AAR CORP
Form DEF 14A
September 01, 2006
**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 18, 2006**

The Annual Meeting of Stockholders of AAR CORP. for the year 2006 will be held at AAR CORP. s headquarters, One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois, on Wednesday, October 18, 2006, at 9:00 A.M. (Chicago time). At the meeting, stockholders will be asked to:

1. Elect three Class I directors to serve until the 2009 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, 2007;

3. Approve the performance goals under the AAR CORP. Section 162(m) Incentive Goal Program; and

4. Transact any other business that may properly come before the 2006 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, 2006

**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.**

**2006 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 18, 2006**

## I. VOTING INFORMATION

This Proxy Statement and the enclosed proxy card were mailed to stockholders on or about August 31, 2006, in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 2006 Annual Meeting ( Annual Meeting ).

**Who is entitled to vote?**

If you are 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 21, 2006, the Company s record date, you may vote your shares at the Annual Meeting. If you are a street-name stockholder (i.e., you hold your shares through a broker, bank or other nominee), 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. Brokers, banks and other nominee holders have been asked 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 21, 2006, 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, 36,669,685 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 the internet?**

You are encouraged to vote either by telephone or the internet. This will eliminate the need to sign, date and return your proxy card. To vote by telephone or the Internet, enter the control number assigned to you and imprinted on your proxy card accompanying this Proxy Statement. You can vote by telephone 24 hours a day, seven days a week and by Internet until 1:00 A.M. (central time) until the day of the Annual Meeting. If you vote by telephone or 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 and follow the voice prompts**

- **To vote by Internet:**

Ø **Log onto the Internet website at http://www.computershare.com/expressvote and enter your voter control number 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 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 I director designated by the Board, *FOR* the ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm, *FOR* the approval of the performance goals under the AAR CORP. Section 162(m) Incentive Goal Program, 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 since brokers will have discretion to vote on this proposal.

**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 $9,500, 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

The Company has an ongoing commitment to good governance and business practices. We regularly review our policies and procedures, giving due consideration to developments 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 the stockholders.

The following information about the Company s corporate governance practices is available on the Company s web site (www.aarcorp.com/investor relations/corporate governance):

- 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 of the foregoing information may be printed from the Company s web site and is also available in print to any stockholder upon written request to the Corporate Secretary 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 Chief Executive Officer, the Chief Financial Officer and the Chief Accounting Officer and Controller. Employees are encouraged to report 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 or will be posted on the Company s web site.

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/investor relations/insider trading; to view actual Forms 3, 4 or 5, click on the Insider Trading link to the SEC filings).

Additional information concerning the structure 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, below.

## III. SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS

The following tables show the shares of Common Stock beneficially owned, as of July 31, 2006, 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/or investment power.

**Security Ownership of Management**

| Name | Shares Beneficially Owned1 | | Percent of Shares Outstanding if greater than 1% |
|---|---|---|---|
| Michael R. Boyce | 5,000 | | |
| James G. Brocksmith, Jr. | 22,000 | | |
| James J. Clark | 191,301 | | |
| Gerald F. Fitzgerald, Jr. | 7,5000 | | |
| Ronald R. Fogleman | 22,000 | | |
| James E. Goodwin | 24,000 | | |
| Patrick J. Kelly | 10,500 | 2 | |
| Mark McDonald | 128,167 | 3 | |
| Howard A. Pulsifer | 179,541 | | |
| Timothy J. Romenesko | 245,159 | | |
| David P. Storch | 1,975,945 | 4 | 5.4 % |
| Marc J. Walfish | 27,000 | | |
| Ronald B. Woodard | 8,500 | | |
| All directors and executive officers as a group | 2,828,235 | 1,2,3,4 | 7.7 % |

1 Includes the following shares of the identified person that may be acquired within sixty days of July 31, 2006 through the exercise of stock options: Mr. Brocksmith, 17,000 shares; Mr. Clark, 98,094 shares; Mr. Fogleman, 17,000 shares; Mr. Goodwin, 17,000 shares; Mr. McDonald, 64,140 shares; Mr. Pulsifer, 114,869 shares; Mr. Romenesko, 148,484 shares; Mr. Storch, 1,320,019 shares; Mr. Walfish, 17,000 shares; and Mr. Woodard, 3,500 shares; and all directors and executive officers as a group, 1,817,106 shares.

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

3 Includes 5,600 shares beneficially owned by his dependent children, as to which Mr. McDonald disclaims beneficial ownership.

4 Includes 26,223 shares beneficially owned by Mr. Storch s wife (18,810 shares) and minor children (7,413 shares), as to which Mr. Storch disclaims beneficial ownership.

4

**Security Ownership of Certain Beneficial Owners**

| Name and Address of Beneficial Owner | Shares Beneficially Owned | Percent of Shares Outstanding |
|---|---|---|
| Dimensional Fund Advisors Inc.<br>1299 Ocean Avenue<br>Santa Monica, CA 90401 | 2,799,749 1 | 8.48 % |
| FMR Corp.<br>82 Devonshire Street<br>Boston, MA 02109 | 3,581,700 2 | 10.846 % |
| Putnam Investments<br>One Post Office Square<br>Boston, MA 02109 | 1,643,416 3 | 5 % |
| Lord, Abbett & Co. LLC & Management Company<br>One Financial Center<br>Boston, MA 02111-2690 | 2,436,104 4 | 7.27 % |

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1 Based on a Schedule 13G filing dated February 1, 2006, the reporting person disclosed beneficial ownership with respect to the shares as follows:

| | | |
|---|---|---|
| (i) | sole voting power: | 2,799,749 |
| (ii) | shared voting power: | 0 |
| (iii) | sole investment power: | 2,799,749 |
| (iv) | shared investment power: | 0 |

2 Based on a Schedule 13G filing dated February 14, 2006, the reporting person disclosed beneficial ownership with respect to the shares as follows:

| | | |
|---|---|---|
| (i) | sole voting power: | 1,255,800 |
| (ii) | shared voting power: | 0 |
| (iii) | sole investment power: | 3,581,700 |
| (iv) | shared investment power: | 0 |

3 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 |

4 Based on a Schedule 13G filing dated February 1, 2006, the reporting person disclosed beneficial ownership with respect to the shares as follows:

| | | |
|---|---|---|
| (i) | sole voting power: | 2,436,104 |
| (ii) | shared voting power: | 0 |
| (iii) | sole investment power: | 2,436,104 |
| (iv) | shared investment power: | 0 |

**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, each person who, at any time during the fiscal year, was a director, officer or beneficial owner of more than ten percent of the Common Stock of the Company 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 (i) the sale of 71 shares used to pay taxes on restricted stock in October, 2001 and (ii) the exercise of a stock option for 3,000 shares and a resulting reload option grant for 1,221 shares, in August, 2005, were inadvertently filed late for Michael J. Sharp on a Form 4 in September, 2005.

## 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 nine. The members of the Board are divided into three classes: Class I (three directors), Class II (three directors) and Class III (three directors). One class is elected each year for a three-year term.

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. As permitted by the NYSE rules, 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 SEC rules and the NYSE company listing 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, the Board, at its meeting in July, 2006, considered whether any director had a material relationship with the Company that would impair the director s independence. Based on its review of all relevant facts and information available and the recommendations of the Nominating and Governance Committee, the Board affirmatively determined that no director has a material relationship with the Company and, accordingly, each director is an independent director, except for David P. Storch due to his status as Chairman of the Board, President and Chief Executive Officer of the Company. Under the NYSE rules, a director employed by the Company cannot be deemed to be an independent director.

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

Stockholders may communicate with 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.

All members of the Company s Board of Directors attended the Company s 2005 Annual Meeting of Stockholders.

During the fiscal year ended May 31, 2006 ( Fiscal 2006 ), the Board held four meetings. Each incumbent director attended at least 90% of the aggregate meetings of the Board and of the committees on which they served during Fiscal 2006.

**BOARD COMMITTEES**

The Board has an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, and an Executive Committee.

**Audit Committee**

The Audit Committee is comprised entirely of independent directors qualified to serve on the Audit Committee under applicable SEC regulations, NYSE rules and the Company s Categorical Standards and Policy for Determining Director Independence. Its members are James E. Goodwin (Chairman), James G. Brocksmith, Jr., Marc J. Walfish, and Ronald B. Woodard. The Board of Directors has determined that each member of the Audit Committee is an audit committee financial expert, within the meaning of applicable SEC rules. In addition, the Board of Directors has determined that simultaneous service by Mr. Brocksmith on the Audit Committee of more than three public companies does not impair his ability to effectively serve on the Company s Audit Committee.

The Audit Committee acts pursuant to its written charter adopted by the Board of Directors. The charter was last reviewed and approved by the Audit Committee and the Board of Directors at their July, 2006 meetings. The full text of the Audit Committee charter appears on the Company s web site. The Audit Committee Charter is also set forth in Appendix 2 to this Proxy Statement and is available in print to any stockholder upon written request to the Corporate Secretary at the Company s address listed on the first page of this Proxy Statement. The Audit Committee performs the functions described in its charter and, among other things:

- approves and engages the independent registered public accounting firm who audits the Company s consolidated financial statements;
- pre-approves all non-audit/audit related services furnished by the independent registered public accounting firm;
- maintains communication between the Board and the independent registered public accounting firm;
- monitors the qualifications, independence and performance of the independent registered public accounting firm;
- oversees and reviews the Company s financial reporting processes and practices;
- oversees and reviews the quality and adequacy of internal controls over financial reporting, disclosure controls and the organization and performance of the Company s internal audit department;
- reviews the scope and results of audits; and
- meets with the independent registered public accounting firm representatives and internal audit department representative without members of management present.

The Audit Committee held seven meetings during Fiscal 2006. The Audit Committee Report for the fiscal year ended May 31, 2006 ( Fiscal 2006 ) appears on page 25.

**Compensation Committee**

The Compensation Committee is comprised entirely of independent directors as defined under applicable NYSE rules and the Company s Categorical Standards and Policy for Determining Director Independence. Its members are James G. Brocksmith, Jr. (Chairman), Michael R. Boyce, Ronald R. Fogleman, and Ronald B. Woodard. The Compensation Committee performs the functions described in its written charter. The full text of the Compensation Committee charter appears on the Company s web site and is available in print to any stockholder upon written request to the Corporate Secretary at the Company s address listed on the first page of this Proxy Statement. The Compensation Committee performs the functions described in its charter and, among other things:

- reviews and approves compensation policies and practices for all elected corporate officers;
- fixes the compensation of the Chairman, President and Chief Executive Officer and together with the full Board evaluates the Chief Executive Officer s performance;
- administers the Company s annual cash incentive and long-term stock incentive programs for officers, the AAR CORP. Stock Benefit Plan, and, subject to stockholder approval of Proposal 3, the AAR Section 162(m) Incentive Goal Program;
- recommends director compensation and benefits to the Board for approval; and
- oversees administration of certain other employee benefit, director deferred compensation, savings and retirement plans.

The Compensation Committee held six meetings during Fiscal 2006. The Compensation Committee Report for Fiscal 2006 appears on page 14.

**Nominating and Governance Committee**

The Nominating and Governance Committee is comprised entirely of independent directors as defined under applicable NYSE rules and the Company s Categorical Standards and Policy for Determining Director Independence. Its members are Ronald R. Fogleman (Chairman), Michael R. Boyce, James E. Goodwin, and Marc J. Walfish. The Nominating and Governance Committee is responsible for both nominating and governance functions as described in its charter. The full text of the Nominating and Governance Committee charter appears on the Company s web site and is available in print to any stockholder upon written request to the Corporate Secretary at the Company s address listed on the first page of this Proxy Statement. The Nominating and Governance Committee performs the functions described in its charter and, among other things:

- oversees the composition, structure and evaluation of the Board and its committees;
- develops and recommends corporate governance guidelines for Board approval; and
- monitors and screens directors for independence and recommends to the Board qualified candidates for election as directors and to serve on Board committees.

In seeking qualified candidates, the Nominating and Governance Committee obtains referrals from management, other directors and business and community leaders, and may retain the services of a consultant to assist in identifying candidates. The Nominating and Governance Committee seeks candidates that complement the Board as a whole and who collectively are strong and diverse in knowledge, skills, experience, and background. When selecting nominees, including those proposed by stockholders, the Committee looks for candidates who are independent and have a high level of integrity and professional and personal ethics and values, as well as demonstrated business acumen, leadership and policy making experience or special technical skills, irrespective of gender or ethnicity, as well as other factors the Committee deems appropriate. The Committee has full discretion in considering its nominations to the Board. The Company s Director Nominating Process and Selection Guidelines appear on the Company s web site and are available in print to any stockholder upon written request to the Corporate Secretary at the Company s address listed on the first page of this Proxy Statement. The Nominating and Governance Committee will consider director candidates recommended by stockholders in the same manner as other candidates. Stockholders may submit a proposed nomination to the Nominating and Governance Committee for consideration with respect to the Annual Meeting of Stockholders for the year 2007 by writing to the Secretary, AAR CORP., One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191. To be considered, proposed nominations must be received prior to April 21, 2007, must state the reasons for the proposed

nomination and contain the full name and address of each proposed nominee, as well as a brief biographical history setting forth past and present directorships, employment and occupations, and any other qualifications. Proposed nominations must also include a statement indicating that the proposed nominees have consented to being named in the proxy statement and to serve if elected. The Nominating and Governance Committee held five meetings during Fiscal 2006.

**Executive Committee**

The Executive Committee is comprised of David P. Storch (Chairman), James E. Goodwin and Marc J. Walfish. Mr. Goodwin and Mr. Walfish are each independent directors as defined by applicable NYSE rules and the Company s Categorical Standards and Policy for Determining Director Independence. The Executive Committee acts pursuant to its written charter adopted by the Board of Directors and is authorized to meet between meetings of the Board of Directors and exercise certain powers of the Board with respect to urgent matters or other matters referred to it by the Board for deliberation or action, subject to limitations imposed by the Committee s charter, the Board, applicable law and the Company s By-Laws. The full text of the Executive Committee charter appears on the Company s web site and is available in print to any stockholder upon written request to the Corporate Secretary at the Company s address listed on the first page of this Proxy Statement. The Executive Committee held one meeting during Fiscal 2006, acting as the Pricing Committee for the Board in connection with a private placement of debt securities by the Company.

**DIRECTORS COMPENSATION**

Director compensation and benefits are recommended to the Board of Directors from time to time by the Compensation Committee for Board approval. Currently, each director who is not an officer or employee of the Company or any subsidiary ( Eligible Director ) receives an annual retainer of $35,000, a fee of $2,500 for attendance at each meeting of the Board or of any Board committee attended in person ($1,250 per meeting for telephonic Board and Committee meetings), plus reimbursement of expenses. Each committee chairman receives an additional $5,000 annual retainer. Each Eligible Director may elect to defer receipt of the annual retainer and meeting fees pursuant to the Company s Nonemployee Directors Deferred Compensation Plan. Deferred retainer fees are converted into stock units equivalent to shares of Common Stock, and deferred meeting fees are credited with interest quarterly based on the 10-year United States Treasury Bond rate. Distributions of deferred retainer fees under the plan occur in cash or equivalent value Common Stock, at the participant s election, and distribution of deferred meeting fees are made in cash upon termination of service on the Board and on the happening of certain other events, as specified in the plan.

In addition, each Eligible Director, upon being elected a director, receives term life insurance coverage of $200,000, and is eligible to receive discretionary stock option grants and restricted stock awards from time to time under the AAR CORP. Stock Benefit Plan, as may be determined by the Compensation Committee. Historically, each non-employee director received an annual stock option grant that expires ten years from the date of grant and becomes exercisable in 25% increments on each anniversary grant date at the closing NYSE price on the date of grant. In Fiscal 2006, the Compensation Committee determined that each non-employee director should receive an annual restricted stock award of 2,500 shares (having a fair market value of approximately $40,000 based on then current NYSE closing price), vesting pro rata over a three-year period. Consistent with the foregoing, for Fiscal 2007, the Compensation Committee also approved a 2,500 share restricted stock grant for each non-employee director having a grant date of July 11, 2006. Under the Company s stock ownership guidelines for directors, each non-employee director is expected to own a minimum of 10,000 shares of Company Common Stock while serving as a director, with such ownership to be achieved prior to July 15, 2009 or within four (4) years of becoming a director, whichever is later.

The AAR CORP. Directors Retirement Plan was terminated effective April 10, 2001. Any non-employee director who was a director on the Plan s effective date of termination or a retired director then receiving benefits under the Plan will continue to be eligible to receive benefits pursuant to the terms of the Plan as the Plan was in effect and applicable to such participant on the earlier of the date of Plan termination or date of retirement. Benefits are paid upon reaching age 65 and retirement from the Board if such director has completed at least five years of service as a director. Benefits are paid quarterly in cash in an amount equal to 25% of the annual retainer payable from time to time to an active director and are paid for a period equal to the total number of years of service as a director to a maximum of ten years or until death. Continuing liabilities under the Plan are unfunded. As of May 31, 2006, six former directors are receiving retirement benefits under the Plan, one former director is eligible to receive benefits under the Plan upon reaching age 65, and one current director is eligible to receive benefits under the Plan upon retirement from the Board.

Directors who are officers or employees of the Company or any subsidiary receive no additional compensation for service on the Board or any of its committees.

**CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

Mr. Ira A. Eichner, a former director, Chairman of the Board and founder of the Company who retired 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 2006, Mr. Eichner received $125,000 in consulting fees. Mr. Eichner is Mr. Storch s father-in-law.

## V. PROPOSAL 1
## ELECTION OF DIRECTORS

The Board of Directors is presently divided into three classes, each having three-year terms that expire in successive years. The Board of Directors has nominated three directors to be elected in Class I at the Annual Meeting, each to serve a three-year term expiring at the 2009 Annual Meeting or until the individual is succeeded by another qualified director who has been duly elected.

The nominees for Director in Class I this year are **Michael R. Boyce, James G. Brocksmith, Jr., and David P. Storch.**

Information about the nominees and continuing directors whose terms expire in future years is set forth in Section VI below beginning on page 12.

Each nominee is currently serving as a director of the Company and has been determined by the Board to be independent within the meaning of NYSE rules, except for Mr. Storch who, as Chairman of the Board, President and Chief Executive Officer of the Company, is an inside director. The Board expects each nominee to serve if elected as a director. Under Delaware law and the Company s By-Laws, the nominees for director who individually receive the greatest number of votes shall be elected directors of the Company.

***THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE <u>FOR</u> ALL NOMINEES***

## VI. INFORMATION ABOUT THE NOMINEES AND CONTINUING DIRECTORS

Information about the nominees and continuing directors whose terms expire in future years is set forth below:

| | Director Since |
|---|---|
| **NOMINEES FOR TERMS EXPIRING IN 2009**<br>***Class I Directors whose terms expire at the 2006 Annual Meeting:*** | |
| MICHAEL R. BOYCE, 58: Since 2005, Chairman and Chief Executive Officer of PQ Corporation, an industrial chemicals company. Since 1998, Chairman and Chief Executive Officer of Peak Investments. From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc.<br>Other directorships: PQ Corporation | 2005 |
| JAMES G. BROCKSMITH, JR., 65: Since 1996, an independent business consultant. From 1990 to 1996, Deputy Chairman, and ChiefOperating Officer of KPMG Peat Marwick, where he retired after 31 years.<br>Other directorships: Alberto-Culver Company; Nationwide Financial Services, Inc.; and Sempra Energy. | 2001 |
| DAVID P. STORCH, 53: Since October, 2005, Chairman of the Board, President and Chief Executive Officer of AAR. From 1996 to 2005,President and Chief Executive Officer of AAR. From 1989 to 1996, President and Chief Operating Officer of AAR. From 1988 to 1989, Vice President of AAR. | 1989 |
| **CONTINUING DIRECTORS:**<br>***Class II Directors whose terms expire at the 2007 Annual Meeting:*** | |
| GERALD F. FITZGERALD, JR., 56: Since 2000, Chairman and President, Cornerstone Bancorp, Inc. Since 1997, Chairman and President of LaSalle Bancorp, Inc. (LaSalle, IL). From 1990 to 1994, President and Chief Executive Officer of Suburban Bancorp, Inc.<br>Other directorships: Cornerstone Bancorp, Inc. | 2006 |
| JAMES E. GOODWIN, 62: Since 2001, an independent business consultant. From 1999 to 2001, Chairman and Chief Executive Officer of UAL, Inc. and United Airlines, Inc., where he retired after 34 years. From 1998 to 1999, President and Chief Operating Officer of United Airlines, Inc. From 1992 to 1998, Senior Vice President of United Airlines, Inc.<br>Other directorships: Labe Bank; DBS Communications Inc.; and Federal Signal Corp. | 2002 |
| MARC J. WALFISH, 54: Founded Merit Capital Partners in 2003. From 1991 to 2003, William Blair Mezzanine Capital Partners. From 1978 to 1991, Prudential Capital Corporation, most recently as Senior Vice President. | 2003 |
| **CONTINUING DIRECTORS:**<br>***Class III Directors whose terms expire at the 2008 Annual Meeting:*** | |
| RONALD R. FOGLEMAN, 64: Since 1997, President and Chief Operating Officer of B Bar J Cattle Company and President and Chief Operating Officer of Durango Aerospace Incorporated, an international aviation consulting firm and principal in the Durango Group, LLC. From 1994 to 1997, General, Chief of Staff, Headquarters United States Air Force, Washington, D.C.<br>Other directorships: Alliant Techsystems, Inc.; Mesa Air Group Inc.; and World Air Holdings, Inc. | 2001 |

| | |
|---|---|
| RONALD B. WOODARD, 63: Since 2003, Chairman of MagnaDrive, Inc., an industrial torque transfer equipment company, which he co-founded following his retirement from The Boeing Company after 32 years. From 1995 to 1998, President of the Boeing Commercial Airplane Group. From 1991 to 1994, Vice President and General Manager of the Renton Division of Boeing Commercial Aircraft . From 1987 to 1991, President of deHavilland Aircraft. Prior to that, Vice President and General Manager of the Materiel Division of Boeing Commercial Aircraft, and various other management positions.<br>Other directorships: Coinstar Inc. and Continental Airlines, Inc. | 2004 |
| PATRICK J. KELLY, 51: Since 1980, Chief Executive Officer of Resource One, an Oak Brook, Illinois based provider of computer programming services. Since 1986, Managing Director of KMK & Associates, LLC, a private equity firm with interests in companies operating in the distribution, technology, real estate and financial services industries. | 2006 |

## VII. EXECUTIVE COMPENSATION AND OTHER INFORMATION

### COMPENSATION COMMITTEE S REPORT ON EXECUTIVE COMPENSATION

**General**

The Company s executive compensation program is structured and administered by the Compensation Committee of the Board of Directors. The Compensation Committee is comprised of the four individuals listed below, each of whom (i) has been determined by the Board of Directors to be an independent director of the Company under applicable NYSE rules and the Company s Categorical Standards and Policy for Determining Director Independence, (ii) is a non-employee director for purposes of Rule 16b-3 of the Exchange Act, and (iii) is an outside director for purposes of Section 162(m) of the Internal Revenue Code.

The Committee meets at scheduled times during the year and reports regularly to the Board on Committee actions and recommendations. In carrying out its responsibilities and duties, the Committee has the authority to obtain advice and assistance from outside legal, compensation or other advisors as the Compensation Committee deems necessary to carry out its duties with funding from the Company.

The compensation program for executives is designed to enable the Company to attract, motivate and retain talented executives capable of achieving strategic business initiatives and producing outstanding business performance and stockholder value. The Company strives to provide an aggregate compensation opportunity that is competitive with prevailing practices, aligns stockholder and executive interests, and reflects total compensation that is justified by individual experience, performance and business results. A principal compensation guideline of the Committee is that there be a strong link between pay and performance both at the Company level and individual level.

The Committee intends that the executive compensation program should complement the Company s short-term and long-term business objectives and focus executives efforts on fulfilling these objectives. The program consists of three elements: (i) base salaries which are generally set between the median and third quartile salary level of comparable positions in similar companies, adjusted up or down to reflect individual responsibilities, performance and other relevant factors; (ii) annual variable incentive opportunities paid in cash based on individual contribution and performance; and (iii) long-term incentive opportunities, in the form of stock options and restricted stock awards.

Total compensation opportunities for each executive are intended to be competitive with those offered by other companies competing for talent in the Company s employment market. In designing and administering the individual elements of the executive compensation program for each executive, the Compensation Committee strives to balance short- and long-term incentive objectives and employ prudent judgment in establishing base salary levels and performance criteria, evaluating performance and determining actual incentive payments. To ensure competitiveness and reasonableness of the Compensation Committee s compensation decisions, independent compensation consulting firms are retained periodically to advise the Compensation Committee in connection with both the design and implementation of the various elements of the program and the level of individual executive participation. The Company uses competitive compensation analyses by independent consultants to ensure that the Chairman of the Board, President and Chief Executive Officer s and other executive officers base salaries and total compensation opportunities (not actual pay) are at an appropriate competitive level relative to compensation for such positions at other companies in the relevant employment market. Generally, as an executive s level of responsibility increases, a greater percentage of total compensation opportunity is based on performance, and the mix of total compensation shifts toward stock, thereby aligning the long-term interest of senior executives with those of stockholders.

**Base Salaries**

Base salary levels of all elected corporate officers, including the Chairman of the Board, President and Chief Executive Officer, are reviewed annually by the Compensation Committee and may be adjusted depending upon the executive s qualifications, responsibilities, assessed performance contribution, tenure in the Company and in the position held, and competitive salary considerations relative to similar positions at other companies competing for talent in the Company s employment market. In Fiscal 2006, the Compensation Committee approved merit increases averaging 3% in the aggregate for all employees, including the Chairman of the Board, President and Chief Executive Officer, and other named executive officers, with individual increases based on individual performance. For Fiscal 2007, the Compensation Committee approved merit increases averaging 3.5% for all employees effective June 1, 2006, including the Chairman of the Board, President and Chief Executive Officer, and other named executive officers, with actual salary adjustments based on individual performance after completion of performance reviews, except that employees earning less than $75,000 annually may receive an additional amount equal to .5% of their base salary, for Fiscal 2007 only, in consideration of the effects of high fuel costs on the cost of living.

**Annual Incentive Opportunities**

The Company awarded annual cash incentives for Fiscal 2006 to the Chairman of the Board, President and Chief Executive Officer of the Company and certain other executive officers of the Company based on achievement of specific performance goals approved by the Compensation Committee pursuant to the Company s stockholder-approved 162(m) Program. Pursuant to the Company s 162(m) Program, the Compensation Committee establishes specific performance goals intended to meet the requirements of Section 162(m) of the Internal Revenue Code ( IRC ). These goals focus on two categories: income and balance sheet management. For Fiscal 2006, the income goal was net income, and the balance sheet management goals were return on investment capital and debt to capital ratio, as established by the Compensation Committee. The Chairman of the Board, President and Chief Executive Officer was eligible to earn up to 150% of his base salary in Fiscal 2006 pursuant to his employment agreement, while the bonus amounts for other executive officers of the Company vary depending on their position, the Company s performance and the Committee s assessment of their individual contributions. For Fiscal 2006, the Committee approved awards for the named executive officers as shown in the Bonus column of the Summary Compensation Table in accordance with the terms of each executive officer s respective incentive plan and achievement of applicable performance goals approved by the Compensation Committee.

As discussed below under Proposal 3 Approval of Performance Goals under the AAR CORP. Section 162(m) Incentive Goal Program, the Company is asking stockholders to approve the performance goals under a new Section 162(m) program, which encompasses both annual cash incentive opportunities and performance-based restricted stock award opportunities beginning in Fiscal 2007.

**Long-Term Incentive Opportunities**

To reward and retain employees in a manner that best aligns employees interests with stockholder interests, the Company implemented the stockholder-approved AAR CORP. Stock Benefit Plan ( Stock Benefit Plan ). The long-term incentive program consists of stock options, employment based restricted stock awards, performance based restricted stock awards, or any combination thereof, granted under the Stock Benefit Plan, in the discretion of the Compensation Committee. The Stock Benefit Plan also provides for the use of stock appreciation units; however, to date, none have been granted. The specific terms of any stock option or restricted stock grants are determined by the Compensation Committee prior to the issuance of grants, subject to the provisions of the Stock Benefit Plan.

Stock option grants typically expire ten years from the date of grant or earlier upon termination of employment, become exercisable at fair market value based on the NYSE closing stock price on the date of grant in equal increments over a period of three to five years on successive grant anniversary dates or, in some instances, upon meeting certain share price performance criteria, and, historically, have been accompanied by reload features (stock option reload features for all active employees were voluntarily eliminated in Fiscal 2006). Stock option grant dates are determined by the Compensation Committee and are as of the date of approval by the Compensation Committee, or if the grant is in connection with a new hire or promotion of an employee, the grant date is the date of hire or the promotion date, as applicable. Typically, stock option grants vest in 20% increments ratably on the grant date anniversary.

Restricted stock grants are designed, among other things, to align employee interests with the interests of stockholders and increase stockholder value and to encourage executives to build their career with the Company. Restricted stock typically vest over periods of three to ten years from grant date and may be performance-based with vesting to occur over periods of one to ten years after being earned. The award recipient receives dividends, if any, on the restricted shares and also has the right to vote the restricted shares.

Typically, stock options and restricted stock are subject to forfeiture if the employee terminates employment for any reason other than death, retirement or disability or the Company terminates employment for cause, during the grant cycle.

Generally, when determining stock option and restricted stock grants, the Committee considers the recipient s position and responsibilities in the Company, performance and contributions made during the preceding year, capabilities and potential for future contribution to the Company, the number of options and restricted stock shares previously granted to the recipient and, for senior management (including the named executive officers), their achievement of the Company s guidelines for stock ownership. Under new stock ownership guidelines established in Fiscal 2006, the Chairman of the Board, President and Chief Executive Officer is expected to own Company stock having a value of at least three times his base salary, other executive officers are expected to own stock having a value of at least 75% of their base salary, and directors are expected to own 10,000 shares of Company stock.

To maintain consistency with current trends in stock-based compensation, the Company has adopted several amendments to its Stock Benefit Plan and made other changes in recent years:

- The Company voluntarily eliminated the automatic reload feature in its stock option grants, effective 2005, with all outstanding option agreements amended to eliminate reloads effective May 1, 2006;

- In anticipation of the effective date of the option expensing requirement under SFAS No. 123(R), Share-Based Payment ( SFAS No. 123(R) ), the Company accelerated the vesting of all outstanding options to May 1, 2006 (as a result of this action, approximately 679,400 employee stock options that were scheduled to vest in Fiscal 2007, 2008 and 2009 became fully exercisable effective May 1, 2006);

- The Company eliminated the evergreen provision under its Stock Benefit Plan and fixed the number of shares available for awards under the Stock Benefit Plan at the remaining authorized shares available (3,532,226);

- The Company moved from annual grants of stock options for executives to performance restricted stock grants with grants being issued based on performance over a two-year performance period, including a stock price feature designed to reward key participants only after stockholders have been rewarded.

Performance restricted stock grants are subject to an extended vesting period to align employee interests with the interests of stockholders and increase stockholder value and to encourage executives to build their career with the Company. For Fiscal 2006, the Company achieved the pre-determined performance targets and the named executive officers received the performance restricted stock grants reflected in the Summary Compensation table below. The number of shares granted to an individual reflects the Committee s assessment of the individual s level of responsibility in the Company and ability to contribute toward achievement of applicable targets and achievement of performance goals.

As discussed below under Proposal 3 Approval of Performance Goals under the Section 162(m) Incentive Goal Program, the Company is asking stockholders to approve the performance goals under a new Section 162(m) program, which encompasses annual cash bonuses and long-term stock incentive opportunities, including performance restricted stock grants for the two-year performance period ended May 31, 2008 and subsequent performance periods as approved by the Compensation Committee.

In addition, the Compensation Committee also approved stock option grants to a group of key leadership track employees, excluding named executive officers of the Company, having a grant date of June 1, 2006, at an exercise price of $23.97, the New York Stock Exchange closing price for the stock on that date.

**Executive Perquisites**

In addition to the Company s Welfare Plans and contractual benefits for executives discussed elsewhere, it has been the Company s historical practice to provide certain other executive perquisites to senior executives. The Company continues this practice and offers one or more of the following executive perquisites to named executive officers, depending on the individual executive s position, years of service, level of responsibility and total compensation package:

- Annual vehicle allowance.
- Reimbursement of pre-approved professional, club and association fees and charges.
- Reimbursement of travel and related expenses in connection with participation in meetings of pre-approved not-for-profit educational and professional organizations.
- Third party professional executive financial planning assistance.
- Reimbursement of professional tax preparation fees.
- Executive annual physical and preventative health program.
- Participation in executive housing relocation program, including home purchase and reimbursement of relocation expenses.

The incremental costs of such perquisites to the Company are included in the Summary Compensation Table below in accordance with SEC rules.

**Chief Executive Officer Compensation**

On July 11, 2006, the Compensation Committee completed a performance review of David P. Storch, the Chairman of the Board, President and Chief Executive Officer of the Company with an opportunity for input from each member of the Board of Directors. The Chairman of the Compensation Committee and Chairman of the Nominating and Governance Committee then met and discussed the results of the review with Mr. Storch. Mr. Storch s base salary for Fiscal 2006 was $717,168. Effective June 1, 2006, consistent with that provided to other management employees of the Company, Mr. Storch received a salary increase of 3.5% to $742,269 annually. Pursuant to his Employment Agreement, for Fiscal 2006, Mr. Storch earned an annual incentive cash bonus equal to 145% of his base salary in effect on May 31, 2006, or $1,041,051, based on the Company s performance during the period,

which exceeded pre-established earnings per share, return on invested capital and long-term debt to capital ratio goals.

Mr. Storch received 86,667 shares of restricted stock in Fiscal 2006 pursuant to a 2004 performance incentive opportunity arrangement as a result of the Company s stock price increasing to 150% of the stock price on July 22, 2005.

As described below under Employment and Other Agreements, Mr. Storch s Amended and Restated Employment Agreement provides, with respect to future compensation, for (i) an annual base salary of not less than $717,168, (ii) an annual cash incentive bonus opportunity of up to 150% of his base salary based upon performance against performance goals established by the Compensation Committee of the Board of Directors and approved by the full Board, and (iii) a long-term equity incentive compensation opportunity to receive shares of restricted stock under the Company s Stock Benefit Plan equal in value of up to $3.6 million over each of two, two-year performance periods (June 1, 2006 - May 31, 2008 and June 1, 2008 - May 31, 2010) based upon performance against specific performance goals established by the Compensation Committee of the Board of Directors and approved by the full Board and intended to qualify under the Company s 162(m) Incentive Goal Program submitted to stockholders for approval under Proposal 3 below.

**Federal Income Tax Considerations**

IRC Section 162(m) generally prevents any public company from claiming a deduction for compensation in excess of $1 million for the Chief Executive Officer or any of the four highest compensated executive officers. This deduction limitation, however, does not apply to performance-based compensation that satisfies certain requirements under Section 162(m). The Compensation Committee has determined that it is in the best interests of the Company and its stockholders to structure compensation of executive officers so that compensation will not be subject to the deduction limit to the extent that it can reasonably do so in a manner that provides adequate incentives and allows the Company to attract and retain qualified executives. However, the Compensation Committee has previously and may in the future structure compensation arrangements that under certain circumstances may be subject to the deduction limit. None of the compensation paid by the Company in Fiscal 2006 was subject to the deduction limit.

The Compensation Committee also (i) reviewed and assessed the adequacy of the Compensation Committee charter and recommended certain changes which were adopted by the Board on July 12, 2006, and (ii) conducted a Compensation Committee self-assessment in which it concluded that the Committee operated effectively in carrying out its charter responsibilities.

**Compensation Committee**

James G. Brocksmith, Jr., Chairman
Michael R. Boyce
Ronald R. Fogleman
Ronald B. Woodard

**SUMMARY COMPENSATION TABLE**

The following table summarizes the total compensation earned by or paid for Fiscal 2004 through 2006 to the Chairman of the Board, President and Chief Executive Officer and the four other most highly paid executive officers in Fiscal 2006.

**Summary Compensation Table**

| | | Annual Compensation | | | Long-Term Compensation | | |
|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary ($) | Bonus ($) | Other Annual Compensation ($)1 | Restricted Stock Award(s) ($)2 | Securities Underlying Options (#) | All Other Compensation ($)3 |
| DAVID P. STORCH, | 2006 | 716,600 | 1,041,051 | 156,200 | 2,086,941 | 203,874 [4] | 186,500 |
| CHAIRMAN OF THE BOARD, | 2005 | 695,400 | 591,838 | 69,500 | 695,061 | 753,566 [5] | 76,600 |
| PRESIDENT AND CHIEF | 2004 | 661,400 | 496,100 | 67,800 | 348,000 | 481,261 [6] | 84,300 |
| EXECUTIVE OFFICER | | | | | | | |
| TIMOTHY J. ROMENESKO, | 2006 | 318,900 | 347,120 | | 481,600 | 21,743 [4] | 51,900 |
| VICE PRESIDENT AND | 2005 | 309,700 | 240,105 | | 160,400 | 4,790 [5] | 11,100 |
| CHIEF FINANCIAL OFFICER | 2004 | 300,600 | 225,651 | | 139,200 | 85,388 [6] | 12,500 |
| HOWARD A. PULSIFER, | 2006 | 276,800 | 180,055 | | 481,600 | 27,461 [4] | 59,800 |
| VICE PRESIDENT, | 2005 | 268,800 | 148,589 | | 160,400 | 6,885 [5] | 30,200 |
| GENERAL COUNSEL AND | 2004 | 261,100 | 127,289 | | 139,200 | 57,963 [6] | 33,300 |
| SECRETARY | | | | | | | |
| JAMES J. CLARK, | 2006 | 283,000 | 428,010 | | 481,600 | 21,505 [4] | 27,200 |
| GROUP VICE PRESIDENT | 2005 | 274,400 | 225,000 | | 160,400 | 0 | 5,200 |
| AVIATION SUPPLY CHAIN | 2004 | 251,100 | 50,000 | | 139,200 | 66,089 [6] | 5,700 |
| MARK MCDONALD, | 2006 | 281,800 | 298,780 | | 481,600 | 24,957 [4] | 26,000 |
| GROUP VICE PRESIDENT, | 2005 | 239,200 | 310,000 | | 160,400 | 0 | 600 |
| MAINTENANCE, | 2004 | 199,600 | 320,818 | | 139,200 | 56,183 [5] | 400 |
| REPAIR & OVERHAUL AND | | | | | | | |
| STRUCTURES & SYSTEMS | | | | | | | |

1 Reflects the aggregate cost of certain executive perquisites received if in excess of $50,000, including annual car allowance, reimbursement of professional tax and financial planning, reimbursement of travel and related expenses, executive annual physical and preventative health program expenses, and reimbursement of various club and association fees.

2 On May 31, 2006, the following shares of restricted stock were held by each named executive: Mr. Storch, 180,000 shares (valued at $4,334,400); Mr. Pulsifer, 54,450 shares (valued at $1,311,156); Mr. Romenesko, 60,225 shares (valued at $1,450,218); Mr. Clark, 56,100 shares (valued at $1,350,888); and Mr. McDonald, 50,000 shares (valued at $1,204,000). For performance during Fiscal 2005 and 2006, the named executive officers received the following performance restricted stock awards having the value indicated as of May 31, 2006: Mr. Storch, 86,667 shares (value: $2,086,941); Mr. Pulsifer, 20,000 shares (value: $481,600); Mr. Romenesko, 20,000 shares (value: $481,600); Mr. Clark, 20,000 shares (value: $481,600); and Mr. McDonald, 20,000 shares (value: $481,600). These awards are included in the number of shares held as of May 31, 2006 for the respective individuals named above. Vesting of long-term restricted stock awards for executive officers varies from three years to seven years for Fiscal 1999, 2000, and 2003 awards and ten years for Fiscal 1998 awards for other executive officers. Performance restricted stock awards vest 20% in July 2006, 40% in July 2008 and 40% in July 2010. Declared dividends are paid on all shares of restricted stock. In the event of a change in control of the Company, as defined in the Stock Benefit Plan, that does not have prior written approval of a majority of the members of the Board of Directors prior to the change in control, all unvested restricted stock awards become vested immediately.

3 All Other Compensation includes the following: (i) Company contributions to the defined contribution plan: Mr. Storch, $86,600; Mr. Romenesko, $42,000; Mr. Pulsifer, $32,400; Mr. McDonald, $25,200; Mr. Clark, $22,300; (ii) the value of the benefit of the remainder of the premium paid under the Company s split dollar life insurance program in the following amounts: Mr. Storch, $99,900; Mr. Pulsifer, $21,900, Mr. Romenesko, $8,600; Mr. Clark, $4,200 and (iii) the premium paid on group term life insurance: Mr. Pulsifer, $5,500; Mr. Romenesko, $1,300; Mr. Clark, $800; Mr. McDonald, $800.

4 Reflects reload option shares issued in Fiscal 2006 for Mr. Storch, 203,874; for Mr. Romenesko, 21,743; for Mr. Pulsifer, 27,461; for Mr. Clark, 21,505; and for Mr. McDonald, 24,957.

5 Reflects reload option shares issued in Fiscal 2005 for Mr. Storch, 753,566; for Mr. Romenesko, 4,790; and for Mr. Pulsifer, 6,885.

6 Reflects reload option shares issued in Fiscal 2004 for Mr. Storch, 124,868; for Mr. Romenesko, 35,388; for Mr. Pulsifer, 7,963; for Mr. Clark, 16,089; and for Mr. McDonald, 6,183.

**STOCK OPTIONS**

Options on Common Stock generally become exercisable 20% each year over a five-year period. Unexercised options expire ten years after the date of grant (Fiscal 2003 option grants were subject to a dual vesting schedule that also provided an opportunity for accelerated vesting based on the Company s rolling 20-day average New York Stock Exchange Common Stock price appreciating above the grant price beyond certain specified values on a sliding scale). The stock option exercise price is equal to the fair market value (NYSE closing price) of a share of Common Stock on the date of grant. The options have no value unless the Common Stock price appreciates and the holder satisfies the applicable vesting requirements.

No stock options were granted in Fiscal 2006 other than reload options resulting from exercise during the Fiscal Year of original option grants granted in prior years except for stock option grants having a grant date of June 1, 2006 to a group of key leadership track employees, excluding named executive officers of the Company. The Compensation Committee also accelerated the vesting of all outstanding stock options to May 1, 2006 in advance of the effective date for the SFAS No. 123(R) option expensing requirement. Effective May 1, 2006, all outstanding option agreements for all active employees were voluntarily amended to eliminate the reload feature associated with the original option grant**.**

**Option Grants in Last Fiscal Year**

| Name | Individual Grants Number of Securities Underlying Options Granted (#)1 | % of Total Options Granted to Employees in Fiscal Year | Exercise Price ($/Sh) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5% ($) | 10% ($) |
|---|---|---|---|---|---|---|
| David P. Storch | 27,607 | 7.49 % | $ 17.97 | 7/21/2013 | $ 236,865 | $ 567,332 |
| | 29,800 | 8.08 % | $ 22.41 | 10/11/2010 | $ 184,506 | $ 407,710 |
| | 29,799 | 8.08 % | $ 22.41 | 10/11/2010 | $ 184,500 | $ 407,696 |
| | 116,668 | 31.64 % | $ 22.41 | 7/10/2011 | $ 889,190 | $ 2,017,269 |
| Timothy J. Romenesko | 3,977 | 1.08 % | $ 17.50 | 7/21/2013 | $ 33,230 | $ 79,591 |
| | 9,341 | 2.53 % | $ 25.52 | 7/10/2011 | $ 65,861 | $ 145,535 |
| | 8,425 | 2.29 % | $ 25.52 | 7/11/2010 | $ 46,335 | $ 99,784 |
| Howard A. Pulsifer | 3,873 | 1.05 % | $ 17.97 | 7/21/2013 | $ 33,230 | $ 79,591 |
| | 4,030 | 1.09 % | $ 25.34 | 7/11/2010 | $ 28,214 | $ 62,345 |
| | 7,056 | 1.91 % | $ 25.34 | 7/10/2011 | $ 60,809 | $ 137,954 |
| | 7,424 | 2.01 % | $ 25.34 | 7/11/2010 | $ 51,975 | $ 114,852 |
| | 5,078 | 1.38 % | $ 25.34 | 10/14/2008 | $ 20,283 | $ 42,592 |
| James J. Clark | 5,493 | 1.49 % | $ 25.34 | 7/21/2013 | $ 66,458 | $ 159,179 |
| | 6,397 | 1.74 % | $ 27.95 | 7/10/2011 | $ 49,398 | $ 109,157 |
| | 9,615 | 2.61 % | $ 27.95 | 7/11/2010 | $ 57,915 | $ 124,722 |
| Mark McDonald | 7,954 | 2.16 % | $ 17.50 | 7/21/2013 | $ 66,459 | $ 159,182 |
| | 3,405 | .92 % | $ 17.50 | 7/10/2011 | $ 20,265 | $ 45,975 |
| | 5,759 | 1.56 % | $ 17.50 | 7/11/2010 | $ 27,844 | $ 61,529 |
| | 183 | | | | | |