reason prior to the Annual Meeting vote, the Board may reduce the number of directors to be elected or substitute another person as nominee, and the named proxy holders will vote for the substitute nominee.

How will votes be counted?

All votes cast in person or by proxy will be tabulated by the inspectors of election appointed for the Annual Meeting. A majority of the outstanding shares of Common Stock entitled to vote, present in person or represented by proxy at the Annual Meeting, will constitute a quorum. The inspectors of election will treat directions to withhold authority, abstentions and broker non-votes (i.e., where a nominee holding shares for a beneficial owner has not received voting instructions from the beneficial owner with respect to a particular matter and such nominee does not possess or choose to exercise his discretionary authority with respect to such matter) as shares that are present for purposes of determining a quorum. Directions to withhold authority will have no effect on the election of directors, because directors are elected by a plurality of votes cast. Abstentions and broker non-votes will be disregarded for purposes of determining whether a matter has been approved, because they are not considered votes cast. It is not anticipated that there will be any broker non-votes on the election of directors or the ratification of the appointment of KPMG LLP since brokers will have discretion to vote on these proposals.

Who is the Company's proxy solicitor?

The Company has engaged D. F. King & Co., 48 Wall Street, New York, New York, to assist the Company in soliciting proxies at a total estimated cost of \$10,000, plus reasonable out-of-pocket expenses. The cost of soliciting proxies will be paid by the Company. D. F. King & Co. may solicit proxies by mail, telephone, facsimile, e-mail, or in person. Certain officers, directors and employees of the Company may also solicit proxies.

II. CORPORATE GOVERNANCE INFORMATION

General

The Company has an ongoing commitment to good governance and business practices. We regularly review our policies and procedures, giving due consideration to current developments and best practices in the area of corporate governance. We comply with all applicable Securities and Exchange Commission (SEC) rules and regulations and New York Stock Exchange (NYSE) listing rules and have adopted additional corporate governance practices that we believe are in the best interests of the Company and its stockholders.

Copies of the following corporate governance documents are available on the Company's web site (www.aarcorp.com/investorrelations/corporategovernance):

- Corporate Governance Guidelines
- Categorical Standards and Policy for Determining Director Independence
- Director Nominating Process and Selection Guidelines
- Code of Business Ethics and Conduct
- Audit Committee Charter
- Compensation Committee Charter
- Nominating and Governance Committee Charter
- Executive Committee Charter

All these corporate governance documents are also available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement. The Company's Code of Business Ethics and Conduct adopted by the Board of Directors applies to all employees, officers and directors of the Company, including the Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Chief Financial Officer and the Chief Accounting Officer and Controller. Employees are encouraged to report to the Company any conduct that they believe in good faith to be in violation of the Code of Business Ethics and Conduct. Amendments to the Code of Business Ethics and Conduct and any waivers from the Code granted by the Board to directors or executive officers will be filed with the SEC in accordance with applicable rules and regulations and posted on the Company's web site under the corporate governance link cited above.

The Company maintains an Ethics Assist Line through a third-party provider to receive confidential complaints, information, suggestions or recommendations, anonymously or otherwise, concerning the Company, its officers, directors and employees, policies, procedures, employment and business practices, accounting or audit matters, financial reporting or compliance with other Company policies or applicable regulatory or legal requirements. The Ethics Assist Line is toll-free and permits callers, at their election, to identify themselves or remain anonymous. The Ethics Assist Line can be accessed by dialing 1-800-418-6423 (x227) or via e-mail to confide2sv@securityvoice.com.

Information concerning insider transactions in the Company's securities (SEC Section 16(a) Forms 3, 4 and 5) is also available on the Company's web site (www.aarcorp.com/investorrelations/insidertrading).

Information concerning the structure, composition and independence of the Board of Directors and Committees of the Board of Directors, as well as information regarding director nomination and recommendation procedures, is provided in Section IV, Board of Directors, on page 7.

Related-Party Transactions

The Nominating and Governance Committee reviews, and makes recommendations to the Board of Directors with respect to, all related-party transactions and relationships involving a director or executive officer and the Company. The Company has no separate related-party transaction policy; rather, various policy and procedures, including the Company's Code of Business Ethics and Conduct and the annual directors' and officers' questionnaires, require disclosure of transactions or relationships that may constitute conflicts of interest or require disclosure or affect an independence determination under the applicable SEC rules. Upon learning of a transaction or a relationship that may constitute a conflict of interest, require disclosure or cause a director not to be treated as independent, the Nominating and Governance Committee determines if further investigation is required and, if so, whether it should be conducted by the Company's legal, internal audit, or other staff, or by outside advisors. The Nominating and Governance Committee reviews the related-party transaction or relationship, including the results of any investigation, and makes a recommendation to the Board of Directors whether to approve or reject the transaction or relationship. The Board of Directors then considers the matter and makes its decision. Transactions and relationships that are determined to be directly or indirectly material to the Company or a related person are disclosed in the Company's Proxy Statement.

Mr. Ira A. Eichner, a former director and Founder and Chairman of the Board of the Company, who retired from the Board on October 19, 2005, provides consulting services to the Company pursuant to a consulting agreement that expires on October 18, 2010, under which he receives a quarterly consulting fee in the amount of \$37,500. During Fiscal 2007, Mr. Eichner received \$150,000 in consulting fees. Mr. Eichner is Founder and Chairman of the Board Emeritus, an honorary position, and Mr. Storch's father-in-law.

Director nominee Norman R. Bobins is the Chairman of the Board and a former President and Chief Executive Officer of LaSalle Bank Corporation (LaSalle Bank) and former Senior Executive Vice President of ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank. Since August, 2006, the Company has been party to a \$140,000,000 unsecured revolving credit facility with LaSalle Bank National Association, an affiliate of LaSalle Bank, and various other Lenders. LaSalle Bank's participation under the facility is \$40,000,000. Under certain circumstances the revolving credit commitment can be increased up to a maximum of \$175,000,000. The credit facility expires on August 31, 2010 and borrowings bear interest at LIBOR plus 125 to 200 basis points depending on specified financial measurements. The credit facility also includes a non-use fee which is currently 30 basis points on the unused portion of the facility. The facility was made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans. There were no borrowings outstanding under this facility during Fiscal 2007 and no interest was paid. The Company paid approximately \$600,000 in fees and non-use charges under the facility during Fiscal 2007.

III. SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS

The following tables show the shares of Common Stock beneficially owned, as of July 31, 2007, by (i) each current director and nominee for election to the Board, (ii) each executive officer named in the Summary Compensation Table, (iii) all directors and executive officers of the Company as a group, and (iv) each beneficial owner of more than 5% of the outstanding shares of Common Stock. Except as noted, the nature of beneficial ownership for shares shown in the tables is sole voting and investment power, and none of the shares shown in the tables are pledged by any of the persons listed.

Security Ownership of Management

Name	Shares Beneficially Owned ¹	Percent of Shares Outstanding if Greater than 1%
Norman R. Bobins	0	
Michael R. Boyce	7,000	
James G. Brocksmitth, Jr.	22,000	
James J. Clark	208,600	
Gerald F. Fitzgerald, Jr.	12,500	
Ronald R. Fogleman	22,000	
James E. Goodwin	24,000	
Patrick J. Kelly	10,500	2
Mark McDonald	11,521	3
Howard A. Pulsifer	195,672	
Timothy J. Romenesko	247,089	
David P. Storch	1,750,176	4 4.67 %
Marc J. Walfish	29,000	
Ronald B. Woodard	8,500	
All directors and executive officers as a group	2,548,558	1,2,3,4 6.63 %

¹ Includes the following shares of the identified person that may be acquired within sixty days of July 31, 2007 through the exercise of stock options: Mr. Brocksmitth, 17,000 shares; Mr. Clark, 98,094 shares; Mr. Fogleman, 17,000 shares; Mr. Goodwin, 17,000 shares; Mr. Pulsifer, 113,678 shares; Mr. Romenesko, 146,868 shares; Mr. Storch, 881,183 shares; Mr. Walfish, 17,000 shares; and Mr. Woodard, 3,500 shares; and all directors and executive officers as a group, 2,439,145 shares.

² Includes 8,000 shares beneficially owned through KMK & Associates, LLC in which Mr. Kelly is a one-third owner.

³ Includes 3,700 shares beneficially owned by Mr. McDonald's dependent children, as to which Mr. McDonald disclaims beneficial ownership.

⁴ Includes 26,224 shares beneficially owned by Mr. Storch's wife (18,810 shares) and minor children (7,414 shares), as to which Mr. Storch disclaims beneficial ownership.

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Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percent of Shares Outstanding
Barclays Global 45 Fremont Street San Francisco, CA 94105	1,899,057 1	5.16 %
FMR Corp. 82 Devonshire Street Boston, MA 02109	4,047,126 2	10.98 %
Lord, Abbett & Co. LLC 90 Hudson Street Jersey City, NJ 07302	2,254,571 3	6.14 %
Putnam Investments One Post Office Square Boston, MA 02109	1,643,416 4	5 %

1 Based on a Schedule 13G filing dated January 9, 2007, the reporting person disclosed beneficial ownership with respect to the shares as follows:

(i) sole voting power:	1,752,244
(ii) shared voting power:	0
(iii) sole investment power:	1,899,057
(iv) shared investment power:	0

2 Based on a Schedule 13G filing dated February 14, 2007, the reporting person disclosed beneficial ownership with respect to the shares as follows:

(i) sole voting power:	1,010,400
(ii) shared voting power:	0
(iii) sole investment power:	4,047,126
(iv) shared investment power:	0

3 Based on a Schedule 13G filing dated February 12, 2007, the reporting person disclosed beneficial ownership with respect to the shares as follows:

(i) sole voting power:	2,103,871
(ii) shared voting power:	0
(iii) sole investment power:	2,254,571
(iv) shared investment power:	0

4 Based on a Schedule 13G filing dated February 3, 2006, the reporting person disclosed beneficial ownership with respect to the shares as follows:

(i) sole voting power:	0
(ii) shared voting power:	366,495
(iii) sole investment power:	0
(iv) shared investment power:	1,643,416

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Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of SEC Forms 3, 4 and 5 and upon related written representations furnished to the Company with respect to its most recent fiscal year, the Company believes that each person who, at any time during the fiscal year, was a director or officer filed on a timely basis all reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended, during the most recent fiscal year, except that Mr. McDonald filed a late Form 4 reporting a stock option exercise of 64,140 shares and the sale of 37,780 shares used to pay the related option exercise price and withholding taxes.

IV. BOARD OF DIRECTORS

The Restated Certificate of Incorporation and By-Laws of the Company provide that the Board shall consist of between three and fifteen directors, with the exact number of directors to be set from time to time by the Board. The number of directors is presently set at eleven with one vacancy for which the Board of Directors has proposed and recommends a nominee to be elected by Stockholders at the October Annual meeting. The members of the Board are divided into three classes: Class I (three directors), Class II (four directors) and Class III (four directors). One class is elected each year for a three-year term.

During the fiscal year beginning June 1, 2006 and ending May 31, 2007 (Fiscal 2007), the Board held five meetings. Seven incumbent directors attended 100% of the aggregate meetings of the Board and the committees on which they served during Fiscal 2007; due to medical reasons, Mr. Boyce and Mr. Walfish attended less than 75% of the aggregate meetings of the Board and the committees on which they served. All the members of the Company's Board of Directors attended the Company's 2006 Annual Meeting of Stockholders.

Director Independence

A majority of the members of the Board of Directors must be independent directors under the criteria established by the Board and under applicable NYSE rules. The Nominating and Governance Committee and the Board of Directors review each director annually and make a determination concerning independence after consideration of all known facts and circumstances. The Board has established categorical standards to assist it in determining director independence. The Company's Categorical Standards and Policy for Determining Director Independence include all of the elements of the applicable SEC and NYSE rules with respect to director independence, as well as those of the Company, and are attached as Appendix 1 to this Proxy Statement. Based on these categorical standards and its review of all relevant facts and information available and the recommendations of the Nominating and Governance Committee, the Board, at its meeting in July 2007, affirmatively determined that no director has a material relationship with the Company that would impair the director's ability to exercise independent judgment and, accordingly, each director is an independent director, except for David P. Storch, due to his status as Chairman of the Board and Chief Executive Officer of the Company, and Timothy J. Romenesko, due to his status as President and Chief Operating Officer of the Company. Under the NYSE rules, a director employed by the Company is not an independent director by definition.

The Board of Directors also affirmatively determined that director nominee Norman R. Bobins is independent. Mr. Bobins is the Chairman of the Board and former President and Chief Executive Officer of LaSalle Bank and former Executive Senior Vice President of ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank. The Company has an unsecured revolving credit facility with LaSalle Bank National Association, an affiliate of LaSalle Bank. See Corporate Governance Information Related-Party Transactions for additional information regarding this transaction. The Board considered this relationship in making its affirmative determination that Mr. Bobins is independent.

Executive Sessions

Independent directors of the Board meet in executive session without management as part of each regular Board meeting and otherwise when circumstances deem it advisable or necessary. The Chairman of the Nominating and Governance Committee presides at the executive sessions of independent directors.

Communications with the Board of Directors

Stockholders and other interested parties may communicate with the Board, the Chairman of the Board, independent directors as a group, or any individual director or Committee Chairman by mail addressed to: AAR CORP., Attention: Independent Directors, or the name of the individual director, c/o Corporate Secretary, AAR CORP., 1100 N. Wood Dale Road, Wood Dale, Illinois 60191. The independent members of the Board of Directors have approved procedures for the processing, review and disposition of all communications sent by stockholders or other interested parties to the Board of Directors.

Code of Conduct for the Board of Directors

All directors are subject to the Company's Code of Business Ethics and Conduct. Each director is furnished a copy of the Code of Business Ethics and Conduct at the time he becomes a director.

Board Committees

The Board has an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, and an Executive Committee. The following table shows the committee structure and membership:

Director	Audit Committee	Compensation Committee	Nominating & Governance Committee	Executive Committee
Michael R. Boyce		X	X	
James G. Brocksmith, Jr.	X	Chair		
Gerald F. Fitzgerald, Jr.	X			
Ronald R. Fogleman		X	Chair	
James E. Goodwin	Chair		X	X
Patrick J. Kelly		X		
Timothy J. Romenesko				X
David P. Storch				