



## FINANCIAL HIGHLIGHTS

(in thousands except per share data)

For the year ended May 31,	2002	2001	2000	1999	1998
<b>OPERATING PERFORMANCE</b>					
Sales	\$ 638,721	\$ 853,659	\$ 957,525	\$ 918,036	\$ 782,123
Total sales*	\$ 638,721	874,255	1,024,333	1,050,608	856,637
Net income	(58,939)	18,531	35,163	41,671	35,657
Net income per share—diluted	\$ (2.08)	\$ .69	\$ 1.28	\$ 1.49	\$ 1.27
<b>FINANCIAL POSITION</b>					
Working capital	\$ 286,192	\$ 352,731	\$ 345,304	\$ 334,418	\$ 319,252
Total assets	710,199	701,854	737,977	723,018	667,039
Total debt	260,224	193,639	206,761	181,359	177,746
Stockholders' equity	310,235	340,212	336,494	322,423	297,330

\* Includes pass through sales

## TO OUR STOCKHOLDERS, CUSTOMERS AND EMPLOYEES

Throughout AAR's history, one of our hallmarks has been our ability to maintain profitability through aviation industry down-cycles. However, this current industry down-cycle has been so severe that we experienced our first annual loss in the Company's 51-year history. Fiscal 2002 sales were sharply lower as airlines reduced capital spending and deferred inventory replenishment and non-critical maintenance. In addition, during the second quarter of the fiscal year following the events of September 11, we took impairment and other special charges principally reflecting reduced aviation asset market values. The airline environment remains challenging as many of our airline customers struggle to return to profitability.

We continue to evaluate our market strategy in light of the current industry backdrop and our financial performance. Historically, the Company has provided aviation support in numerous different market niches—aircraft and engine sales and leasing, aircraft component overhaul, airframe maintenance, composite structures, engine component overhaul, in-aircraft cargo loading systems, and parts distribution and redistribution—just to name a few.



**DAVID P. STORCH**  
President and Chief  
Executive Officer

Throughout the 1990's, this strategy proved successful as we broadened our portfolio of product and service offerings to the expanding aviation/aerospace industry.

However, the aviation industry is changing rapidly and we need to respond accordingly. We will focus on being stronger in fewer markets. We will take appropriate action on those product lines which do not provide adequate returns or ones in which we don't have a strong position.

We are committed to prudent financial management.

In June 2001, we completed a \$75 million private placement of long-term notes, including \$55 million of ten-year notes due in Fiscal 2011 and \$20 million of seven-year notes due in Fiscal 2008. The proceeds from these notes were used principally to pay off \$65 million of notes that matured in November 2001. We further bolstered our capital structure in February 2002 when we raised \$34.3 million in a common stock offering.

During the year, we implemented a number of cost-savings initiatives to better align our cost structure with changing industry conditions. We consolidated two landing gear maintenance facilities into one and divested a manufacturing facility considered excess to our needs. We reduced our workforce 10% from a year ago, initiated a company-wide salary reduction program and dramatically reduced discretionary spending. We continue to aggressively manage our cost structure. Two additional facilities are slated for consolidation in the first half of Fiscal 2003 as we look for ways to improve efficiencies.

We are focusing our efforts into those markets which represent the best growth prospects. Regional jets represent an increasing percentage of the world's fleet and comprise the fastest growing jet market. Many regional operators have limited infrastructure and in-house capabilities and are strong candidates to outsource their aircraft maintenance requirements. During the year, we continued to increase support for this fast growing market, developing new repair capabilities and support services and entered into a number of new multi year component support contracts.

Higher sales to the U.S. Government and its contractors has represented a major bright spot for the Company during the past 12 months. Sales to this market segment reached \$163.2 million in Fiscal 2002, the highest in the Company's history. Demand for our manufactured shelters, containers and pallets were strong and we anticipate that trend to continue. Demand was also strong for component and airframe maintenance services supporting U.S. Military and Government aircraft. More and more, we are viewed as being the vendor of choice to provide logistics support for large programs and, as a result, won a number of new support contracts during the year. We continue to experience substantial proposal activity in this area and are investing capital, both human and financial, to maintain our industry-leading position.

As I put the final touches on this letter, U.S. Airways, American Airlines and United Airlines have announced restructuring plans. U.S. Airways has filed for bankruptcy as part of its restructuring and United has warned that it may also file. Our direct financial exposure to U.S. Airways and United is minimal and we are prudently managing credit terms with all customers. We foresee additional changes in the market

as the airlines look to reduce their cost structure and drive more efficient use of their resources. The next twelve months will be challenging, yet we believe we can play a major role in their efforts to lower their cost structure and drive efficiencies throughout their organizations.

#### A SPECIAL THANKS

During the year, two long-standing members of the Board of Directors retired. Lee Stern, who served on our Board for 20 years, brought a great intuitive sense of market direction and insight to the management of our Company. Richard Tabery, who joined our Board in 1989, possessed more than 30 years of commercial aviation industry experience. His industry knowledge proved invaluable over the past 13 years and will be greatly missed. I would like to thank Lee and Dick for their many contributions while serving on our Board and wish them all the best in the future.

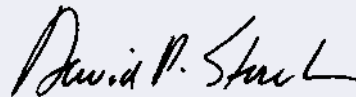
In addition, we elected a new member to our Board of Directors. James E. Goodwin joined our Board in January 2002. From 1999 to 2001, Jim was Chairman and Chief Executive Officer of United Airlines, Inc. where he retired after 34 years of service.

#### LOOKING AHEAD

While Fiscal 2002 proved to be the worst year in aviation history, and for AAR as well, I believe the principles on which this Company was established, strong financial disciplines, our ability to act swiftly, and our unique market position, will allow us to be successful as the industry slowly emerges from its current down-cycle.

I would like to thank our employees for their strength, talent and resolve over the past year and our Board of Directors for their wisdom and guidance. I am thankful to our shareholders for their continued support and look forward to the opportunities that lie ahead for our Company.

Sincerely,



DAVID P. STORCH  
President and Chief Executive Officer

August 15, 2002

The background of the page is a photograph of an airport tarmac. On the left, there is a large yellow hangar. In the center and right, there are several aircraft on the ground. One aircraft in the foreground has the number '264' visible on its side. The sky is a clear, light blue, suggesting a bright day. The overall scene is a busy airport environment.

## **MILITARY AND GOVERNMENT**

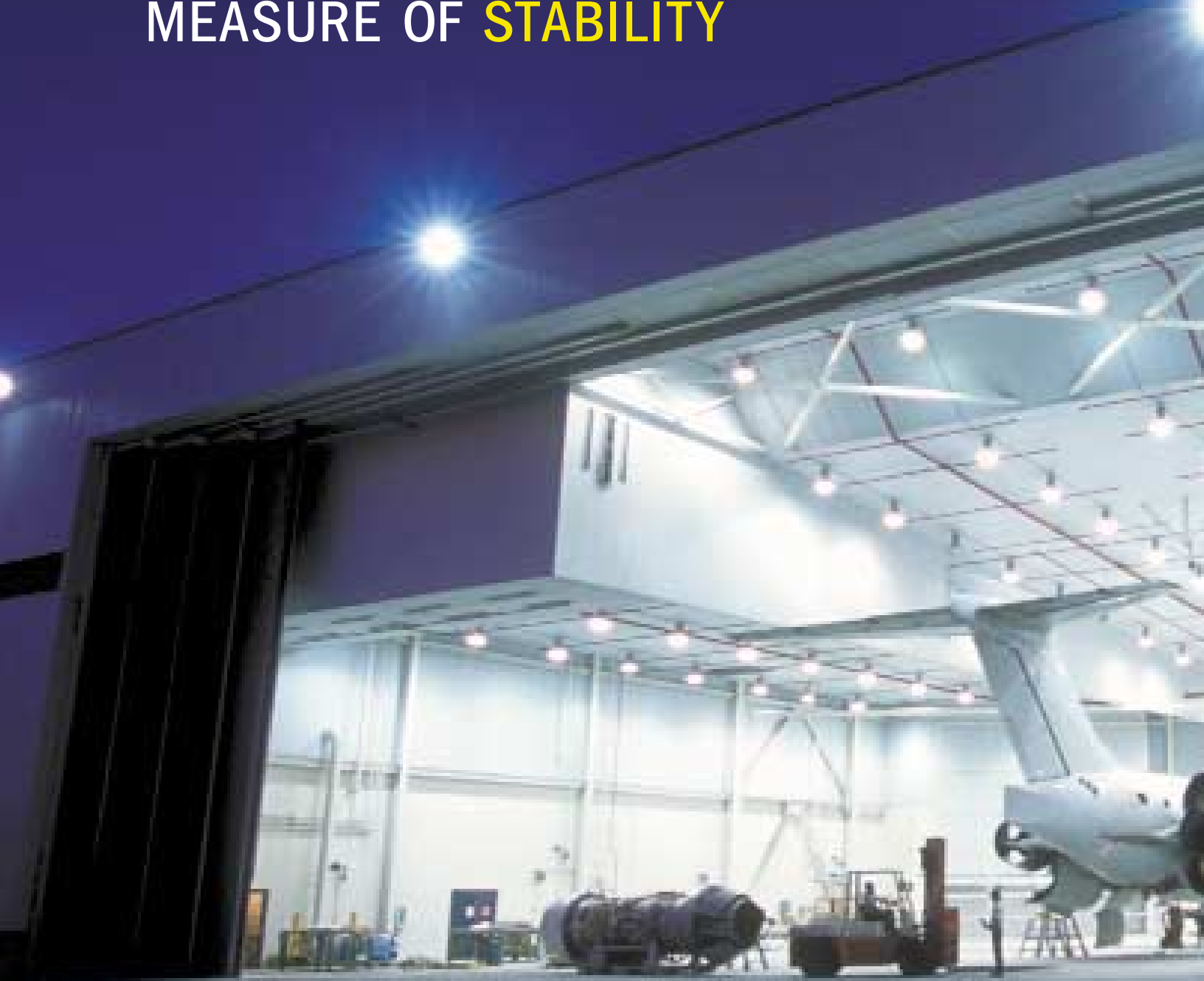
Nothing short of total aircraft availability and readiness meets the requirements of today's Military and Government customers. That means consistent delivery of faster cycle times, seamless systems and streamlined infrastructure from suppliers. Because of our agility and experience, AAR has won many high visibility contracts by leveraging our strengths to provide fully integrated supply chain support programs to this key market segment.

“Partnering” with industry leaders is a strategy of choice for the Military. From a tactical standpoint, partnering also frees the Military to focus on core competencies. With many political issues around the world, we expect this partnering trend to widen in scope and accelerate in pace with both the U.S. Military and foreign services. Currently, AAR partners with many major Military services and OEM's, and on certain programs, delivers single-point accountability for supply chain services.

# MEASURE OF **STRENGTH**



MEASURE OF **STABILITY**







## COMMERCIAL AIRLINES

Analysts estimate U.S. airlines will log \$4.4 billion in losses in 2002. The pressure to survive and find a path to profitability has never been more intense. As a result, the industry is defining broad cost containment and cost-cutting programs. The airlines have begun to focus on their core competency (moving passengers), and are planning to outsource non-core functions as part of their new business strategy. These activities will range from supply chain management to aircraft overhaul and repair.

As a leader in supply chain support, AAR helps airlines reduce costs and better utilize their assets. Whether we spearhead one aspect of the supply chain or manage the entire effort, at every touch point with the customer, our team is committed to flawless execution of the program. Among our valued customers are global leaders such as Air France, American Airlines, Delta Air Lines and Northwest Airlines.



## **REGIONAL AIRLINES**

The regional airline market is the fastest growing segment in the commercial airline industry with a 100 percent increase in passenger enplanements since 1990. Additionally, the regional fleet is expected to grow by more than 7 percent annually for the next decade. Few providers can deliver the turnkey supply chain support required by the regional carriers.

Regional airlines are a strategic opportunity for AAR. While each carrier is unique, they do share a common denominator: They operate without the traditional heavy infrastructure used by the larger commercial carriers. For financial well-being and lower operating cost, regional airlines look to OEM's and third party providers such as AAR for virtual, scalable service and support infrastructure without the burden of direct investment. Today, many regional and commuter operators depend on AAR to provide customized, cost-effective fleet support. Our support services range from parts supply to major maintenance inspections and component repair. AAR is a total support partner.

# MEASURE OF OPPORTUNITY



## AT-A-GLANCE



AAR is the leading provider of aftermarket support to the global aviation/aerospace industry. The company designs and implements customized supply chain support and logistics programs; performs aircraft maintenance and modification services; repairs and overhauls aircraft, engine and landing gear components; designs and manufactures composite structures, mobility systems and cargo loading systems; and sources aircraft and engines for sale and lease.

AAR's mission is to consistently provide the level of talent and technology required to deliver innovative, cost-effective products and programs with a quality customer experience. Headquartered in Wood Dale, Illinois, AAR serves commercial, regional, government and military aircraft fleet operators and independent service customers on a global scope.

The company has:

- Over 50 years of service to the aviation aftermarket
- Well-diversified base of 13,000 customers across all industry segments
- More than 30 locations across the United States, Europe, Asia and South America
- More than 2 million square feet of operating space
- Global distribution network
- Skilled workforce of 2,200 career professionals

AAR manages dozens of integrated support programs through a wide array of products and services ranging from

inventory planning and provisioning to component repair to full aircraft maintenance programs. Additionally, all major AAR manufacturing, repair and overhaul business units are ISO-9000 certified. We comply with airline quality control standards, safety, regulatory and certification standards of the FAA, JAA and CAA agencies, and stringent regulations of the U.S. Department of Defense.

### INVENTORY & LOGISTICS SERVICES

**Airframe and Engine Parts Redistribution.** AAR offers a vast inventory of refurbished airframe and engine parts for virtually every commercial aircraft and engine type. We provide a full range of parts services, including parts provisioning, repair and exchange, on-site warehouse management, inventory management and logistics programs.

**New Parts Distribution.** AAR provides factory-new products to the worldwide commercial, regional, general and business aviation markets. We stock more than 35,000 items from 250 aviation equipment manufacturers, providing customers with expert sales staff and same-day shipping.

### MAINTENANCE, REPAIR AND OVERHAUL

**Aircraft Component Services.** AAR services rotatable components at facilities in Amsterdam, London and New York, where we repair, overhaul and maintain more than 22,000 parts including avionics, instruments, pneumatics, hydraulics, electronics, fuel controls and electrical accessories.



**Engine Component Services.** AAR repairs, overhauls and maintains turbine engine components. Capabilities include on-site overhaul, replacement parts, blade and valve repair, installation of erosion shields, diaphragm and nozzle coatings, and rotor overhaul and balancing.

**Aircraft Maintenance, Modification and Services.** AAR provides major maintenance inspections, line maintenance, aircraft modifications and upgrades to the world's commercial, regional and cargo airline fleets and the U.S. military and government agencies. Our 200,000-square-foot facility in Oklahoma City has seven hangars to support six "nose-to-tail" narrow-body aircraft maintenance lines.

**Landing Gear Services.** AAR specializes in the repair, exchange and overhaul of landing gear for commercial and regional aircraft.

**Industrial Power Engine Component Services.** AAR provides full-service life-cycle support to power generation facilities, process industries and pipeline operators with the repair and overhaul of gas and steam turbine engines.

#### **MANUFACTURING**

**Mobility Systems.** AAR is a leading global supplier of mobility systems and components such as shelters, pallets, containers and mobile systems and equipment, designed and manufactured to support military and commercial applications.


**Cargo Loading Systems.** AAR designs, manufactures and installs in-aircraft cargo handling and loading systems known for rugged durability, high reliability and customized features.

**Composites Design and Manufacturing.** AAR provides design, engineering and manufacture of complex composite structures. At our state-of-the-art facility in Clearwater, Florida, AAR designs and manufactures standard and customer-specific composite solutions for the aviation, truck, and rail industries such as interiors, panels and flooring.

#### **AIRCRAFT AND ENGINE SALES AND LEASING**

**Aircraft Sales & Leasing.** Whether purchasing, leasing, selling or trading aircraft, AAR provides unparalleled service, including locating, evaluating and acquiring aircraft; performing or managing required maintenance, upgrades and conversions; facilitating aircraft trades; structuring operating leases; purchasing existing leases; and providing innovative financing solutions.

**Engine Sales & Leasing.** AAR maintains a sizable inventory of engines that meet customers' exact specifications. Our portfolio includes engines from the world's most respected manufacturers, including CFM International, General Electric, International Aero Engines, Pratt & Whitney and Rolls Royce. Customers can choose from a variety of programs to meet short- and long-term needs.

 **AAR** *Your Total Support Partner.*

## CORPORATE INFORMATION



### BOARD OF DIRECTORS

#### *Seated:*

**Joel D. Spungin**

Managing Partner, DMS Enterprises, L.P.  
Chairman Emeritus of United Stationers, Inc.

**David P. Storch**

President and Chief Executive Officer, AAR CORP.

**Ira A. Eichner**

Chairman of the Board and Founder, AAR CORP.

#### *Standing:*

**Edgar D. Jannotta**

Chairman, William Blair & Company, L.L.C.

**Howard B. Bernick**

President and Chief Executive Officer,  
Alberto-Culver Company

**James G. Brocksmith Jr.**

Independent Business Consultant, Retired  
Deputy Chairman and COO, KPMG LLP

**James E. Goodwin**

Independent Business Consultant, Retired  
Chairman and CEO, UAL, Inc.

**General Ronald R. Fogleman, USAF (Ret.)**

President and COO, Bar J Cattle Company  
President and COO, Durango Aerospace, Inc.

**A. Robert Abboud**

President, A. Robert Abboud & Co.

### CORPORATE OFFICERS

**David P. Storch**

President and Chief Executive Officer

**Joseph M. Gullion**

Executive Vice President and Chief Operating Officer

**Michael K. Carr**

Vice President, Tax

**Peter K. Chapman**

Vice President, Marketing and Business Development

**James J. Clark**

Vice President, Maintenance, Repair  
and Overhaul Services

**Roberta R. McQuade**

Vice President, Human Resources

**David E. Prusiecki**

Vice President, Defense Programs

**Howard A. Pulsifer**

Vice President, General Counsel and Secretary

**Timothy J. Romenesko**

Vice President and Chief Financial Officer

**Michael J. Sharp**

Vice President, Controller and Chief Accounting Officer

### BOARD COMMITTEES

#### AUDIT

**Joel D. Spungin**

*Chairman*

A. Robert Abboud

Howard B. Bernick

James G. Brocksmith, Jr.

#### COMPENSATION

**James G. Brocksmith, Jr.**

*Chairman*

A. Robert Abboud

Howard B. Bernick

Edgar D. Jannotta

#### EXECUTIVE

**Ira A. Eichner**

*Chairman*

Edgar D. Jannotta

David P. Storch

#### NOMINATING

**Howard B. Bernick**

*Chairman*

Ira A. Eichner

James E. Goodwin

David P. Storch

**CORPORATE HEADQUARTERS**

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

**TRANSFER AGENTS AND REGISTRARS**

EquiServe Trust Company, N.A.  
Jersey City, New Jersey

**ANNUAL MEETING OF STOCKHOLDERS**

The annual meeting of stockholders will be held October 9, 2002 at 10:00 a.m. (CDT) at AAR World Headquarters, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

The number of holders of common stock, including participants in security positions listings as of June 30, 2002, was approximately 10,000.

**STOCKHOLDERS' DIVIDEND****REINVESTMENT SERVICE PLAN**

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 writing the Secretary, AAR CORP., One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191.

**SPECIAL COUNSEL**

Schiff Hardin & Waite  
Chicago, Illinois

**TICKER SYMBOL**

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



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