10-K 1 a2236183z10-k.htm 10-K Use these links to rapidly review the document\nTABLE OF CONTENTS\n Table of Contents\n UNITED STATES\nSECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-K\n(Mark One)\n Annual Report Pursuant to Section13 or 15(d) of the Securities Exchange Act of 1934\n For the fiscal year ended May31, 2018 or\n o Transition Report Pursuant to Section13 or 15(d) of the Securities Exchange Act of 1934\n For the transition period fromto Commission file number1-6263\nAAR CORP. (Exact name of registrant as specified in its charter)\n Delaware (State or other jurisdiction of incorporation or organization) 36-2334820 (I.R.S. Employer Identification No.) One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191(Address of principal executive offices, including zip code)\nRegistrant\'s telephone number, including area code: (630)227-2000 Securities registered pursuant to Section12(b) of the Act: Title of Each Class Name of Each Exchange on Which Registered\n Common Stock, $1.00 par value New York Stock Exchange\nChicago Stock Exchange Securities registered pursuant to Section12(g) of the Act: None Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule405 of the Securities Act. YesNoo Indicate by check mark if the registrant is not required to file reports pursuant to Section13 or 15(d) of the Act.\nYesoNo Indicate by check mark whether the registrant (1)has filed all reports required to be filed by Section13 or 15(d) of the Securities Exchange Act of\n1934 during the preceding 12months (or for such shorter period that the registrant was required to file such reports), and (2)has been subject to such filing requirements for the past 90days. YesNoo Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule405 of RegulationS-T during the preceding 12months (or for such shorter period that the registrant was required to submit and post such files). YesNoo Indicate by check mark if disclosure of delinquent filers pursuant to Item405 of RegulationS-K is not contained herein, and will not be contained,\nto the best of registrant\'s knowledge, in definitive proxy or information statements incorporated by reference in PartIII of this Form10-K or any amendment to this Form10-K.o Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an\nemerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule12b-2 of the Exchange Act.(Check one): Large accelerated filer Accelerated filero\nNon-Accelerated filero (Do not check if a\nsmaller reporting company) Smaller reporting companyo Emerging growth companyo\n If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period prior to complying with any new or revised financial accounting standards provided pursuant to Section13(a) of the Exchange Act.o Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act). YesoNo The aggregate market value of the registrant\'s voting stock held by nonaffiliates was approximately $1,344million (based upon the closing price of the\nCommon Stock at November30, 2017 as reported on the New York Stock Exchange). On June29, 2018, there were 34,740,330 shares of Common Stock outstanding. Documents Incorporated by Reference\nPortions of the Company\'s proxy statement for the Company\'s 2018 Annual Meeting of Stockholders, to be held October10, 2018, are incorporated by reference\nin PartIII of this report. Table of Contents\n TABLE OF CONTENTS\n Page PART I\n Item1. Business Item1A. Risk Factors\n Item1B. Unresolved Staff Comments\n Item2. Properties Item3. Legal Proceedings\n Item4. Mine Safety Disclosures\n Supplemental ItemExecutive Officers of the Registrant\n PART II\n Item5. Market for Registrant\'s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities\n Item6. Selected Financial Data\n Item7. Management\'s Discussion and Analysis of Financial Condition and Results of Operations\n Item7A. Quantitative and Qualitative Disclosures about Market Risk\n Item8. Financial Statements and Supplementary Data\n Item9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure\n Item9A. Controls and Procedures\n Item9B. Other Information\n PART III\n Item10. Directors, Executive Officers and Corporate Governance\n Item11. Executive Compensation\n Item12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters\n Item13. Certain Relationships and Related Transactions, and Director Independence\n Item14. Principal Accounting Fees and Services\n PART IV\n Item15. Exhibits, Financial Statement Schedules\n Item16. Form10-K Summary\n SIGNATURES 88 Table of Contents PART I\n ITEM 1.BUSINESS\n General AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," and "our" unless the context indicates\notherwise. AAR was founded in 1951, organized in 1955 and reincorporated in Delaware in 1966. We are a diversified provider of products and services to the worldwide aviation and government and defense markets. Beginning in fiscal 2015, we implemented a comprehensive strategic plan to narrow our strategy to focus on our best-in-class aviation and expeditionary services through our two business segments: Aviation Services and Expeditionary Services. We sold our Telair Cargo Group for cash of $714million, resulting in pre-tax gains of $198.6million in the fourth quarter of fiscal 2015 (and $27.7million in the first quarter of fiscal 2016 from the receipt of contingent consideration). We used the proceeds from the sale in fiscal 2015 to reduce our total debt and return capital to shareholders through common stock repurchases and dividends. Through execution of our strategic plan over the last three years, we have succeeded in expanding customer relationships and securing new flight hour component inventory management and repair programs work with multiple international commercial customers and government customers. We also invested in our rotable assets to support these programs and continued our focus on expanding our business development resources. These investments in our supply chain activities have allowed us to increase market share, expand our customer base, and enlarge our geographic footprint. In fiscal 2018, we began the ramp-up for the 15-year, U.S. Air Force Landing Gear Performance-Based Logistics One program. Under the program, we are providing total supply chain management including purchasing, distribution and inventory control to support all landing gear components for the U.S. Air Force\'s fleet of C-130, KC-135 and E-3 aircraft. In fiscal 2018, we also began providing services to the U.S. Department of State ("DoS") under the INL/A Worldwide Aviation Support Services ("WASS") contract. This contract leverages our capabilities in aviation services, including flight operations, supply chain logistics, and other services. We are the prime contractor on this 10-year performance-based contract to globally operate and maintain the DoS fleet of fixed and rotary-wing aircraft. We successfully completed the transition and phase-in of the WASS program in June 2018. We have full operational capability at all contract sites, which include Afghanistan, Iraq, Panama, Peru, and Patrick Air Force Base as well as support locations in Brevard County, Florida. Our long-term strategy continues to emphasize the return of capital to shareholders. Over the past three years, we have returned $82.6million to shareholders through common stock repurchases of $51.7million and dividends of $30.9million. We remain in a strong financial position to further execute on our strategy in fiscal 2019. Both our commercial and government businesses are executing on our many contract wins and will continue to deliver growth in fiscal 2019. Our cash on hand plus unused capacities on our Revolving Credit Facility and accounts receivable financing program was $473million at May31, 2018. We expect to invest opportunistically in expanding our comprehensive suite of services to the global commercial aviation and government and defense markets. We continue to have the flexibility in our balance sheet allowing us to invest in our growth. As we generate positive cash flow, we will continue our strategy of returning capital to our shareholders without hampering our future operating flexibility. Table of Contents\n Business Segments\n Aviation Services\nThe Aviation Services segment provides aftermarket support and services for the commercial aviation and government and defense markets and\naccounted for 93% of our sales in fiscal 2018, 2017, and 2016. In this segment, we also provide inventory management and distribution services, maintenance, repair and overhaul ("MRO"), and engineering services. Business activities in this segment are primarily conducted through AAR Supply Chain,Inc.; AAR Government Services,Inc.; AAR Aircraft&Engine Sales&Leasing,Inc.; AAR Aircraft Services,Inc.; AAR Allen Services,Inc.; AAR Landing GearLLC; and AAR International,Inc. We sell and lease a wide variety of new, overhauled and repaired engine and airframe parts and components and aircraft to our commercial aviation and government/defense customers. We provide customized flight hour component inventory and repair programs, warranty claim management, and outsourcing programs for engine and airframe parts and components in support of our airline and government customers\' maintenance activities. The types of services provided under these programs include material planning, sourcing, logistics, information and program management, and parts and component repair and overhaul. We are also an authorized distributor for more than 70 product lines across over 25 leading aviation product manufacturers. We also provide customized performance-based supply chain logistics programs in support of the U.S. Department of Defense ("DoD") and foreign governments. The types of services provided under these programs include material planning, sourcing, logistics, information and program management, airframe maintenance and maintenance planning, and component repair and overhaul. We provide major airframe inspection, maintenance, repair and overhaul, painting services, line maintenance, airframe modifications, structural repairs, avionic service and installation, exterior and interior refurbishment, and engineering services and support for many types of commercial and military aircraft. We also repair and overhaul various components, landing gears, wheels, and brakes for commercial and military aircraft. We operate seven airframe maintenance facilities and one landing gear overhaul facility. Our landing gear overhaul facility is in Miami, Florida, where we repair and overhaul landing gear, wheels, brakes, and actuators for different types of commercial and military aircraft. Our U.S. airframe maintenance facilities are in Indianapolis, Indiana; Oklahoma City, Oklahoma; Duluth, Minnesota; Miami, Florida; and Rockford, Illinois and our Canadian airframe maintenance facilities are in Trois Rivieres, Quebec and Windsor, Ontario. In addition, we also announced a joint venture with Indamer Aviation which will develop and operate an airframe maintenance facility in India. The facility is currently under construction and is expected to begin operations in fiscal 2019. The majority of our product sales are made pursuant to standard commercial purchase orders. Government sales are generally made under standard types of government contracts which can include firm fixed-price contracts, cost plus fixed fee contracts, and time-and-materials contracts. Some of our contracts call for the performance of specified services or the delivery of specified products under indefinite delivery/indefinite quantity ("ID/IQ") arrangements. Certain inventory supply and management and performance-based logistics program agreements reflect negotiated terms and conditions. To support activities within the Aviation Services segment, we acquire aviation parts and components from domestic and foreign airlines, independent aviation service companies, aircraft leasing companies, and original equipment manufacturers ("OEM"s). We have ongoing arrangements with OEMsthat provide us access to parts, repair manuals, and service bulletins in support of parts manufactured by them. Although the terms of each arrangement vary, they typically are made on standard OEM terms as to Table of Contents\nduration, price, and delivery. From time to time, we purchase engines for disassembly into individual parts and components. These engines may be leased to airlines on a short-term basis prior to disassembly. Expeditionary Services\nThe Expeditionary Services segment consists of businesses that primarily provide products and services supporting the movement of equipment and\npersonnel by the U.S. and foreign governments and non-governmental organizations. The Expeditionary Services segment accounted for 7% of our sales in fiscal 2018, 2017, and 2016. Business activities in this segment are primarily conducted through AAR Airlift Group,Inc.; AAR Manufacturing,Inc. and Brown International Corporation. We provide fleet management and operations of customer-owned aircraft for the DoS under the INL/A WASS contract. We are the prime contractor on this ten-year performance-based contract to globally operate and maintain the DoS fleet of fixed- and rotary-wing aircraft. We also design, manufacture, and repair transportation pallets and a wide variety of containers and shelters used in support of military and humanitarian tactical deployment activities. The containers and shelters are used in numerous mission requirements, including armories, supply and parts storage, refrigeration systems, tactical operation centers, briefing rooms, laundry and kitchen facilities, water treatment, and sleeping quarters. Shelters include both stationary and vehicle-mounted applications. We also provide engineering, design, and system integration services for specialized command and control systems and design and manufacture advanced composite materials for commercial, business and military aircraft. Sales in this segment are generally made to customers pursuant to standard commercial purchase orders and contracts. Government sales are generally made under standard types of government contracts which can include firm fixed-price contracts, cost plus fixed fee contracts, and time-and-materials contracts. Some of our contracts call for the performance of specified services or the delivery of specified products under ID/IQ arrangements, however, the majority of our products and services are procured via definite contracts. Raw Materials\nAlthough we generated 60% of our fiscal 2018 sales from the sale of products, our businesses are generally engaged in limited manufacturing\nactivities and have minimal exposure to fluctuations in both the availability and pricing of raw materials. We purchase raw materials for our manufacturing operations, including steel, aluminum, extrusions, balsa, and other necessary supplies from several vendors. Where necessary, we have been able to obtain raw materials and other inventory items from numerous sources for each segment at competitive prices, terms, and conditions, and we expect to be able to continue to do so. Terms of Sale\nWe generally sell our products and services under standard 30-day payment terms. On occasion, certain customers, principally foreign customers,\nwill negotiate extended payment terms of 60-90days. Except for customary warranty provisions, customers neither have the right to return products nor do they have the right to extended financing. Our government contracts may extend several years and include one or more base years and one or more option years. The government generally has the right not to exercise options to extend or expand our contracts and may otherwise terminate, cancel, or modify some contracts at its convenience. Customers The principal customers for our products and services in the Aviation Services segment are domestic and foreign commercial airlines, domestic\nand foreign freight airlines, regional and commuter airlines, Table of Contents\nbusiness and general aviation operators, OEMs, aircraft leasing companies, aftermarket aviation support companies, the DoD and its contractors, and foreign military organizations or governments. In the Expeditionary Services segment, our principal customers include the DoS, DoD and its contractors, foreign military organizations or governments, defense organizations, and OEMs. Sales of aviation products and services to our commercial airline customers are generally affected by such factors as the number, type and average age of aircraft in service, the levels of aircraft utilization (e.g.,frequency of schedules), the number of airline operators, the general economy, and the level of sales of new and used aircraft. Sales to the DoD and other government agencies are subject to a number of factors, including the level of troop deployment worldwide, government funding, competitive bidding, and requirements generated by worldwide geopolitical events. We primarily market and sell products and services through our own employees. In certain markets outside of the United States, we rely on foreign sales representatives to assist in the sale of our products and services. Sales to Government and Defense Customers\nSales to global government and defense customers (including sales to branches, agencies, and departments of the U.S. government) were\n$428.8million (24.5% of consolidated sales), $438.7million (27.6% of consolidated sales) and $489.4million (32.1% of consolidated sales) in fiscal 2018, 2017 and 2016, respectively. Sales to branches, agencies, and departments of the U.S. government and their contractors were $304.3million (17.4% of consolidated sales), $321.5million (20.2% of consolidated sales), and $366.1million (24.0% of consolidated sales) in fiscal 2018, 2017, and 2016, respectively. Sales to government and defense customers are reported in each of our reportable segments (SeeNote13 of Notes to Consolidated Financial Statements). Since such sales are subject to competitive bidding and government funding, no assurance can be given that such sales will continue at levels previously experienced. The majority of our U.S. government sales are for products and services supporting the DoD logistics and mobility strategy. Thus, our government contracts have changed, and may continue to change, with fluctuations in defense and other governmental agency spending. Our government contracts are also subject to termination by the customer; in the event of such a termination, we are entitled to recover all allowable costs incurred by us through the date of termination. Government Regulation and Certificates\nThe Federal Aviation Administration ("FAA") regulates the manufacture, repair, and operation of all aircraft and aircraft parts operated in the\nUnited States. Similar rules and regulatory authorities exist in other countries. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by these regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. The FAA requires that various maintenance routines be performed on aircraft engines, certain engine parts, and airframes at regular intervals based on take off and landing cycles or flight time. Our businesses which sell defense products and services directly to the U.S. government or through its contractors can be subject to various laws and regulations governing pricing and other factors. We have 13 FAA certificated repair stations in the United States, Canada, and Europe. Of the 13certificated FAA repair stations, seven are also European Aviation Safety Agency ("EASA") and four are also Transport Canada Civil Aviation ("TCCA") certificated repair stations. Such certificates, which are ongoing in duration, are required for us to perform authorized maintenance, repair and overhaul services for our customers and are subject to revocation by the government for non-compliance with applicable regulations. Of the 13 FAA certificated repair stations, 12 are in the Aviation Services segment and one is held by our Contractor-Owned, Contractor-Operated business ("COCO") which is classified as a discontinued operation as the COCO business is currently held for sale. The EASA and TCCA certificated Table of Contents\nrepair stations are in the Aviation Services segment. We also hold a FAR Part135 certificate to operate aircraft for our expeditionary airlift services business. We are also Commercial Airlift Review Board certified with the DoD. We believe that we possess all licenses and certifications that are material to the conduct of our business. Competition Competition in each of our markets is based on quality, ability to provide a broad range of products and services, speed of delivery, and price.\nCompetitors in our Aviation Services segment include OEMs, the service divisions of large commercial airlines, and other independent suppliers of parts, repair, and overhaul services to the commercial and defense markets. Our Expeditionary Services segment competes with domestic and foreign contracting companies and a number of divisions of large corporations and other large and small companies. Although certain of our competitors have substantially greater financial and other resources than we do, we believe that we have maintained a satisfactory competitive position through our responsiveness to customer needs, our attention to quality, and our unique combination of market expertise and technical and financial capabilities. Backlog Backlog represents the amount of revenue that we expect to derive from unshipped orders or signed contracts. At May31, 2018, backlog was\napproximately $1,053million compared to $519million at May31, 2017 which reflects the significant new commercial and government contract awards received over the last twelve months. Approximately $510million of our May31, 2018 backlog is expected to be filled in fiscal 2019. Employees At May31, 2018, we employed approximately 5,000 employees worldwide, of which approximately 155employees are subject to a\ncollective bargaining agreement. We also retain approximately 775 contract workers, the majority of whom are located at our airframe maintenance facilities. Available Information For additional information concerning our business segments, see Item7, "Management\'s Discussion and Analysis of Financial Condition and\nResults of Operations" and "Business Segment Information" in Note13 of Notes to Consolidated Financial Statements under Item8, "Financial Statements and Supplementary Data." Our internet address is www.aarcorp.com. We make available free of charge through our web site our annual report on Form10-K, quarterly reports on Form10-Q, current reports on Form8-K, and all amendments to those reports filed or furnished pursuant to Section13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. Information contained on our web site is not a part of this report. Table of Contents\n ITEM 1A.RISK FACTORS\nThe following is a description of the principal risks inherent in our business.\n We are affected by factors that adversely impact the commercial aviation industry.\nAs a provider of products and services to the commercial aviation industry, we are greatly affected by overall economic conditions of that\nindustry. The commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, high fuel and oil prices, lack of capital, and weak economic conditions. As a result of these and other events, from time to time certain of our customers have filed for bankruptcy protection or ceased operation. The impact of instability in the global financial markets may lead airlines to reduce domestic or international capacity. In addition, certain of our airline customers have in the past been impacted by tight credit markets, which limited their ability to buy parts, services, engines, and aircraft. A reduction in the operating fleet of aircraft both in the U.S. and abroad will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. Further, tight credit conditions negatively impact the amount of liquidity available to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in additional airline bankruptcies, and in such circumstances we may not be able to fully collect outstanding accounts receivable. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact our financial condition or results of operations. Our business, financial condition, results of operations, and growth rates may be adversely affected by these and other events that impact the aviation industry, including the following: deterioration in the financial condition of our existing and potential customers;\nreductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support;\nretirement of older generation aircraft, resulting in lower prices for spare parts and services for those aircraft;\nreductions in demand for used aircraft and engines;\nincreased in-house maintenance by airlines;\nlack of parts in the marketplace;\nacts of terrorism;\nfuture outbreaks of infectious diseases; and\nacts of God.\n Our U.S. government contracts may not continue at present sales levels, which may have a material adverse effect on our financial condition and results of operations. Our sales to branches, agencies and departments of the U.S. government and their contractors were $304.3million (17.4% of consolidated\nsales) in fiscal 2018 (See Note13 of Notes to Consolidated Financial Statements). The majority of our U.S. government sales is for products and services supporting DoD logistics and mobility strategy and is, therefore, subject to changes in defense and other governmental agency funding and spending. Our contracts with the U.S. government and their contractors are typically agreements to provide products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government customer. Sales to agencies of the U.S. government and their contractors are subject to a number of Table of Contents\nfactors, including the level of troop deployment worldwide, competitive bidding, U.S. government funding, requirements generated by world events, and budgetary constraints. U.S. government programs are subject to annual congressional budget authorization and appropriation processes. In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation, including the statutory limit on the amount of permissible federal debt (the "debt ceiling"). These issues could negatively affect the timely collection of our U.S. government invoices. Future congressional appropriation and authorization of defense spending and the application of sequestration remain marked by significant debate and an uncertain schedule. The federal debt limit continues to be actively debated as plans for long-term national fiscal policy are discussed. The outcome of these debates could have a significant impact on defense spending broadly and programs we support in particular. If there are funding delays and constraints, we may be required to continue to perform for some period of time on certain of our U.S. government contracts even if the U.S. government is unable to make timely payments. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions could result in reductions, cancellations, and/or delays of existing contracts or programs which could adversely affect our results of operations and financial condition. We face risks of cost overruns and losses on fixed-price contracts.\nWe sell certain of our products and services to our commercial, government, and defense customers under firm contracts providing for fixed unit\nprices, regardless of costs incurred by us. The cost of producing products or providing services may be adversely affected by increases in the cost of labor, materials, fuel, overhead, and other unknown variants, including manufacturing and other operational inefficiencies and differences between assumptions used by us to price a contract and actual results. Increased costs may result in cost overruns and losses on such contracts, which could adversely affect our results of operations and financial condition. Success at our airframe maintenance facilities is dependent upon continued outsourcing by the airlines.\nWe currently perform airframe maintenance, repair and overhaul activities at seven leased locations. Revenues at these facilities fluctuate\nbased on demand for maintenance which, in turn, is driven by the number of aircraft operating and the extent of outsourcing of maintenance activities by airlines. In addition, certain airlines operate certain new fleet types and/or newer generation aircraft and we may not have contractual arrangements to service these aircraft nor technicians trained and certified to perform the required airframe maintenance, repair and overhaul activities. If either the number of aircraft operating or the level of outsourcing of maintenance activities declines, we may not be able to execute our operational and financial plans at our maintenance, repair and overhaul facilities, which could adversely affect our results of operations and financial condition. We operate in highly competitive markets, and competitive pressures may adversely affect us.\nThe markets for our products and services to our commercial, government, and defense customers are highly competitive, and we face competition\nfrom a number of sources, both domestic and international. Our competitors include aircraft manufacturers, aircraft component and parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, other aircraft spare parts distributors and redistributors, and other expeditionary airlift service providers. Some of our competitors have substantially greater financial and other resources than we have and others may price their products and services below our selling prices. These competitive markets also create pressure on our ability to hire and retain qualified technicians and other skilled labor needs. We believe that our Table of Contents\nability to compete depends on superior customer service and support, on-time delivery, sufficient inventory availability, competitive pricing and effective quality assurance programs. Our government customers, including the DoD, may turn to commercial contractors, rather than traditional defense contractors, for certain work, or may utilize small business contractors or determine to source work internally rather than use us. We are also impacted by bid protests from unsuccessful bidders on new program awards. Bid protests could result in significant expense for us, contract modifications, or the award decision being overturned and loss of the contract award. Even where a bid protest does not result in the loss of an award, the resolution can extend the time until the contract activity can begin, and delay earnings. These competitive pressures, with potential impacts on both our commercial and government business, could adversely affect our results of operations and financial condition. We are subject to significant government regulation and may need to incur significant expenses to comply with\nnew or more stringent governmental regulation. The aviation industry is highly regulated by the FAA in the United States and equivalent regulatory agencies in other countries. Before we sell\nany of our products that are to be installed in an aircraft, such as engines, engine parts and components, and airframe and accessory parts and components, they must meet certain standards of airworthiness established by the FAA or the equivalent regulatory agencies in certain other countries. We operate repair stations that are licensed by the FAA and the equivalent regulatory agencies in certain other countries, and hold certificates to operate aircraft. Specific regulations vary from country to country, although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. New and more stringent governmental regulations may be adopted in the future that, if enacted, may have an adverse impact on us. If any of our material licenses, certificates, authorizations, or approvals were revoked or suspended by the FAA or equivalent regulatory agencies in other countries, our results of operations and financial condition may be adversely affected. If we fail to comply with government procurement laws and regulations, we could lose business and be liable\nfor various penalties or sanctions. We must comply with laws and regulations relating to the formation, administration, and performance of U.S. government contracts. These laws and\nregulations include the Federal Acquisition Regulations, Defense Federal Acquisition Regulations, the Truth in Negotiations Act, Cost Accounting Standards, and laws, regulations, and orders restricting the use and dissemination of classified information under the U.S. export control laws and the export of certain products and technical information and safeguarding of contractor information systems. Certain government contracts provide audit rights by government agencies, including with respect to performance, costs, business systems, internal controls and compliance with applicable laws and regulations. In complying with these laws and regulations, we may incur significant costs, and non-compliance may result in the imposition of fines and penalties, including contractual damages. If we fail to comply with these laws and regulations or if a government audit, review, or investigation uncovers improper or illegal activities, we may be subject to civil penalties, criminal penalties, or administrative sanctions, including suspension or debarment from contracting with the U.S. government. Our reputation could suffer harm if allegations of impropriety were made or found against us, which could adversely affect our operating performance and may result in additional expenses and possible loss of revenue. Table of Contents\n We are exposed to risks associated with operating internationally.\nWe conduct our business in a number of foreign countries, some of which are politically unstable or subject to military or civil conflicts.\nConsequently, we are subject to a variety of risks that are specific to international operations, including the following: military conflicts, civil strife, and political risks;\nexport regulations that could erode profit margins or restrict exports;\ncompliance with the U.S. Foreign Corrupt Practices Act, United Kingdom ("UK") Anti-bribery Act, and other anti-bribery and anti-corruption\nlaws; the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;\ncontract award and funding delays;\npotential restrictions on transfers of funds;\nimport and export duties and value added taxes;\nforeign exchange risk;\ntransportation delays and interruptions;\nuncertainties arising from foreign local business practices and cultural considerations; and\nchanges in U.S. policies on trade relations and trade policy, including implementation of or changes in trade sanctions, tariffs, and\nembargoes. In addition, the UK held a referendum in 2016 in which voters approved an exit from the European Union ("EU"). On March29, 2017, the UK government commenced the exit process under Article50 of the Treaty of the EU by notifying the European Council of the UK\'s intention to leave the EU. This notification started a two-year time period for the UK and the remaining EU countries to negotiate a withdrawal agreement. The final terms of the UK\'s potential exit from the EU have yet to be determined and it is possible there will be greater restrictions on imports and exports between the UK and EU countries along with increased regulatory complexities. While we have adopted and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business internationally, such measures may not be adequate, and the regions in which we operate might not continue to be stable enough to allow us to operate profitably or at all. Acquisitions expose us to risks, including the risk that we may be unable to effectively integrate acquired\nbusinesses. We have completed multiple acquisitions over the past few years and we have discussions with third parties regarding acquisitions on a regular\nbasis. Acquisitions involve risks, including difficulties in integrating the operations and personnel, the effects of amortization of any acquired intangible assets and the potential impairment of goodwill, and the potential loss of key employees of the acquired business. In addition, acquisitions often require substantial management resources and have the potential to divert our attention from our existing business. For any businesses we may acquire in the future, we may not be able to execute our operational, financial, or integration plans for the acquired businesses, which could adversely affect our results of operations and financial condition. Table of Contents\n Market values for our aviation products fluctuate and we may be unable to recover our costs incurred on\nengines, rotable components and other aircraft parts. We make a number of assumptions when determining the recoverability of rotable components, engines, and other assets which are on lease,\navailable for lease, or supporting our long-term programs. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for these assets or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the recoverability of our aircraft, engines, and other assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition. We may need to reduce the carrying value of our assets.\nWe own and distribute a significant amount of engines, aircraft parts and components, and manufacturing facilities and related equipment. The\nremoval of aircraft from service or recurring losses in certain operations could require us to evaluate the recoverability of the carrying value of those assets and record an impairment charge through earnings to reduce the carrying value. During the second quarter of fiscal 2018, we recognized impairment charges of $54.2million related to assets included in our COCO business which is classified as a discontinued operation. In addition, if aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline. We make a number of assumptions when determining the recoverability of our assets including historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Differences between actual results and the assumptions utilized by us when determining the recoverability of our assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition. We have recorded goodwill and other intangible assets related to acquisitions. If we are unable to achieve the projected levels of operating results, it may be necessary to record an impairment charge to reduce the carrying value of goodwill and related intangible assets. During the third quarter of fiscal 2018, we recognized a goodwill impairment charge of $9.8million related to our COCO business. Similarly, if we were to lose a key customer or one of our airframe maintenance or landing gear facilities were to lose its authority to operate, we might be required to record an impairment charge. We are dependent upon continued availability of financing to manage our business and to execute our business strategy, and additional financing may not be available on terms acceptable to us. Our ability to manage our business and to execute our business strategy is dependent, in part, on the continued availability of debt and equity\ncapital. Access to the debt and equity capital markets may be limited by various factors, including the condition of overall credit markets, general economic factors, state of the aviation industry, our financial performance, and credit ratings. Debt and equity capital may not continue to be available to us on favorable terms, or at all. Our inability to obtain financing on favorable terms could adversely affect our results of operations and financial condition. Our existing debt includes restrictive and financial covenants.\nCertain financing arrangements, including our Revolving Credit Facility and our accounts receivable financing program, require us to comply with\nvarious restrictive covenants and some contain financial covenants that require us to comply with specified financial ratios and tests. Our failure to meet these covenants could result in default under these loan and debt agreements and may result in a cross-default under other debt agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under our debt agreements could be declared immediately due and payable. Our Table of Contents\nfailure to comply with these covenants could adversely affect our results of operations and financial condition. Our industry is susceptible to product and other liability claims, and claims not adequately covered by\ninsurance may adversely affect our financial condition. Our business exposes us to possible claims for property damage and bodily injury or death which may result if an engine, engine part or\ncomponent, airframe part or accessory, or any other aviation product which we have sold, manufactured, or repaired fails, or if an aircraft we operated, serviced, or in which our products are installed, crashes. We carry substantial liability insurance in amounts that we believe are adequate for our risk exposure and commensurate with industry norms. However, claims may arise in the future, and our insurance coverage may not be adequate to protect us in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage in the future at an acceptable cost. Any liability claim not covered by adequate insurance could adversely affect our results of operations and financial condition. Our business could be negatively affected by cyber or other security threats or other disruptions.\nOur businesses depend heavily on information technology and computerized systems to communicate and operate effectively. The Company\'s systems\nand technologies, or those of third parties on which we rely, could fail or become unreliable due to equipment failures, software viruses, cyber threats, ransomware attacks, terrorist acts, natural disasters, power failures or other causes. These threats arise in some cases as a result of our role as a defense contractor. Cyber security threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to our sensitive information, ransomware attacks, including our customers, suppliers, subcontractors, and joint venture partners, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. The procedures and controls we utilize to monitor and mitigate these threats may not be sufficient to prevent security threats from materializing. If any of these events were to materialize, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified and could have a material adverse effect on our reputation, operating results, and financial condition. Moreover, expenditures incurred in implementing and maintaining cyber security and other procedures and controls could adversely affect our results of operations and financial condition. We must comply with extensive environmental requirements, and any exposure to environmental liabilities may adversely affect us. Federal, state, and local requirements relating to the discharge and emission of substances into the environment, the disposal of hazardous\nwastes, the remediation and abatement of contaminants, and other activities affecting the environment have had and may continue to have an impact on our operations. Management cannot assess the possible effect of compliance with future environmental requirements or of future environmental claims for which we may not have adequate indemnification or insurance coverage. If we were required to pay the expenses related to any future environmental claims for which neither indemnification nor insurance coverage were available, these expenses could have an adverse impact on our results of operations and financial condition. Future environmental regulatory developments in the United States and abroad concerning environmental issues, such as climate change, could adversely affect our operations and increase operating costs and, through their impact on our customers, reduce demand for our products and services. Actions may be taken in the future by the U.S. government, state governments within the United States, foreign Table of Contents\ngovernments, the International Civil Aviation Organization, or by signatory countries through a new global climate change treaty to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to us and our customers are difficult to predict, but the impact to us and the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits. We may need to make significant capital expenditures to keep pace with technological developments in our industry. The industries in which we participate are constantly undergoing development and change, and it is likely that new products, equipment, and\nmethods of repair and overhaul services will be introduced in the future. We may need to make significant expenditures to purchase new equipment and to train our employees to keep pace with any new technological developments. These expenditures could adversely affect our results of operations and financial condition. Our operations would be adversely affected by a shortage of skilled personnel or work stoppages.\nWe are dependent on an educated and highly skilled workforce because of the complex nature of many of our products and services. Furthermore, we\nhave a collective bargaining agreement covering approximately 155 employees. Our ability to operate successfully and meet our customers\' demands could be jeopardized if we are unable to attract and retain a sufficient number of skilled personnel, including qualified licensed mechanics, to conduct our business, or if we experience a significant or prolonged work stoppage. These and similar events may adversely affect our results of operations and financial condition. ITEM 1B.UNRESOLVED STAFF COMMENTS\nNot Applicable.\n ITEM 2.PROPERTIES\n In the Aviation Services segment, we conduct parts supply activities from our headquarters in Wood Dale, Illinois, which we own. In addition to warehouse space, this facility includes executive, sales and administrative offices. Our principal maintenance, repair, overhaul, engineering and other service activities for this segment are conducted at U.S. facilities leased by us in Indianapolis, Indiana; Oklahoma City, Oklahoma; Miami, Florida; Duluth, Minnesota; and Rockford, Illinois and at Canadian facilities leased by us in Trois Rivieres, Quebec and Windsor, Ontario. We also lease facilities in Garden City, New York; Jacksonville, Florida; Brussels, Belgium; Singapore, Republic of Singapore; London, England; and Crawley, England, and own a building near Schiphol International Airport in the Netherlands to support activities in the Aviation Services segment. Our principal activities in the Expeditionary Services segment are conducted at facilities we lease in Melbourne, Florida; Huntsville, Alabama; and Sacramento, California and own in Cadillac, Michigan; Clearwater, Florida; and Goldsboro, North Carolina. We also operate sales offices which support all our activities and are leased in London, England; Crawley, England; Paris, France; Rio de Janeiro, Brazil; Shanghai, China; Singapore, Republic of Singapore; and Abu Dhabi, UAE. We believe that our owned and leased facilities are suitable and adequate for our operational requirements. Table of Contents\n ITEM 3.LEGAL PROCEEDINGS\n DynCorp InternationalLLC v. AAR Airlift Group,Inc.\nOn September5, 2015, DynCorp InternationalLLC ("DynCorp") filed a complaint in the United States District Court for the Middle\nDistrict of Florida, Orlando Division (the "District Court"), accusing AAR Airlift Group,Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., of misappropriation of DynCorp information, including trade secrets, and other related allegations, in connection with the submission of proposals in response to the solicitation issued by the U.S. Department of State ("DoS") Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation in support of the Worldwide Aviation Support Services program ("WASS"). On October19, 2015, DynCorp filed an amended complaint with the District Court. On January14, 2016, the District Court granted Airlift\'s motion to dismiss DynCorp\'s amended complaint. On February2, 2016, DynCorp appealed the District Court\'s order to the United States Court of Appeals for the Eleventh Circuit (the "Eleventh Circuit"). On November21, 2016, the Eleventh Circuit reversed in part the District Court\'s dismissal of the amended complaint and remanded the case to the District Court for further proceedings. On January31, 2018, Airlift and DynCorp filed a joint notice of settlement, advising the District Court that they had reached an agreement in principle to resolve DynCorp\'s lawsuit and that they expected to filea stipulation of dismissal with prejudice within 14days. On February1, 2018, the District Court entered an order dismissing the DynCorp lawsuit without prejudice, subject to the right of any party within 60days to move the court for the purpose of entering a stipulated form of a final order or judgment or, on good cause shown, to reopen the case for further proceedings. On June20, 2018, the parties entered into a confidential settlement agreement to dismiss the lawsuit with prejudice without the payment of any money by either party. On June26, 2018, the District Court entered an order dismissing the lawsuit with prejudice. Appeals Proceeding Relating to the INL/A WASS Contract Award\nOn September1, 2016, the DoS awarded the WASS contract to Airlift. On December20, 2016, the U.S. Government Accountability\nOffice ("GAO") denied a protest filed by DynCorp and confirmed the award of the WASS contract to Airlift. On December28, 2016, DynCorp filed a further protest with the U.S. Court of Federal Claims ("COFC"). On October31, 2017, the COFC denied DynCorp\'s protest. On November20, 2017, DynCorp filed an emergency motion for interim relief pending appeal with the COFC. On December13, 2017, the COFC issued an order denying DynCorp\'s motion. On November14, 2017, DynCorp filed notice of appeal of the denial by the COFC of its protest to the U.S. Court of Appeals for the Federal Circuit (the "Court of Appeals"). On December15, 2017, DynCorp filed a motion for injunction pending appeal with the Court of Appeals. On January17, 2018, the Court of Appeals denied DynCorp\'s motion for injunction. The appeal on the merits before the Court of Appeals has been fully briefed by the parties, with no scheduled date for a decision. Department of Justice Investigation\nThe U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney\'s Office for the Southern District of Illinois, is conducting an\ninvestigation of Airlift under the federal civil False Claims Act ("FCA"). The investigation relates to Airlift\'s performance of several contracts awarded by the U.S. Transportation Command concerning the operations and maintenance of rotary-wing and fixed-wing Table of Contents\naircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift. That lawsuit remains under seal. Airlift is cooperating with the DoJ investigation. ITEM 4.MINE SAFETY DISCLOSURES\nNot Applicable.\n Supplemental Item:\n EXECUTIVE OFFICERS OF THE REGISTRANT\nInformation concerning each of our executive officers is set forth below:\n Name Age Present Position with the Company\n John M. Holmes Chief Executive Officer and President, Director\n Michael D. Milligan Vice President and Chief Financial Officer\n Robert J. Regan Vice President, General Counsel and Secretary\n Eric S. Pachapa Vice President, Controller and Chief Accounting Officer\n Mr.Holmes is Chief Executive Officer and President, having served in that capacity since June 2018. From June 2017 to May 2018,\nMr.Holmes served as President and Chief Operating Officer. From February 2015 to June 2017, Mr.Holmes served as Chief Operating OfficerAviation Services. Prior to that, Mr.Holmes served as Group Vice President, Aviation ServicesInventory Management and Distribution from 2012 to 2015, General Manager and Division President of our Allen Asset Management business from 2003 to 2012, and in various other positions since joining the Company in September 2001. Mr.Holmes has been a director of the Company since 2017. Mr.Milligan is Vice President and Chief Financial Officer, having served in that capacity since September 2017. Prior to joining\nAAR, he was Senior Vice President and Chief Financial Officer of NES Rentals Holdings,Inc. since 2005. Mr.Milligan was previously Executive Vice President and Chief Financial Officer of Telenisus Corporation from 1999 to 2001 and, prior thereto, was a partner with Pricewaterhouse CoopersLLP. Mr.Regan is Vice President, General Counsel and Secretary, having served in that capacity since June 2009. From 2008 to June 2009, Mr.Regan served as Vice President and General Counsel and, prior to that, Associate General Counsel since joining AAR in February 2008. Prior to joining AAR, he was a partner at the law firm of Schiff HardinLLP since 1989. Mr.Pachapa is Vice President, Controller and Chief Accounting Officer, having served in that capacity since July 2016.\nMr.Pachapa previously served as Controller since October 2015 and Senior Director of Accounting and Reporting since April 2014. Prior to joining the Company, he was with Glanbiaplc from 2011 to 2014, and with Ernst& YoungLLP from 1996 to 2011. Each executive officer is elected annually by the Board of Directors. Executive officers continue to hold office until their successors are duly elected or until their death, resignation, termination or reassignment. Table of Contents\n PART II\n ITEM 5.MARKET FOR REGISTRANT\'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES\n Our common stock is traded on the New York Stock Exchange and the Chicago Stock Exchange under the symbol "AIR." On June29, 2018, there were approximately 900 holders of common stock, including participants in security position listings. The following table shows the range of prices for our common stock and the amount of dividends declared per share during each quarter of our last two fiscal years: Fiscal 2018\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year\n Market price\n High $ 37.64 $ 41.58 $ 43.95 $ 47.70 $ 47.70 Low 34.00 34.54 37.39 41.41 34.00 Dividends declared\n 0.075 0.075 0.075 0.075 0.30 Fiscal 2017\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year\n Market price\n High $ 25.04 $ 38.67 $ 38.31 $ 36.01 $ 38.67 Low 22.06 26.21 31.49 32.74 22.06 Dividends declared\n 0.075 0.075 0.075 0.075 0.30 Stockholder Return Performance Graph\nThe following graph compares the total return on a cumulative basis of $100 invested, and reinvestment of dividends in our common stock on\nMay31, 2013 to the Standard and Poor\'s ("S&P") 500Index and the Proxy Peer Group. Table of Contents\nThe S&P500 Index is comprised of domestic industry leaders in four major sectors: Industrial, Financial, Utility, and Transportation, and serves as a broad indicator of the performance of the U.S. equity market. The Company\'s Fiscal 2018 Proxy Peer Group companies are listed as follows: Aerojet Rocketdyne Holdings,Inc. KLXInc. Barnes GroupInc. MoogInc. CACI International Inc Rockwell Collins,Inc.\n CraneCo. Science Applications International Corporation\n Cubic Corporation Teledyne Technologies Incorporated\n Curtiss-Wright Corporation TransDigm Group Incorporated\n Esterline Technologies Corporation Triumph Group,Inc.\n Heico Corporation Wesco International,Inc.\n Hexcel Corporation Woodward,Inc. Kaman Corporation The Company annually revisits the composition of the peer group to ensure that the Company\'s performance is measured against those of comparably-sized and situated companies. The mix of the Company\'s commercial and defense businesses presents a challenge in constructing a peer group, given that many defense contractors have substantially greater resources than the Company. No changes were made to the composition of the peer group for fiscal 2018. Issuer Purchases of Equity Securities We did not purchase any shares of our common stock during the quarter ended May31, 2018. Our Board of Directors authorized a stock\nrepurchase program on July10, 2017 providing for the repurchase of up to $250million of our common stock with no expiration date. The remaining number of shares available for repurchase under that authorization is $237million. Table of Contents\n ITEM 6.SELECTED FINANCIAL DATA (In millions, except per share amounts)\n For the Year Ended May31, RESULTS OF OPERATIONS1\n Sales $ 1,748.3 $ 1,590.8 $ 1,525.4 $ 1,448.0 $ 1,415.5 Gross profit2\n 294.6 263.4 233.1 152.8 204.3 Operating income (loss)2\n 86.0 82.3 75.5 (31.2 ) 53.8 Loss on extinguishment of debt3\n (0.4 ) (44.9 ) Interest expense\n 8.0 5.3 6.4 27.2 29.4 Income (Loss) from continuing operations\n 73.7 52.0 45.5 (67.4 ) 19.7 Income (Loss) from discontinued operations4\n (58.1 ) 4.5 2.2 77.6 53.2 Net income\n 15.6 56.5 47.7 10.2 72.9 Share data:\n Earnings per sharebasic:\n Earnings (Loss) from continuing operations\n $ 2.14 $ 1.53 $ 1.30 $ (1.73 ) $ 0.50 Earnings (Loss) from discontinued operations\n (1.70 ) 0.13 0.07 1.99 1.35 Earnings per sharebasic\n $ 0.44 $ 1.66 $ 1.37 $ 0.26 $ 1.85 Earnings per sharediluted:\n Earnings (Loss) from continuing operations\n $ 2.11 $ 1.51 $ 1.30 $ (1.73 ) $ 0.49 Earnings (Loss) from discontinued operations\n (1.70 ) 0.13 0.07 1.97 1.34 Earnings per sharediluted\n $ 0.41 $ 1.64 $ 1.37 $ 0.24 $ 1.83 Cash dividends declared per share\n $ 0.30 $ 0.30 $ 0.30 $ 0.30 $ 0.30 Weighted average common shares outstandingbasic\n 34.2 33.9 34.4 39.1 38.6 Weighted average common shares outstandingdiluted\n 34.6 34.3 34.6 39.4 39.1 May31, FINANCIAL POSITION1\n Total cash and cash equivalents\n $ 31.1 $ 10.3 $ 31.2 $ 54.7 $ 89.2 Working capital\n 609.4 553.4 540.3 456.9 645.4 Total assets\n 1,524.7 1,504.1 1,456.0 1,454.1 2,159.8 Total debt3\n 178.9 156.2 145.3 154.0 634.0 Equity5 936.3 914.2 865.8 845.1 1,000.7 Number of shares outstanding at end of year5\n 34.7 34.4 34.5 35.4 39.6 Book value per share of common stock\n $ 26.98 $ 26.58 $ 25.10 $ 23.87 $ 25.27 Notes: 1During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated ("COCO") business previously included in our Expeditionary Services segment. The Results of Operations and Financial Position data has been recast to reflect the classification of our COCO business as a discontinued operation for all periods presented. 2In fiscal 2015, we recognized $61.5million in impairment charges and other losses related to product lines and inventories identified as underperforming or not part of our strategy going forward. These actions included aircraft in our aircraft lease portfolio and inventory in our supply chain and MRO Table of Contents\n operations. We also recognized impairment charges of $25.6million related to our composite manufacturing operations. 3In fiscal 2015, we redeemed our $325million 7.25% Senior Notes due 2022 for $370.6million. We recognized a loss on extinguishment of debt of $44.9million comprised of a make-whole premium of $45.6million and unamortized deferred financing costs of $6.2million, partially offset by an unamortized net premium of $6.9million. 4In fiscal 2015, we sold our Telair Cargo Group for $725million resulting in a $198.6million pre-tax gain. We also recognized impairment charges of $31.9million in fiscal 2015 to reduce the carrying value of our metal machining business\'s net assets to their expected value at the time of sale. In fiscal 2016, we received contingent consideration from the sale of Telair Cargo Group and recognized a pre-tax gain of $27.7million. In fiscal 2018, we recognized asset impairment charges of $64.0million related to our COCO business. 5On May29, 2015, we repurchased 4,185,960 shares of our common stock at a price of $31.90 per share pursuant to a tender offer utilizing $133.5million cash on hand. Fees and expenses of $1.2million were incurred related to the tender offer and were recorded in treasury stock. Table of Contents\n ITEM 7.MANAGEMENT\'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)\n Forward-Looking Statements\nManagement\'s Discussion and Analysis of Financial Condition and Results of Operations contain certain statements relating to future results,\nwhich are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the beliefs of management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated, depending on a variety of factors, including those factors discussed under Item1A, "Risk Factors." Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. General Overview\nWe report our activities in two business segments: Aviation Services comprised of supply chain\nand maintenance, repair and overhaul ("MRO") activities and Expeditionary Services comprised of airlift and mobility activities. The Aviation Services segment consists of aftermarket support and services businesses that provide spares and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components and aircraft to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, aircraft component repair management services, and aircraft modifications. The segment also includes MRO of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead. The Expeditionary Services segment consists of businesses that provide products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and other non-governmental organizations. Sales in the Expeditionary Services segment are derived from fleet management and operations of customer-owned aircraft and the design and manufacture of pallets, shelters, and containers used to support the U.S. military\'s requirements for a mobile and agile force. We also design and manufacture advanced composite materials for commercial, business and military aircraft. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead. Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services. Beginning in fiscal 2015, we implemented a comprehensive strategic plan to narrow our strategy to focus on our best-in-class aviation and expeditionary services through our two business segments: Aviation Services and Expeditionary Services. We sold our Telair Cargo Group for cash of $714million, resulting in pre-tax gains of $198.6million in the fourth quarter of fiscal 2015 (and $27.7million in the first quarter of fiscal 2016 from the receipt of contingent consideration). We used the proceeds from the sale in fiscal 2015 Table of Contents\nto reduce our total debt and return capital to shareholders through common stock repurchases and dividends. Through execution of our strategic plan over the last three years, we have succeeded in expanding customer relationships and securing new flight hour component inventory management and repair programs work with multiple international commercial customers and government customers. We also invested in our rotable assets to support these programs and continued our focus on expanding our business development resources. These investments in our supply chain activities have allowed us to increase market share, expand our customer base, and enlarge our geographic footprint. In fiscal 2018, we began the ramp-up for the 15-year, U.S. Air Force Landing Gear Performance-Based Logistics One program. Under the program, we are providing total supply chain management including purchasing, distribution and inventory control to support all landing gear components for the U.S. Air Force\'s fleet of C-130, KC-135 and E-3 aircraft. In fiscal 2018, we also began providing services to the U.S. Department of State ("DoS") under the INL/A Worldwide Aviation Support Services ("WASS") contract. This contract leverages our capabilities in aviation services, including flight operations, supply chain logistics, and other services. We are the prime contractor on this 10-year performance-based contract to globally operate and maintain the DoS fleet of fixed and rotary-wing aircraft. We successfully completed the transition and phase-in of the WASS program in June 2018. We have full operational capability at all contract sites, which include Afghanistan, Iraq, Panama, Peru, and Patrick Air Force Base as well as support locations in Brevard County, Florida. Our long-term strategy continues to emphasize the return of capital to shareholders. Over the past three years, we have returned $82.6million to shareholders through common stock repurchases of $51.7million and dividends of $30.9million. Business Trends and Outlook for Fiscal 2019\nConsolidated sales for fiscal 2018 increased $157.5million or 9.9% compared to the prior year primarily due to an increase in sales of\n$133.5million or 9.0% in our Aviation Services segment. This increase was driven by strong growth in our aviation supply chain activities including our recent contract awards for component inventory management and repair programs for commercial and government customers. This growth was partially offset by the impact from the wind-down of our KC-10 program. Our principal services under the KC-10 program were completed in January 2017 with the wind-down completed in fiscal 2018. Sales for the KC-10 program during fiscal 2017 were $110.6million compared to $29.1million in fiscal 2018. Sales in the Expeditionary Services segment increased $24.0million or 22.8% over the prior year primarily due to the start of our services on the WASS program on November1, 2017. For fiscal 2019, we expect to see continued strength in our Aviation Services segment given its leadership positions in value-added services to both commercial and government and defense customers. Long-term aftermarket growth trends are favorable and our comprehensive suite of integrated services will continue to drive growth across our diverse base of customers. We remain in a strong financial position to further execute on our strategy in fiscal 2019. Both our commercial and government businesses are executing on our many contract wins and will continue to deliver growth in fiscal 2019. Our cash on hand plus unused capacities on our Revolving Credit Facility and accounts receivable financing program was $473million at May31, 2018. We expect to invest opportunistically in expanding our comprehensive suite of services to the global commercial aviation and government and defense markets. We continue to have the flexibility in our balance sheet to invest in our growth. As we generate positive cash flow, we will continue our strategy of returning capital to our shareholders without hampering our future operating flexibility and our growth plans. Table of Contents\nFor fiscal 2019, we expect the Company\'s consolidated sales in the range of $2.1 to $2.2billion. Diluted earnings per share from continuing operations for fiscal 2019 is expected to be in the range of $2.50 to $2.80. Results of OperationsFiscal 2018 Compared with Fiscal 2017\nSales and gross profit for our two business segments for the two years ended May31, 2018 and 2017 were as follows:\n For the Year Ended May31, % Change\n Sales: Aviation Services\n Commercial $ 1,281.9 $ 1,114.9 15.0 % Government and Defense\n 337.0 370.5 (9.0 )% $ 1,618.9 $ 1,485.4 9.0 % Expeditionary Services\n Commercial $ 37.5 $ 37.1 1.1 % Government and Defense\n 91.9 68.3 34.6 % $ 129.4 $ 105.4 22.8 % For the Year Ended May31, % Change\n Gross Profit:\n Aviation Services\n Commercial $ 203.8 $ 183.1 11.3 % Government and Defense\n 68.1 62.9 8.3 % $ 271.9 $ 246.0 10.5 % Expeditionary Services\n Commercial $ 8.3 $ 8.2 1.2 % Government and Defense\n 14.4 9.2 56.5 % $ 22.7 $ 17.4 30.5 % Aviation Services Segment\n Sales in the Aviation Services segment increased $133.5million or 9.0% over the prior year due to a $167.0million or 15.0%\nincrease in sales to commercial customers. The increase in sales to commercial customers was primarily attributable to higher volumes in aviation supply chain activities driven by new contract awards. During fiscal 2018, sales in this segment to government and defense customers decreased $33.5million or 9.0% from the prior year. The decrease was primarily due to the wind-down of our KC-10 program. Changes in estimates and assumptions related to our programs accounted for using the percentage-of-completion method are recorded using the cumulative catch-up method of accounting. In fiscal 2018, we recognized favorable and unfavorable cumulative catch-up adjustments of $11.6million and $8.0million, respectively, compared to favorable and unfavorable cumulative catch-up adjustments of $9.2million and $0.7million, respectively, in fiscal 2017. When considering these adjustments on a net Table of Contents\nbasis, we recognized favorable cumulative catch-up adjustments of $3.6million and $8.5million for fiscal 2018 and 2017, respectively. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services. Cost of sales in Aviation Services increased $107.6million or 8.7% over the prior year which was in line with the sales increase discussed above. Gross profit in the Aviation Services segment increased $25.9million or 10.5% over the prior year. Gross profit on sales to commercial customers increased $20.7million or 11.3% over the prior year primarily driven by the higher volumes in aviation supply chain activities. The gross profit margin on sales to commercial customers was 15.9% compared to 16.4% in the prior year and was largely attributable to labor challenges at our airframe maintenance hangars. Gross profit in this segment on sales to government and defense customers increased $5.2million or 8.3% from the prior year primarily driven by improved profitability on new contract awards. The gross profit margin increased from 17.0% to 20.2% primarily due to these new contract awards. Expeditionary Services Segment\n Sales in the Expeditionary Services segment increased $24.0million or 22.8% over the prior year primarily due to the start of our\nservices on the WASS program on November1, 2017. Gross profit in the Expeditionary Services segment increased $5.3million over the prior year due to the addition of the WASS program in fiscal 2018. Selling, General and Administrative Expenses\n Selling, general and administrative expenses increased $27.5million in fiscal 2018 or 15.2% from the prior year primarily attributable\nto supporting our sales growth, including increased personnel-related costs and business development activities. Interest Expense\n Interest expense increased $2.7million in fiscal 2018 over the prior year primarily as a result of higher borrowings and higher interest\nrates on our Revolving Credit Facility. We entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the "Credit Agreement") on October18, 2017. The Credit Agreement provided a Canadian $31million term loan with the proceeds used to fund the acquisition of two MRO facilities in Canada from Premier Aviation. Income Taxes\n On December22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act (the "Tax Reform Act") which\nsignificantly reduced the corporate federal income tax rate to 21% from 35%. The income tax rate reduction in the Tax Reform Act results in a blended federal statutory tax rate for the Company of 29.2% in fiscal 2018 compared to 35.0% in fiscal 2017. Due to the reduction in our tax rate in fiscal 2018 and in future years, we re-measured our deferred tax assets and liabilities based on the tax rate at which they are expected to reverse in the future which resulted in an income tax benefit of $14.1million in fiscal 2018. Effective June1, 2017, we adopted Accounting Standards Update ("ASU") 2016-09 which requires excess tax benefits or deficiencies for restricted shares and stock options to be recognized as income tax expense or benefit in the period shares vest or options are exercised rather than within equity. We recognized $2.9million of excess tax benefits as an income tax benefit during fiscal 2018. Our fiscal 2018 effective income tax rate for continuing operations was 4.5% compared to 32.6% in the prior year. In addition to the tax benefits discussed above, we also recognized a tax benefit in fiscal 2018 of $2.1million related to the reversal of certain state valuation allowances based on the recoverability Table of Contents\n of the net operating losses and other state deferred tax assets. The effective income tax rate for fiscal 2017 includes a benefit of $2.2million related to recognition of previously unrecognized uncertain tax positions. Discontinued Operations\n During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated business ("COCO") business\npreviously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Loss from discontinued operations was $58.1million in fiscal 2018 compared to income of $4.5million in the prior year. The decrease of $62.6million was primarily due to goodwill and other asset impairment pre-tax charges of $65.2million in fiscal 2018 and the completion of certain long-term customer contracts in the second quarter of fiscal 2018. Results of OperationsFiscal 2017 Compared with Fiscal 2016\nSales and gross profit for our two business segments for the two years ended May31, 2017 and 2016 were as follows:\n For the Year Ended May31, % Change\n Sales: Aviation Services\n Commercial $ 1,114.9 $ 1,003.5 11.1 % Government and Defense\n 370.5 421.5 (12.1 )% $ 1,485.4 $ 1,425.0 4.2 % Expeditionary Services\n Commercial $ 37.1 $ 32.1 15.6 % Government and Defense\n 68.3 68.3 $ 105.4 $ 100.4 5.0 % For the Year Ended May31, % Change\n Gross Profit:\n Aviation Services\n Commercial $ 183.1 $ 157.2 16.5 % Government and Defense\n 62.9 72.3 (13.0 )% $ 246.0 $ 229.5 7.1 % Expeditionary Services\n Commercial $ 8.2 $ 3.2 156.3 % Government and Defense\n 9.2 0.4 nm $ 17.4 $ 3.6 383.3 % nmPercentage change is not meaningful.\n 24 Table of Contents\n Aviation Services Segment\n Sales in the Aviation Services segment increased $60.4million or 4.2% over the prior year due to a $111.4million or 11.1%\nincrease in sales to commercial customers. The increase in sales to commercial customers was primarily attributable to higher volumes in aviation supply chain activities driven by new contract awards. During fiscal 2017, sales in this segment to government and defense customers decreased $51.0million or 12.1% from the prior year. The decrease was primarily due to the wind-down of our KC-10 program. Changes in estimates and assumptions related to our programs accounted for using the percentage-of-completion method are recorded using the cumulative catch-up method of accounting. In fiscal 2017, we recognized favorable and unfavorable cumulative catch-up adjustments of $9.2million and $0.7million, respectively, compared to favorable and unfavorable cumulative catch-up adjustments of $6.1million and $2.4million, respectively, in fiscal 2016. When considering these adjustments on a net basis, we recognized favorable cumulative catch-up adjustments of $8.5million and $3.7million for fiscal 2017 and 2016, respectively. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services. Cost of sales in Aviation Services increased $43.9million or 3.7% over the prior year which was in line with the sales increase discussed above. Gross profit in the Aviation Services segment increased $16.5million or 7.1% over the prior year. Gross profit on sales to commercial customers increased $25.9million or 16.5% over the prior year primarily driven by the higher volumes in aviation supply chain activities. The gross profit margin on sales to commercial customers increased to 16.4% compared to 15.7% in the prior year and was largely attributable to strong profitability growth in aviation supply chain activities. Gross profit in this segment on sales to government and defense customers decreased $9.4million or 13.0% from the prior year primarily driven by the reduced services under our KC-10 program. The gross profit margin decreased from 17.2% to 17.0% primarily due to these decreased volumes. Expeditionary Services Segment Sales in the Expeditionary Services segment increased $5.0million or 5.0% over the prior year primarily due to higher demand for our\nmobility products; however, these levels are still significantly below historical levels of performance for this business. Gross profit in the Expeditionary Services segment increased $13.8million over the prior year due to improved profitability for mobility products. During the first quarter of fiscal 2017, we sold certain assets related to our temperature-controlled container product line to Sonoco Protective Solutions,Inc. which resulted in a gain of $2.6million. Selling, General and Administrative Expenses\n Selling, general and administrative expenses increased $23.5million in fiscal 2017 or 14.9% from the prior year primarily attributable\nto incremental investments in business development activities, including legal costs related to our defense of the INL/A WASS contract award. Interest Expense Interest expense decreased $1.1million in fiscal 2017 from the prior year primarily as a result of the retirement of our remaining\nconvertible notes in fiscal 2016. Table of Contents\n Income Taxes Our fiscal 2017 effective income tax rate for continuing operations was 32.6% compared to 34.0% in the prior year. The effective income tax rate\nfor fiscal 2017 includes a benefit of $2.2million related to recognition of previously unrecognized uncertain tax positions. The effective income tax rate for fiscal 2016 includes a benefit of $1.3million related to the correction of prior year immaterial errors. Liquidity, Capital Resources and Financial Position\nOur operating activities are funded and commitments met through the generation of cash from operations. In addition to operations, our current\ncapital resources include an unsecured Revolving Credit Facility and an accounts receivable financing program. Periodically, we may also raise capital through common stock and debt financings in the public or private markets. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital. At May31, 2018, our liquidity and capital resources included cash of $31.1million and working capital of $609.4million. We maintain a Revolving Credit Facility with various financial institutions, as lenders and Bank of America, N.A., as administrative agent for the lenders which provides the Company an aggregate revolving credit commitment amount of $500million. The Company, under certain circumstances, has the ability to request an increase to the revolving credit commitment by an aggregate amount of up to $250million, not to exceed $750million in total. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 100 to 200 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 100 basis points based on certain financial measurements if a Base Rate loan. Borrowings outstanding under the Revolving Credit Facility at May31, 2018 were $130.0million and there were approximately $16.7million of outstanding letters of credit, which reduced the availability of this facility to $353.3million. There are no other terms or covenants limiting the availability of this facility. We also had $9.9million available under foreign lines of credit at May31, 2018. On October18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender. The Credit Agreement provided a Canadian $31million term loan with the proceeds used to fund the acquisition of two maintenance, repair, and overhaul facilities in Canada from Premier Aviation. The term loan is due in full at the expiration of the Credit Agreement on November1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers\' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125 basis points based on certain financial measurements, if a Prime Rate loan. On February23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150million. The term of the Purchase Agreement runs through February22, 2019, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice Table of Contents\nthat they do not intend to extend the term. During fiscal 2018, we sold $239.6million of receivables under the Purchase Agreement and remitted $167.9million to the Purchaser on their behalf. As of May31, 2018, we have collected cash of $10.5million which has not yet been remitted to the Purchaser and has been classified as Restricted cash on our Consolidated Balance Sheet. At May31, 2018, we complied with all financial and other covenants under each of our financing arrangements. Cash FlowsFiscal 2018 Compared with Fiscal 2017\n Cash Flows from Operating Activities Net cash provided from operating activitiescontinuing operations was $55.8million in fiscal 2018 compared to a use of cash\nof $13.5million in fiscal 2017. The increase of $69.3million was primarily attributable to the new Purchase Agreement entered into during the third quarter of fiscal 2018 for the sale of certain accounts receivable. During fiscal 2018, we sold $239.6million of receivables to the Purchaser and collected $178.4million on behalf of the Purchaser. Cash Flows from Investing Activities Net cash used in investing activitiescontinuing operations was $38.6million in fiscal 2018 compared to $33.9million\nin fiscal 2017. In fiscal 2018, we acquired the outstanding shares of two MRO facilities in Canada owned by Premier Aviation for approximately $24.8million which included $22.9million paid at closing. During fiscal 2017, we acquired the trading business of ACLAS Global Limited ("ACLAS") for $12.0million paid at closing with $3.0million in deferred consideration payable over the next three years. Cash Flows from Financing Activities Net cash provided from financing activitiescontinuing operations was $11.7million in fiscal 2018 compared to cash used of\n$10.4million in fiscal 2017. The additional cash provided of $22.1million was primarily attributable to proceeds from a new term loan of $24.8million to finance the acquisition of the two Canadian MRO facilities previously discussed. Cash FlowsFiscal 2017 Compared with Fiscal 2016 Cash Flows from Operating Activities\nNet cash used in operating activitiescontinuing operations was $13.5million in fiscal 2017 compared to cash provided by\noperating activitiescontinuing operations of $46.0million in fiscal 2016. The decrease of $59.5million was primarily attributable to greater investments in rotable assets supporting long-term programs in fiscal 2017. These investments primarily support new government program awards such as the U.S. Navy\'s C-40A fleet as well as new flight hour component inventory management and repair programs with commercial airline customers including South African Airways, Air New Zealand, and other operators. Cash Flows from Investing Activities\nNet cash used in investing activitiescontinuing operations was $33.9million in fiscal 2017 compared to cash used of\n$43.8million in fiscal 2016. The decrease of $9.9million over the prior year was attributable to less capital expenditures in fiscal 2017. Table of Contents\n Cash Flows from Financing Activities\nNet cash used in financing activitiescontinuing operations was $10.4million in fiscal 2017 compared to $38.4million\nin fiscal 2016. The reduction in cash used in financing activities of $28.0million was primarily attributable to an increase in net borrowings in fiscal 2017 compared to the prior year. Contractual Obligations and Off-Balance Sheet Arrangements A summary of contractual cash obligations and off-balance sheet arrangements as of May31, 2018 is as follows:\n Payments Due by Period Total Due in\nFiscal 2019 Due in\nFiscal 2020 Due in\nFiscal 2021 Due in\nFiscal 2022 Due in\nFiscal 2023 After Fiscal 2024 On Balance Sheet:\n Bonds $ 25.0 $ 25.0 $ $ $ $ $ Bank borrowings\n 153.9 153.9 Interest1 15.4 4.5 4.5 4.5 1.9 Off Balance Sheet:\n Facilities and equipment operating leases\n 94.8 17.5 16.3 13.0 10.8 10.0 27.2 Purchase obligations2\n 253.9 203.4 43.8 6.0 0.7 Pension contribution3\n 2.9 2.9 Notes: 1Interest associated with variable rate debt was determined using the interest rate in effect on May31, 2018. 2Purchase obligations arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts, and components, as well as equipment to support the operations of our business. 3We anticipate contributing approximately $2.9million to our pension plans during fiscal 2019 compared to contributions of $8.4million in fiscal 2018. Our additional contributions in fiscal 2018 were completed to provide the benefits of lower premiums incurred with the Pension Benefit Guaranty Corporation and an increased tax deduction in advance of the expected enactment of the Tax Reform Act. Required contributions for future years depend on factors that cannot be determined at this time. 4The above table excludes any tax liability payments, including any payments related to unrecognized tax benefits. We routinely issue letters of credit and performance bonds in the ordinary course of business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May31, 2018 was $16.7million. Critical Accounting Policies and Significant Estimates\nOur Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. Management\nhas made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the Consolidated Financial Statements. The most significant estimates made by management include those related to assumptions used in assessing goodwill impairment, adjustments to reduce the value of inventories and certain rotable assets, revenue recognition, and assumptions used in determining pension plan obligations. Table of Contents\nAccordingly, actual results could differ materially from those estimates. The following is a summary of the accounting policies considered critical by management. Goodwill Under accounting standards for goodwill and other intangible assets, goodwill and other intangible assets deemed to have indefinite lives are\nnot amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May31, or more frequently if circumstances indicate that impairment is possible. The accounting standards for goodwill allow for either a qualitative or quantitative approach for the annual impairment test. Under the qualitative approach, factors such as macroeconomic conditions, industry and market conditions and company-specific events or circumstances are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. For the quantitative approach, we compare the fair value of each reporting unit with the carrying value of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying value of the reporting unit, we would be required to recognize an impairment loss for the excess carrying value of the reporting unit\'s assets. As of May31, 2018, we have five reporting units as defined by Accounting Standards Codification ("ASC") 350, IntangiblesGoodwill and Other with only four of the reporting units\' assigned goodwill. Our four reporting units with goodwill include two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and two in our Expeditionary Services segment (Airlift and Mobility). We performed an interim goodwill impairment test over our Airlift reporting unit as a result of a decision to exit our Contractor-Owned, Contractor-Operated ("COCO") business. The COCO business was reclassified to discontinued operations and goodwill was allocated to the COCO business based on its relative fair value to the reporting unit. The fair value of the reporting unit was determined based on a combination of the expected net proceeds upon sale and a discounted cash flow analysis. As the fair value of the COCO business was below its carrying value, a goodwill impairment charge of $9.8million was recorded in the third quarter of fiscal 2018. For our annual impairment test as of May31, 2018, we utilized the qualitative assessment approach for all reporting units. Under this approach, we considered the overall industry and market conditions related to the aerospace and government/defense markets as well as conditions in the global capital markets. We also considered the long-term forecasts for each reporting unit which incorporated specific opportunities and risks, working capital requirements, and capital expenditure needs. Upon completion of the annual qualitative analysis as of May31, 2018 for our reporting units, we concluded it was more likely than not that the fair value of each reporting unit exceeded its carrying values, and thus no impairment charge was recorded. Inventories Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification,\naverage cost or first-in, first-out methods. Write-downs are made for excess and obsolete inventories and inventories that have been impaired as a result of industry conditions. We have utilized certain assumptions when determining the market value of inventories, such as inventory quantities and aging, historical sales of inventory, current and expected future aviation usage trends, replacement values, expected future demand, and historical scrap recovery rates. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of impairment charges in future periods. Table of Contents\n Revenue Recognition\nCertain supply chain management programs that we provide to our customers contain multiple elements or deliverables, such as program and\nwarehouse management, parts distribution and maintenance and repair services. We recognize revenue for each element or deliverable that can be identified as a separate unit of accounting at the time of delivery based upon the relative fair value of the products and services. Sales and related cost of sales for certain large airframe maintenance contracts and performance-based logistics programs are recognized using contract accounting under the percentage of completion method in accordance with ASC 605-35, ConstructionType and ProductionType Contracts. In applying the percentage of completion method, we use the cost-to-cost method based on the ratio of actual costs incurred to total estimated costs to be incurred. In connection with these contracts and programs, we are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the program and the relative fair value of each element of the arrangement. Key assumptions involved in our contract accounting include future labor costs and efficiencies, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. Changes in estimates and assumptions related to our programs accounted for using the percentage-of-completion method are recorded using the cumulative catch-up method of accounting. In fiscal 2018, we recognized favorable and unfavorable cumulative catch-up adjustments of $11.6million and $8.0million, respectively. When considering these adjustments on a net basis, we recognized net favorable cumulative catch-up adjustments of $3.6million in fiscal 2018. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services. Impairment of Long-Lived Assets\nWe are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset\nmay not be recoverable from its undiscounted cash flows. When applying accounting standards addressing impairment to long-lived assets, we have utilized certain assumptions to estimate future undiscounted cash flows, including current and future sales volumes or lease rates, expected changes to cost structures, lease terms, residual values, market conditions, and trends impacting future demand. Differences between actual results and the assumptions utilized by us when determining undiscounted cash flows could result in future impairments of long-lived assets. During the second quarter of fiscal 2018, we recognized impairment charges of $54.2million related to assets included in our COCO business which is classified as a discontinued operation. We maintain a significant inventory of rotable parts and equipment to service customer aircraft and components. Portions of that inventory are used parts that are often exchanged with parts removed from aircraft or components, and are reworked to a useable condition. We may have to recognize an impairment of our rotable parts and equipment if we discontinue using or servicing certain aircraft models or if an older aircraft model is phased-out in the industry. Pension Plans\nThe liabilities and net periodic cost of our pension plans are determined utilizing several actuarial assumptions, the most significant of which\nare the discount rate and the expected long-term rate of return on plan assets. AAR uses discount rates to measure our benefit obligation and net periodic benefit cost for our pension plans. We used a broad population of Aa-rated corporate bonds as of May31, 2018 to determine Table of Contents\nthe discount rate assumption. All bonds were denominated in U.S. Dollars, with a minimum outstanding of $50.0million. This population of bonds was narrowed from a broader universe of over 500 Moody\'s Aa-rated, non-callable (or callable with make-whole provisions) bonds by eliminating the top 10thpercentile and the bottom 40thpercentile to adjust for any pricing anomalies and to represent the bonds we would most likely select if we were to actually annuitize our pension plan liabilities. This portfolio of bonds was used to generate a yield curve and associated spot rate curve to discount the projected benefit payments for the domestic plans. The discount rate is the single level rate that produces the same result as the spot rate curve. We establish the long-term asset return assumption based on a review of historical compound average asset returns, both company-specific and relating to the broad market, as well as analysis of current market and economic information and future expectations. The current asset return assumption is supported by historical market experience for both our actual and target asset allocation. In calculating the net pension cost, the expected return on assets is applied to a calculated value on plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. The difference between this expected return and the actual return on plan assets is a component of the total net unrecognized gain or loss and is subject to amortization in the future. New Accounting Pronouncements\n Revenue from Contracts with Customers\nIn May 2014, the FASB issued Accounting Standards Update ("ASU") No.2014-09, Revenue from Contracts with\nCustomers, which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in ASC605, Revenue Recognition, and most industry-specific guidance. This ASU will also supersede certain cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In August 2015, the FASB issued ASU No.2015-14 which deferred the effective date of the new standard by one year so that it will be effective for us beginning June1, 2018. We will adopt this ASU using the modified retrospective transition method in the first quarter of fiscal 2019. Under this method, we will be required to recognize the cumulative effect of adopting this ASU as of June1, 2018. We have substantially completed our assessment of the new ASU and are finalizing the quantification of our adoption adjustments as well as preparing the new required disclosures for the first quarter of fiscal 2019. We have identified three areas where the new ASU will impact our revenue recognition. First, we have certain contracts under which we manufacture products with no alternative use and the Company has an enforceable right to payment from the customer. As a result, the Company will be required to record revenue for these contracts over time as opposed to at the time of shipment which is our current policy today. Second, we have contracts under which we perform repair services on customer-owned assets which will also transition to an over time approach compared to our current policy of recognizing revenue at the time of shipment. Third, we have certain contracts in which revenue is recognized using the percentage of completion method over the expected term of the contract. The new ASU will result in the reduction of the contract term used for revenue recognition as certain contracts include unexercised customer option years or include customer rights to terminate the contract without significant penalty. We expect the cumulative effect for the adoption of the new ASU will result in a decrease to retained earnings of approximately $20million as of June1, 2018. We will establish new Contract asset and Contract liability balance sheet accounts and will reclassify certain amounts from Accounts receivable, Inventories, Other non-current assets, and Other liabilities and deferred income into these new accounts. Table of Contents\n Other New Accounting Pronouncements\nIn February 2016, the FASB issued ASU 2016-02, Leases. This ASU amends the existing accounting\nstandards for lease accounting, including requiring lessees to recognize most leases on their balance sheets, including those classified as operating leases under the current accounting guidance. In addition, this ASU will require new qualitative and quantitative disclosures about the Company\'s leasing activities. This new standard will be effective for us beginning June1, 2019, with early adoption permitted. This ASU requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are in the preliminary phases of assessing the effect of this ASU on our portfolio of leases. While this assessment continues, we have not yet selected a transition date nor have we determined the effect of this ASU on our consolidated financial statements. In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, CompensationStock Compensation. This ASU requires excess tax benefits or deficiencies for share-based payments to be recorded in the period shares vest as income tax expense or benefit, rather than within equity. Cash flows related to excess tax benefits are now included in operating activities and are no longer classified as a financing activity. We adopted this ASU on June1, 2017 and recognized excess tax benefits of $2.9million as an income tax benefit in fiscal 2018. We have also presented the excess tax benefits within operating activities in the consolidated statement of cash flows for fiscal 2018. As permitted, we adopted the statement of cash flow presentation guidance on a prospective basis with no adjustments to the previously reported amounts. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires restricted cash to be included within beginning and ending total cash amounts reported in the consolidated statements of cash flows as well as increased disclosure requirements. As permitted, we have early adopted this ASU in fiscal 2018. The ASU is required to be adopted on a retroactive basis; however, we did not have restricted cash in our prior periods reported. In February 2018, the FASB issued ASU 2018-02, Income StatementReporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Reform Act. This new standard will be effective for us beginning June1, 2019 with early adoption permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements. In March 2017, the FASB issued ASU 2017-07, CompensationRetirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires an employer to report the service cost component of net periodic pension benefit cost in the same line item as other compensation costs for those related employees. Other components of net pension cost, including interest, expected return on plan assets, and actuarial gains and losses are to be presented outside of operating income. This new standard requires retrospective treatment for the classification of pension costs and will be effective for us beginning June1, 2018. With the majority of our pension plans frozen and total service cost, including administrative expenses, of $2.4million and $2.5million in fiscal 2018 and 2017, respectively, this ASU is not expected to have a material impact on our consolidated financial statements. Table of Contents\n ITEM 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK\nOur exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit\nlosses on accounts receivable. See Note1 of Notes to Consolidated Financial Statements for a discussion on accounts receivable exposure. We are exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates. A 10percent increase in the average interest rate affecting our financial instruments, including the average outstanding balance of our debt obligations would not have had a significant impact on our pre-tax income during fiscal 2018. Revenues and expenses of our foreign operations are translated at average exchange rates during the year, and balance sheet accounts are translated at year-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders\' equity as a component of accumulated other comprehensive loss. A hypothetical 10percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations during fiscal 2018. Table of Contents ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA\n Report of Independent Registered Public Accounting Firm\n The Board of Directors and Stockholders AAR CORP.: Opinion on the Consolidated Financial Statements\nWe have audited the accompanying consolidated balance sheets of AAR CORP. and subsidiaries (the Company) as of May31, 2018 and 2017, and\nthe related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended May31, 2018, and the related notes (collectively, the Consolidated Financial Statements). In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of May31, 2018 and 2017, and the results of their operations and their cash flows for each of the years in the three-year period ended May31, 2018, in conformity with U.S. generally accepted accounting principles. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company\'s internal control over financial reporting as of May31, 2018, based on criteria established in Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated July11, 2018, expressed an unqualified opinion on the effectiveness of the Company\'s internal control over financial reporting. Basis for Opinion\nThese Consolidated Financial Statements are the responsibility of the Company\'s management. Our responsibility is to express an opinion on these\nConsolidated Financial Statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the Consolidated Financial Statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the Consolidated Financial Statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements. We believe that our audits provide a reasonable basis for our opinion. /s/ KPMGLLP We have served as the Company\'s auditor since 1985.\n Chicago, Illinois\nJuly11, 2018 Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME\n For the Year Ended May31, (In millions, except per share data)\n Sales: Sales from products\n $ 1,040.7 $ 944.8 $ 930.1 Sales from services\n 707.6 646.0 595.3 1,748.3 1,590.8 1,525.4 Costs and operating expenses:\n Cost of products\n 840.5 787.5 785.3 Cost of services\n 613.2 539.9 507.0 Selling, general and administrative\n 208.6 181.1 157.6 1,662.3 1,508.5 1,449.9 Operating income\n 86.0 82.3 75.5 Other expenses\n (0.9 ) (0.4 ) Interest expense\n (8.0 ) (5.3 ) (6.4 ) Interest income\n 0.1 0.1 0.2 Income from continuing operations before provision for income taxes\n 77.2 77.1 68.9 Provision for income taxes\n 3.5 25.1 23.4 Income from continuing operations\n 73.7 52.0 45.5 Income (Loss) from discontinued operations, net of tax\n (58.1 ) 4.5 2.2 Net income\n $ 15.6 $ 56.5 $ 47.7 Earnings per sharebasic:\n Earnings from continuing operations\n $ 2.14 $ 1.53 $ 1.30 Earnings (Loss) from discontinued operations\n (1.70 ) 0.13 0.07 Earnings per sharebasic\n $ 0.44 $ 1.66 $ 1.37 Earnings per sharediluted:\n Earnings from continuing operations\n $ 2.11 $ 1.51 $ 1.30 Earnings (Loss) from discontinued operations\n (1.70 ) 0.13 0.07 Earnings per sharediluted\n $ 0.41 $ 1.64 $ 1.37 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME\n For the Year Ended May31, (In millions)\n Net income\n $ 15.6 $ 56.5 $ 47.7 Other comprehensive income, net of tax:\n Currency translation adjustments, net of tax\n 2.0 (0.6 ) Unrecognized pension and post retirement costs, net of tax expense (benefit) of $2.4 in 2018, $2.8 in 2017, and ($2.1) in 2016\n 5.9 5.1 (4.0 ) Total other comprehensive income (loss), net of tax\n 7.9 4.5 (4.0 ) Comprehensive income\n $ 23.5 $ 61.0 $ 43.7 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS ASSETS\n May31, (In millions, except share data)\n Current assets:\n Cash and cash equivalents\n $ 31.1 $ 10.3 Restricted cash\n 10.5 Accounts receivable, net\n 202.0 234.5 Inventories 460.7 433.4 Rotable assets and equipment on or available for short-term lease\n 87.2 70.7 Assets of discontinued operationscurrent\n 125.0 120.4 Other current assets\n 26.2 19.1 Total current assets\n 942.7 888.4 Property, plant and equipment, at cost:\n Land 4.5 4.3 Buildings and improvements\n 107.4 97.5 Equipment and furniture and fixtures\n 235.7 222.9 347.6 324.7 Accumulated depreciation\n (214.4 ) (207.5 ) 133.2 117.2 Other assets:\n Goodwill 118.7 105.6 Intangible assets, net\n 27.8 30.6 Rotable assets supporting long-term programs\n 183.4 159.6 Assets of discontinued operationsnon-current\n 97.8 Other non-current assets\n 118.9 104.9 448.8 498.5 $ 1,524.7 $ 1,504.1 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS LIABILITIES AND EQUITY\n May31, (In millions, except share data)\n Current liabilities:\n Current maturities of long-term debt\n $ $ 0.1 Accounts and trade notes payable\n 170.0 164.2 Accrued liabilities\n 138.3 139.9 Liabilities of discontinued operations\n 25.0 30.8 Total current liabilities\n 333.3 335.0 Long-term debt, less current maturities\n 177.2 154.1 Deferred tax liabilities\n 15.7 37.2 Other liabilities and deferred income\n 62.2 63.6 255.1 254.9 Equity: Preferred stock, $1.00 par value, authorized 250,000 shares; none issued\n Common stock, $1.00 par value, authorized 100,000,000 shares;\n issued 45,300,786 and 45,175,302 shares at cost, respectively\n 45.3 45.2 Capital surplus\n 470.5 460.8 Retained earnings\n 733.2 727.9 Treasury stock, 10,585,165 and 10,820,844 shares at cost, respectively\n (280.7 ) (279.8 ) Accumulated other comprehensive loss\n (32.0 ) (39.9 ) Total equity\n 936.3 914.2 $ 1,524.7 $ 1,504.1 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE YEARS ENDED MAY 31, 2018\n (In millions) Common Stock Capital Surplus Retained Earnings Treasury Stock Accumulated Other Comprehensive Income (Loss) Total Equity Balance, May31, 2015\n $ 44.9 $ 442.6 $ 644.3 $ (246.3 ) $ (40.4 ) $ 845.1 Net income\n 47.7 47.7 Cash dividends\n (10.4 ) (10.4 ) Stock option activity\n 4.4 2.3 6.7 Restricted stock activity\n 4.5 (4.8 ) (0.3 ) Repurchase of shares\n (18.8 ) (18.8 ) Other (0.2 ) (0.2 ) Other comprehensive loss, net of tax\n (4.0 ) (4.0 ) Balance, May31, 2016\n $ 44.9 $ 451.3 $ 681.6 $ (267.6 ) $ (44.4 ) $ 865.8 Net income\n 56.5 56.5 Cash dividends\n (10.2 ) (10.2 ) Stock option activity\n 3.1 8.9 12.0 Restricted stock activity\n 0.3 6.4 (1.3 ) 5.4 Repurchase of shares\n (19.8 ) (19.8 ) Other comprehensive income, net of tax\n 4.5 4.5 Balance, May31, 2017\n $ 45.2 $ 460.8 $ 727.9 $ (279.8 ) $ (39.9 ) $ 914.2 Net income\n 15.6 15.6 Cash dividends\n (10.3 ) (10.3 ) Stock option activity\n 0.9 11.2 12.1 Restricted stock activity\n 0.1 8.8 1.0 9.9 Repurchase of shares\n (13.1 ) (13.1 ) Other comprehensive income, net of tax\n 7.9 7.9 Balance, May31, 2018\n $ 45.3 $ 470.5 $ 733.2 $ (280.7 ) $ (32.0 ) $ 936.3 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS\n (In millions) For the Year Ended May31, Cash flows provided from operating activities:\n Net income\n $ 15.6 $ 56.5 $ 47.7 Less: Income (Loss) from discontinued operations\n (58.1 ) 4.5 2.2 Income from continuing operations\n 73.7 52.0 45.5 Adjustments to reconcile income to net cash provided from (used in) operating activities:\n Depreciation and intangible amortization\n 40.5 35.7 33.2 Amortization of stock-based compensation\n 15.3 11.0 6.5 Deferred tax provision (benefit)\n (12.9 ) 12.5 5.5 Gain on sale of product line\n (2.6 ) Changes in certain assets and liabilities, net of acquisitions:\n Accounts receivable\n 35.9 (14.7 ) (2.2 ) Inventories (25.8 ) (23.3 ) (19.5 ) Rotable spares and equipment on or available for short-term lease\n (16.6 ) (3.1 ) 2.8 Rotable assets supporting long-term programs\n (38.5 ) (82.5 ) (10.2 ) Accounts and trade notes payable\n 1.8 19.6 13.8 Accrued and other liabilities\n 8.0 6.5 (31.1 ) Other (25.6 ) (24.6 ) 1.7 Net cash provided from (used in) operating activitiescontinuing\noperations 55.8 (13.5 ) 46.0 Net cash provided from (used in) operating activitiesdiscontinued\noperations 8.5 35.3 (13.9 ) Net cash provided from operating activities\n 64.3 21.8 32.1 Cash flows used in investing activities:\n Property, plant and equipment expenditures\n (22.0 ) (25.2 ) (40.1 ) Proceeds from asset disposals\n 8.6 6.5 0.1 Payments for acquisitions\n (22.9 ) (12.5 ) (4.8 ) Other (2.3 ) (2.7 ) 1.0 Net cash used in investing activitiescontinuing operations\n (38.6 ) (33.9 ) (43.8 ) Net cash provided from (used in) investing activitiesdiscontinued\noperations (4.3 ) 3.8 26.9 Net cash used in investing activities\n (42.9 ) (30.1 ) (16.9 ) Cash flows provided by (used in) financing activities:\n Short-term borrowings (repayments), net\n (1.0 ) 21.0 60.0 Proceeds (Repayments) on long-term borrowings\n 24.8 (10.0 ) (70.6 ) Cash dividends\n (10.3 ) (10.2 ) (10.4 ) Purchase of treasury stock\n (13.1 ) (19.8 ) (18.8 ) Stock option exercises\n 11.6 8.5 1.8 Other (0.3 ) 0.1 (0.4 ) Net cash provided from (used in) financing activitiescontinuing\noperations 11.7 (10.4 ) (38.4 ) Net cash used in financing activitiesdiscontinued operations\n (1.7 ) (1.7 ) Net cash provided from (used in) financing activities\n 10.0 (12.1 ) (38.4 ) Effect of exchange rate changes on cash\n (0.1 ) (0.5 ) (0.3 ) Increase (Decrease) in cash and cash equivalents\n 31.3 (20.9 ) (23.5 ) Cash, cash equivalents, and restricted cash at beginning of year\n 10.3 31.2 54.7 Cash, cash equivalents, and restricted cash at end of year\n $ 41.6 $ 10.3 $ 31.2 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies\n Description of Business AAR CORP. is a diversified provider of services and products to the worldwide commercial aviation and government and defense markets. Services\nand products include: aviation supply chain and parts support programs; maintenance, repair and overhaul of airframes, landing gear, and certain other airframe components; design and manufacture of specialized pallets, shelters, and containers; airlift services; aircraft modifications and aircraft and engine sales and leasing. We serve commercial, defense and governmental aircraft fleet operators, original equipment manufacturers, and independent service providers around the world, and various other domestic and foreign military customers. Principles of Consolidation\nThe accompanying Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries after elimination of\nintercompany accounts and transactions. The equity method of accounting is used for investments in other companies in which we have significant influence; generally this represents common stock ownership of at least 20% and not more than 50%. Revenue Recognition Sales and related cost of sales for product sales are generally recognized upon shipment of the product to the customer. Our standard terms and\nconditions provide that title passes to the customer when the product is shipped to the customer. Sales of certain defense products are recognized upon customer acceptance, which includes transfer of title. Sales from services and the related cost of services are generally recognized when customer-owned material is shipped back to the customer. We have adopted this accounting policy because at the time the customer-owned material is shipped back to the customer, all services related to that material are complete as our service agreements generally do not require us to provide services at customer sites. Furthermore, serviced units are typically shipped to the customer immediately upon completion of the related services. Sales and related cost of sales for certain large airframe maintenance contracts and performance-based logistics programs are recognized by the percentage of completion method, based on the relationship of costs incurred to date to the estimated total costs. Net favorable cumulative catch-up adjustments recognized during fiscal 2018, 2017, and 2016 were $3.6million, $8.5million, and $3.7million, respectively, resulting from changes to the estimated profitability of these contracts. Lease revenues are recognized as earned. Income from monthly or quarterly rental payments is recorded in the pertinent period according to the lease agreement. However, for leases that provide variable rents, we recognize lease income on a straight-line basis. In addition to a monthly lease rate, some engine leases require an additional rental amount based on the number of hours the engine is used in a particular month. Lease income associated with these contingent rentals is recorded in the period in which actual usage is reported to us by the lessee, which is normally the month following the actual usage. Certain supply chain management programs we provide to our customers contain multiple elements or deliverables, such as program and warehouse management, parts distribution, and maintenance and repair services. We recognize revenue for each element or deliverable that can be identified as a separate unit of accounting at the time of delivery based upon the relative fair value of the products and services. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\nIn June 2016, the U.S. Air Force awarded the new contract for the KC-10 Extender Contractor Logistics Support Program ("KC-10 Program") to a competitor. Our principal services under the prior contract for the KC-10 Program were completed in January 2017; however, we have provided limited services since that date. Sales for the KC-10 Program during fiscal 2018, 2017 and 2016 were $29.1million, $110.6million, and $148.1million, respectively. Gross profit for the KC-10 Program during fiscal 2018, 2017 and 2016 was $4.8million, $8.7million, and $16.0million, respectively. Allowance for Doubtful Accounts\nWe maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history\nand specific risks identified among uncollected accounts. In determining the required allowance, we consider factors such as general and industry-specific economic conditions, customer credit history, and our customers\' current and expected future financial performance. The majority of our customers are recurring customers with an established payment history. Certain customers are required to undergo an extensive credit check prior to delivery of products or services. Goodwill and Other Intangible Assets\nIn accordance with Accounting Standards Codification ("ASC")350, IntangiblesGoodwill and\nOther, goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May31, or more frequently if circumstances indicate that impairment is possible. Our annual goodwill impairment test over the last three years has used a combination of the qualitative approach and the two-step quantitative approach to evaluate goodwill for impairment. As of May31, 2018, we have five reporting units with only four of the reporting units assigned goodwill. Our four reporting units with goodwill include two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and two in our Expeditionary Services segment (Airlift and Mobility). We utilized the qualitative assessment approach for all reporting units. We performed the annual qualitative analysis as of May31, 2018 for the four reporting units with assigned goodwill and concluded it was more likely than not that the fair value of each reporting unit exceeded its carrying value, and thus no impairment charge was recorded. Changes in the carrying amount of goodwill by segment for fiscal 2018 and 2017 are as follows: Aviation Services Expeditionary Services Total Balance as of May31, 2016\n $ 66.3 $ 41.2 $ 107.5 Foreign currency translation adjustments\n (1.9 ) (1.9 ) Balance as of May31, 2017\n 64.4 41.2 105.6 Acquisition 12.5 12.5 Foreign currency translation adjustments\n 0.6 0.6 Balance as of May31, 2018\n $ 77.5 $ 41.2 $ 118.7 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\n Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets, other than goodwill, are comprised of the following: May31, 2018 Gross Accumulated Amortization Net Amortizable intangible assets:\n Customer relationships\n $ 26.3 $ (13.9 ) $ 12.4 Developed technology\n 9.1 (5.9 ) 3.2 Lease agreements\n 22.5 (12.6 ) 9.9 FAA certificate\n 1.9 (0.9 ) 1.0 Trademarks 0.2 0.2 60.0 (33.3 ) 26.7 Unamortized intangible assets:\n Trademarks 1.1 1.1 $ 61.1 $ (33.3 ) $ 27.8 May31, 2017 Gross Accumulated Amortization Net Amortizable intangible assets:\n Customer relationships\n $ 24.4 $ (11.6 ) $ 12.8 Developed technology\n 8.8 (4.7 ) 4.1 Lease agreements\n 22.5 (11.2 ) 11.3 FAA certificate\n 1.9 (0.8 ) 1.1 Trademarks 0.2 0.2 57.8 (28.3 ) 29.5 Unamortized intangible assets:\n Trademarks 1.1 1.1 $ 58.9 $ (28.3 ) $ 30.6 Customer relationships are being amortized over 10-20years, developed technology is being amortized over 7-15years, lease agreements are being amortized over 5-18years, and the FAA certificate is being amortized over 20years. Amortization expense recorded during fiscal 2018, 2017 and 2016 was $4.7million, $4.2million, and $4.4million, respectively. The estimated aggregate amount of amortization expense for intangible assets in each of the next five fiscal years is $4.1million in 2019, $3.7million in 2020, $3.7million in 2021, $2.9million in 2022 and $2.3million in 2023. Foreign Currency\nOur foreign subsidiaries utilize the local currency as their functional currency. All balance sheet accounts of foreign subsidiaries transacting\nbusiness in currencies other than the U.S. dollar are translated Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\nat year-end exchange rates. Revenues and expenses are translated at average exchange rates during the year. Translation adjustments are excluded from the results of operations and are recorded in stockholders\' equity as a component of accumulated other comprehensive loss until such subsidiaries are liquidated. Cash Cash and cash equivalents consist of highly liquid instruments which have original maturities of three months or less when purchased. Restricted\ncash represents cash on hand required to be set aside by a contractual agreement related to receivable securitization arrangements. Generally, the restrictions related to the receivable securitization arrangements lapse at the time we remit the customer payments collected by us as servicer of previously sold customer receivables to the purchaser. Financial Instruments and Concentrations of Market or Credit Risk\nFinancial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our\ntrade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. government and its contractors and entities in the aviation industry. Accounts receivable due from the U.S. government were $33.0million and $29.4million at May31, 2018 and 2017, respectively. We perform regular evaluations of customer payment experience, current financial condition, and risk analysis. We may require collateral in the form of security interests in assets, letters of credit, and/or obligation guarantees from financial institutions for transactions executed on other than normal trade terms. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts and trade notes payable approximate fair value because of the short-term maturity of these instruments. The carrying value of long-term debt bearing a variable interest rate approximates fair value. Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Inventories Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification,\naverage cost, or first-in, first-out methods. From time-to-time, we purchase aircraft and engines for disassembly to individual parts and components. Costs are assigned to these individual parts and components utilizing list prices from original equipment manufacturers and recent sales history. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued) The following is a summary of inventories: May31, Aircraft and engine parts, components and finished goods\n $ 383.5 $ 362.6 Raw materials and parts\n 45.1 45.0 Work-in-process 32.1 25.8 $ 460.7 $ 433.4 Rotable Assets and Equipment under Leases\nLease revenue is recognized as earned. The cost of the asset under lease is the original purchase price plus overhaul costs. Depreciation is\ncomputed using the straight-line method over the estimated service life of the equipment. The balance sheet classification of equipment under lease is generally based on lease term, with fixed-term leases less than twelve months generally classified as short-term and all others generally classified as long-term. Equipment on short-term lease includes aircraft engines and parts on or available for lease to satisfy customers\' immediate short-term requirements. The leases are renewable with fixed terms, which generally vary from one to twelve months. Future rent due to us under non-cancelable leases during each of the next five fiscal years is $26.2million in 2019, $25.7million in 2020, $25.0million in 2021, $24.5million in 2022, and $24.5million in 2023. Rotable Assets Supporting Long-Term Programs\nRotable assets supporting long-term programs consists of rotable component parts used to support long-term supply chain programs. The assets are\nbeing depreciated on a straight-line basis over their estimated useful lives. Property, Plant and Equipment\nWe record property, plant and equipment at cost. Depreciation is computed on the straight-line method over useful lives of 10-40years\nfor buildings and improvements and 3-10years for equipment, furniture and fixtures, and capitalized software. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the applicable lease. Repair and maintenance expenditures are expensed as incurred. Upon sale or disposal, cost and accumulated depreciation are removed from the accounts, and related gains and losses are included in results of operations. In accordance with ASC360, Property, Plant and Equipment, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\nundiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values. Income Taxes We are subject to income taxes in the U.S., state, and several foreign jurisdictions. In the ordinary course of business, there can be\ntransactions and calculations where the ultimate tax determination is uncertain. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns in accordance with applicable accounting guidance for accounting for income taxes, using currently enacted tax rates in effect for the year in which the differences are expected to reverse. We record a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Both positive and negative evidence are considered in forming our judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. Valuation allowances are reassessed whenever there are changes in circumstances that may cause a change in judgment. The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition of tax positions taken or expected to be taken in a tax return. Where necessary, we record a liability for the difference between the benefit recognized for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Supplemental Information on Cash Flows Supplemental information on cash flows is as follows:\n For the Year Ended May31, Interest paid\n $ 7.2 $ 4.4 $ 4.7 Income taxes paid\n 17.0 12.7 35.7 Income tax refunds and interest received\n 0.1 1.3 1.3 During fiscal 2018, treasury stock increased $0.9million reflecting the repurchase of common shares of $13.1million, restricted stock activity of $1.0million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $11.2million. During fiscal 2017, treasury stock increased $12.2million reflecting the repurchase of common shares of $19.8million, restricted stock grants of $1.3million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $8.9million. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\n During fiscal 2016, treasury stock increased $21.3million reflecting the repurchase of common shares of $18.8million, restricted stock grants of $4.8million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $2.3million. Use of Estimates We have made estimates and utilized certain assumptions relating to the reporting of assets and liabilities and the disclosures of contingent\nliabilities to prepare these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates. New Accounting Pronouncements\n Revenue from Contracts with Customers In May 2014, the FASB issued Accounting Standards Update ("ASU") No.2014-09, Revenue from Contracts with\nCustomers, which provides guidance for revenue recognition. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in ASC605, Revenue Recognition, and most industry-specific guidance. This ASU will also supersede certain cost guidance included in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In August 2015, the FASB issued ASU No.2015-14 which deferred the effective date of the new standard by one year so that it will be effective for us beginning June1, 2018. We will adopt this ASU using the modified retrospective transition method in the first quarter of fiscal 2019. Under this method, we will be required to recognize the cumulative effect of adopting this ASU as of June1, 2018. We have substantially completed our assessment of the new ASU and are finalizing the quantification of our adoption adjustments as well as preparing the new required disclosures for the first quarter of fiscal 2019. We have identified three areas where the new ASU will impact our revenue recognition. First, we have certain contracts under which we manufacture products with no alternative use and the Company has an enforceable right to payment from the customer. As a result, the Company will be required to record revenue for these contracts over time as opposed to at the time of shipment which is our current policy today. Second, we have contracts under which we perform repair services on customer-owned assets which will also transition to an over time approach compared to our current policy of recognizing revenue at the time of shipment. Third, we have certain contracts in which revenue is recognized using the percentage of completion method over the expected term of the contract. The new ASU will result in the reduction of the contract term used for revenue recognition as certain contracts include unexercised customer option years or include customer rights to terminate the contract without significant penalty. We expect the cumulative effect for the adoption of the new ASU will result in a decrease to retained earnings of approximately $20million as of June1, 2018. We will establish new Contract asset and Contract liability balance sheet accounts and will reclassify certain amounts from Accounts receivable, Inventories, Other non-current assets, and Other liabilities and deferred income into these new accounts. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\n Other New Accounting Pronouncements\nIn February 2016, the FASB issued ASU 2016-02, Leases. This ASU amends the existing accounting\nstandards for lease accounting, including requiring lessees to recognize most leases on their balance sheets, including those classified as operating leases under the current accounting guidance. In addition, this ASU will require new qualitative and quantitative disclosures about the Company\'s leasing activities. This new standard will be effective for us beginning June1, 2019, with early adoption permitted. This ASU requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are in the preliminary phases of assessing the effect of this ASU on our portfolio of leases. While this assessment continues, we have not yet selected a transition date nor have we determined the effect of this ASU on our consolidated financial statements. In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASCTopic718, CompensationStock Compensation. This ASU requires excess tax benefits or deficiencies for share-based payments to be recorded in the period shares vest as income tax expense or benefit, rather than within equity. Cash flows related to excess tax benefits are now included in operating activities and are no longer classified as a financing activity. We adopted this ASU on June1, 2017 and recognized excess tax benefits of $2.9million as an income tax benefit in fiscal 2018. We have also presented the excess tax benefits within operating activities in the consolidated statement of cash flows for fiscal 2018. As permitted, we adopted the statement of cash flow presentation guidance on a prospective basis with no adjustments to the previously reported amounts. In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires restricted cash to be included within beginning and ending total cash amounts reported in the consolidated statements of cash flows as well as increased disclosure requirements. As permitted, we have early adopted this ASU in fiscal 2018. The ASU is required to be adopted on a retroactive basis; however, we did not have restricted cash in our prior periods reported. In February 2018, the FASB issued ASU 2018-02, Income StatementReporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU permits the reclassification of tax effects stranded in accumulated other comprehensive income to retained earnings as a result of the Tax Cuts and Jobs Act (the "Tax Reform Act"). This new standard will be effective for us beginning June1, 2019 with early adoption permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements. In March 2017, the FASB issued ASU 2017-07, CompensationRetirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires an employer to report the service cost component of net periodic pension benefit cost in the same line item as other compensation costs for those related employees. Other components of net pension cost, including interest, expected return on plan assets, and actuarial gains and losses are to be presented outside of operating income. This new standard requires retrospective treatment for the classification of pension costs and will be effective for us beginning June1, 2018. With the majority of our pension plans frozen and total service cost, including administrative expenses, of $2.4million and $2.5million in fiscal 2018 and 2017, respectively, this ASU is not expected to have a material impact on our consolidated financial statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 2. Discontinued Operations\n During the third quarter of fiscal 2018, we decided to pursue the sale of our Contractor-Owned, Contractor-Operated ("COCO") business previously included in our Expeditionary Services segment. Due to this strategic shift, the assets, liabilities, and results of operations of our COCO business have been reported as discontinued operations for all periods presented. Goodwill was allocated to this business based on its relative fair value to the reporting unit. The fair value of the reporting unit was determined based on a combination of the expected net proceeds upon sale and a discounted cash flow analysis. As the fair value of the COCO business was below its carrying value, a goodwill impairment charge of $9.8million, representing the estimated loss on disposal, was recorded in the third quarter of fiscal 2018. Our COCO business completed certain contracts in the second quarter of fiscal 2018. As the aircraft supporting these contracts were not placed on new contracts combined with the continued decline in operational tempo within the U.S. Department of Defense ("DoD") and an excess supply of aircraft assets in the market, we determined there was an impairment triggering event and tested the recoverability of our COCO assets. As a result, we recognized impairment and other charges of $54.2million in the second quarter of fiscal 2018. The fair value of the aircraft and related assets was based on available market data for similar assets. In the first quarter of fiscal 2016, we recognized a gain of $27.7million net of expenses representing the receipt of the contingent consideration related to the sale of our Telair Cargo Group. Discontinued operations also includes the results of our former metal machining operation which was shutdown in the first quarter of fiscal 2017. No amounts for general corporate overhead or interest expense were allocated to discontinued operations during the periods presented. Unless otherwise noted, amounts and disclosures throughout these Notes to Consolidated Financial Statements relate to our continuing operations. Operating results for discontinued operations were comprised of the following: For the Year Ended May31, Sales $ 96.3 $ 176.9 $ 184.9 Cost of sales\n (101.4 ) (165.1 ) (184.2 ) Asset impairments\n (65.2 ) Selling, general and administrative expenses\n (11.8 ) (16.1 ) (18.5 ) Operating loss from discontinued operations\n (82.1 ) (4.3 ) (17.8 ) Gain on sale of Telair Cargo Group\n 27.7 Provision for income taxes (benefit)\n (24.0 ) (8.8 ) 7.7 Income (Loss) from discontinued operations\n $ (58.1 ) $ 4.5 $ 2.2 During the third quarter of fiscal 2016, we recognized $2.8million of income tax expense in discontinued operations related to changes in estimates associated with tax provision to federal income tax return filing differences. During the fourth quarter of fiscal 2017, we recognized an income tax benefit in discontinued operations of $6.7million for an effective settlement of a previously reserved tax position. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 2. Discontinued Operations (Continued) The carrying amounts of the major classes of assets and liabilities for our discontinued operations are as follows: May31, Inventory, rotable assets, and equipment\n $ 106.1 $ 183.7 Accounts receivable, net\n 14.7 17.0 Goodwill 9.8 Other assets\n 4.2 7.7 Assets of discontinued operations\n $ 125.0 $ 218.2 Liabilitiescurrent $ 25.0 $ 30.8 Liabilitiesnon-current 2.6 Liabilities of discontinued operations\n $ 25.0 $ 33.4 3. Sale of Receivables\n On February23, 2018, we entered into a Purchase Agreement with Citibank N.A. ("Purchaser") for the sale, from time to time, of certain accounts receivable due from certain customers (the "Purchase Agreement"). Under the Purchase Agreement, the maximum amount of receivables sold is limited to $150million. The term of the Purchase Agreement runs through February22, 2019, however, the Purchase Agreement may also be terminated earlier under certain circumstances. The term of the Purchase Agreement shall be automatically extended for annual terms unless either party provides advance notice that they do not intend to extend the term. We have no retained interests in the sold receivables, other than limited recourse obligations in certain circumstances, and only perform collection and administrative functions for the Purchaser. We account for these receivable transfers as sales under ASC860, Transfers and Servicing, and de-recognize the sold receivables from our Consolidated Balance Sheet. During fiscal 2018, we sold $239.6million of receivables under the Purchase Agreement and remitted $167.9million to the Purchaser on their behalf. As of May31, 2018, we have collected cash of $10.5million which has not yet been remitted to the Purchaser and has been classified as Restricted cash on our Consolidated Balance Sheet. During fiscal 2018, we incurred purchase discount and other fees of $0.9million which are recognized as Other expenses on our Consolidated Statements of Income. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 4. Financing Arrangements\n Debt Outstanding\nA summary of the carrying amount of our debt is as follows:\n May31, Revolving Credit Facility expiring November1, 2021 with interest payable monthly\n $ 130.0 $ 131.0 Term loan due November1, 2021 with interest payable monthly\n 23.9 Industrial revenue bond (secured by property, plant and equipment) due August1, 2018 with interest payable monthly\n 25.0 25.0 Capital lease obligations\n 0.2 Total debt\n 178.9 156.2 Current maturities of debt\n (0.1 ) Debt issuance costs, net\n (1.7 ) (2.0 ) Long-term debt\n $ 177.2 $ 154.1 At May31, 2018, our variable rate and fixed rate debt had a fair value that approximates its carrying value and are classified as Level2 in the fair value hierarchy. On October18, 2017, we entered into a Credit Agreement with the Canadian Imperial Bank of Commerce, as lender (the "Credit Agreement"). The Credit Agreement provided a Canadian $31million term loan with the proceeds used to fund the acquisition of two maintenance, repair, and overhaul ("MRO") facilities in Canada from Premier Aviation. The term loan is due in full at the expiration of the Credit Agreement on November1, 2021 unless terminated earlier pursuant to the terms of the Credit Agreement. Interest is payable monthly on the term loan at the offered fluctuating Canadian Dollar Offer Rate plus 125 to 225 basis points based on certain financial measurements if a Bankers\' Acceptances loan, or at the offered fluctuating Prime Rate plus 25 to 125basis points based on certain financial measurements, if a Prime Rate loan. We maintain a Revolving Credit Facility with various financial institutions, as lenders and Bank of America, N.A., as administrative agent for the lenders which provides the Company an aggregate revolving credit commitment amount of $500million. The Company, under certain circumstances, has the ability to request an increase to the revolving credit commitment by an aggregate amount of up to $250million, not to exceed $750million in total. On November1, 2016, we entered into an amendment to our Revolving Credit Facility which extended the maturity of the Revolving Credit Facility to November1, 2021, eliminated the condition of no material adverse change for credit extensions and modified certain other provisions. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 100 to 200 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 100 basis points based on certain financial measurements if a Base Rate loan. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 4. Financing Arrangements (Continued)\nThe industrial revenue bond that matures on August1, 2018 has been classified as a long-term liability due to our intent and ability to refinance this bond on a long-term basis using our Revolving Credit Facility. Our financing arrangements also require us to comply with leverage and interest coverage ratios, maintain a minimum net working capital level, and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Credit Facility. At May31, 2018, we were in compliance with the financial and other covenants in our financing agreements. Borrowing activity under the Revolving Credit Facility during fiscal 2018, 2017 and 2016 is as follows: For the Year Ended May31, Maximum amount borrowed\n $ 275.0 $ 217.0 $ 200.0 Average daily borrowings\n 214.1 175.5 134.2 Average interest rate during the year\n 2.52 % 1.77 % 1.41 % We also have $9.9million available under foreign lines of credit. 5. Stock-Based Compensation\n We have granted stock-based awards under the AAR CORP. 2013 Stock Plan (the "2013 Stock Plan") and the AAR CORP. Stock Benefit Plan ("Stock Benefit Plan") each of which has been approved by our stockholders. No further awards will be made under the Stock Benefit Plan. Under the 2013 Stock Plan, we are authorized to issue stock options to employees and non-employee directors that allow the grant recipients to purchase shares of common stock at a price not less than the fair market value of the common stock on the date of grant. Generally, stock options awarded expire ten years from the date of grant and are exercisable in three, four or five equal annual increments commencing one year after the date of grant. In addition to stock options, the 2013 Stock Plan also provides for the grant of time-based restricted stock awards and performance-based restricted stock awards. The number of performance-based awards earned, subject to vesting, is based on achievement of certain Company-wide or segment financial goals or stock price targets. The 2013 Stock Plan also provides for the grant of stock appreciation units and restricted stock units; however, to date, no such awards have been granted. Restricted stock grants (whether time-based or performance-based) are designed, among other things, to align employee interests with the interests of stockholders and to encourage the recipient to build a career with us. Restricted stock typically vests over periods of one to five years from date of grant. Restricted stock grants may be performance-based with vesting to occur over periods of three to five years. All restricted stock that has been granted and, if performance-based, earned according to performance criteria carries full dividend and voting rights, regardless of whether it has vested. Substantially all stock options and restricted stock are subject to forfeiture prior to vesting if the employee\'s employment terminates for any reason other than death, disability or retirement. Since Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 5. Stock-Based Compensation (Continued)\ninception, a total of 11,149,000 shares have been granted under the Stock Benefit Plan. We have granted a total of 2,669,000 shares under the 2013 Stock Plan. All future stock awards will be made under the 2013 Stock Plan. There were 2,128,238 shares available for grant under the 2013 Stock Plan as of May31, 2018. Stock Options\nDuring fiscal 2018, 2017, and 2016, we granted stock options with respect to 463,140 shares, 687,000 shares and 488,767 shares, respectively.\nThe weighted average fair value per share of stock options granted during fiscal 2018, 2017 and 2016 was $9.29, $6.50 and $7.48, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted average assumptions: Stock Options Granted In Fiscal Year Risk-free interest rate\n 1.8 % 1.0 % 1.6 % Expected volatility of common stock\n 31.7 % 36.8 % 36.1 % Dividend yield\n 0.9 % 1.3 % 1.1 % Expected option term in years\n 4.3 4.0 4.2 The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on historical volatility of our common stock, and the expected option term represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The dividend yield represents our anticipated cash dividends at the grant date over the expected option term. A summary of stock option activity for the three years ended May31, 2018 consisted of the following (shares in thousands): Shares Weighted Average Exercise Price Shares Weighted Average Exercise Price Shares Weighted Average Exercise Price Outstanding at beginning of year\n 2,334 $ 23.02 2,096 $ 22.17 1,857 $ 21.05 Granted 463 $ 35.33 687 $ 24.10 489 $ 26.62 Exercised (704 ) $ 20.04 (396 ) $ 20.07 (122 ) $ 20.61 Cancelled (11 ) $ 29.50 (53 ) $ 25.42 (128 ) $ 24.47 Outstanding at end of year\n 2,082 $ 26.72 2,334 $ 23.02 2,096 $ 22.17 Options exercisable at end of year\n 883 $ 23.81 910 $ 21.97 837 $ 21.21 The total fair value of stock options that vested during fiscal 2018, 2017, and 2016 was $4.9million, $3.5million, and $2.7million, respectively. The total intrinsic value of stock options exercised during fiscal 2018, 2017, and 2016 was $14.2million, $4.7million, and $1.0million, respectively. The aggregate intrinsic value of options outstanding was $37.4million and $27.8million as of May31, 2018 and 2017, respectively. The tax benefit realized from stock options exercised during fiscal 2018, 2017, and 2016 was $2.9million, Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 5. Stock-Based Compensation (Continued)\n$1.2million, and $0.2million, respectively. Expense recognized in selling, general and administrative expenses for stock options during fiscal 2018, 2017, and 2016 was $5.1million, $4.6million, and $3.5million, respectively. As of May31, 2018, we had $4.6million of unrecognized compensation expense related to stock options that will be amortized over an average period of 0.7years. The following table provides additional information regarding stock options outstanding as of May31, 2018 (shares in thousands): Options Outstanding Options Exercisable\n Option Exercise Price Range Number Outstanding as of 5/31/18 Weighted-Average Remaining Contractual Life in Years Weighted- Average Exercise Price Number Exercisable as of 5/31/18 Weighted- Average Exercise Price $12.00 - $20.00\n 160 3.2 $ 14.51 160 $ 14.51 $20.01 - $26.00\n 1,041 6.8 $ 24.63 447 $ 24.93 $26.01 - $38.70\n 881 7.9 $ 31.41 276 $ 27.37 2,082 7.0 $ 26.72 883 $ 23.81 Restricted Stock\nWe provide executives and other key employees an opportunity to be awarded performance-based and time-based restricted stock. The\nperformance-based awards are contingent upon the achievement of certain performance objectives, including cumulative net income and average return on capital over a three-year performance period. During fiscal 2018, 2017, and 2016, we granted 108,440, 212,583, and 119,929 of performance-based restricted shares, respectively. Time-based restricted shares of 24,425, 39,100, and 42,557 were granted to executives and key employees during fiscal 2018, 2017, and 2016, respectively. We also award time-based restricted stock to our non-employee directors as part of their annual compensation. Time-based restricted shares of 55,000, 50,625, and 47,083 were granted to members of the Board of Directors during fiscal 2018, 2017, and 2016, respectively. The fair value of restricted shares is the market value of our common stock on the date of grant. Expense recognized in selling, general and administrative expenses for all restricted share programs during fiscal 2018, 2017, and 2016 was $10.2million, $6.4million, and $3.2million, respectively. Restricted share activity during the fiscal year ended May31, 2018 was as follows (shares in thousands): Number of\nShares Weighted Average\nFair Value on Grant Date Nonvested at May31, 2017\n 595 $ 25.93 Granted 188 $ 35.35 Vested (91 ) $ 25.08 Forfeited (8 ) $ 26.43 Nonvested at May31, 2018\n 684 $ 27.89 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 5. Stock-Based Compensation (Continued)\n As of May31, 2018 we had $4.1million of unearned compensation related to restricted shares that will be amortized to expense over a weighted average period of 2.5years. 6. Income Taxes\n On December22, 2017, the Tax Reform Act was enacted which significantly revised the U.S. corporate income tax system. The Tax Reform Act, among other things, reduced the current corporate federal income tax rate to 21% from 35%, changed bonus depreciation regulations and limited deductions for executive compensation. The income tax rate reduction in the Tax Reform Act is effective January1, 2018 which results in a blended federal statutory tax rate of 29.2% in fiscal 2018. We re-measured our deferred tax assets and liabilities based on the tax rate at which they are expected to reverse in the future, which is either at a federal rate of 29.2% for reversals in fiscal 2018 or 21% for reversals in fiscal 2019 and subsequent years. During the third quarter of fiscal 2018, we recognized an income tax benefit of $13.0million for the re-measurement impact on a provisional basis as permitted under Staff Accounting Bulletin No.118, which allows the use of a measurement period, similar to that used in business combinations, to account for the impacts of the Tax Reform Act. In the fourth quarter of fiscal 2018, we completed our assessment and recognized an additional income tax benefit of $1.1million resulting in a total income tax benefit of $14.1million in fiscal 2018 for the re-measurement impact. The provision for income tax on income from continuing operations includes the following components: For the Year Ended May31, Current: Federal $ 14.6 $ 9.3 $ 13.7 State 0.1 0.2 0.4 Foreign 1.7 3.1 3.8 16.4 12.6 17.9 Deferred (12.9 ) 12.5 5.5 $ 3.5 $ 25.1 $ 23.4 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 6. Income Taxes (Continued)\nThe provision for income taxes on pre-tax income differs from the amount computed by applying the U.S. federal statutory income tax rate of 29.2% for fiscal 2018 and 35.0% for fiscal 2017 and 2016 to income from continuing operations before provision for income taxes due to the following: For the Year Ended May31, Provision for income tax (benefit) at the federal statutory rate\n $ 22.5 $ 27.0 $ 24.1 Deferred tax re-measurement from the Tax Reform Act\n (14.1 ) Excess tax benefits from stock-based compensation\n (2.9 ) State net operating losses\n 1.3 5.7 1.1 Change in valuation allowance for state deferred tax assets\n (3.4 ) (5.7 ) (1.1 ) Prior period adjustments\n (1.3 ) Effective settlement of prior tax position\n (2.2 ) Other 0.1 0.3 0.6 Provision for income tax\n $ 3.5 $ 25.1 $ 23.4 During the third quarter of fiscal 2016, we completed a reconciliation of our tax basis assets and liabilities and an analysis of our income tax payable which identified prior year immaterial errors netting to $0.2million with $1.5million recognized as income tax expense in discontinued operations and $1.3million recognized as income tax benefit within income from continuing operations. Income before provision for income taxes includes the following components: For the Year Ended May31, Domestic $ 58.7 $ 57.7 $ 55.7 Foreign 18.5 19.4 13.2 $ 77.2 $ 77.1 $ 68.9 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 6. Income Taxes (Continued)\nDeferred tax liabilities and assets result primarily from the differences in the timing of the recognition of transactions for financial reporting and income tax purposes. Our deferred tax liabilities and assets consist of the following components: May31, Deferred tax assets:\n Inventory costs\n $ 15.9 $ 21.3 Impairments 2.1 5.6 Postretirement benefits\n 2.2 6.8 Employee benefits\n 9.7 12.3 State net operating losses\n 8.6 9.4 Other 3.2 3.4 Total deferred tax assets\n 41.7 58.8 Valuation allowance\n (7.0 ) (10.4 ) Total deferred tax assets net of valuation allowance\n 34.7 48.4 Deferred tax liabilities:\n Tangible and intangible assets\n (50.2 ) (85.5 ) Other (0.2 ) (0.1 ) Total deferred tax liabilities\n (50.4 ) (85.6 ) Net deferred tax liabilities\n $ (15.7 ) $ (37.2 ) As of May31, 2018, we have determined that the realization of our deferred tax assets is more likely than not and that a valuation allowance is not required except for certain state deferred tax assets, including net operating losses. The change in the valuation allowance was primarily the result of the expected utilization of a portion of these state net operating losses. Our net operating losses have carry forward periods that range from 5 to 20years. Our history of operating earnings, our expectations for continued future earnings, the nature of certain of our deferred tax assets and the scheduled reversal of deferred tax liabilities, primarily related to depreciation, support the recoverability of the majority of the deferred tax assets. Income tax receivable at May31, 2018 was $1.0million and was included in Other current assets on the Consolidated Balance Sheet. Income tax payable at May31, 2017 was $12.3million and was included in Accrued Liabilities on the Consolidated Balance Sheet. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 6. Income Taxes (Continued) A reconciliation of the beginning and ending amounts of unrecognized tax benefits was as follows: For the Year Ended May31, Balance, beginning of year\n $ 4.4 $ 12.9 $ 2.2 Additions for tax positions of prior years\n 0.4 10.7 Effective settlement of prior tax position\n (8.9 ) Balance, end of year\n $ 4.4 $ 4.4 $ 12.9 In fiscal 2017, the reserve for unrecognized tax benefits decreased primarily as a result of effective settlement of tax positions for prior tax years which occurred upon the settlement of an IRS examination. Income tax expense in fiscal 2017 included a benefit of $2.2million and discontinued operations included a benefit of $6.7million for these effective settlements. All of our unrecognized tax benefits as of May31, 2018 and 2017 would be recorded as a component of income tax expense or income from discontinued operations, if recognized. We accrue interest and penalties related to unrecognized tax benefits as a component of income tax expense. Fiscal years 2015 and subsequent are open for examination. Various states and foreign jurisdictions also remain open subject to their applicable statute of limitations. 7. Earnings Per Share\n The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options, shares issuable upon vesting of restricted stock awards and shares to be issued upon conversion of convertible debt. In accordance with ASC 260-10-45, Share-Based Payment Arrangements and Participating Securities and the Two-Class Method, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 7. Earnings Per Share (Continued)\n The following tables provide a reconciliation of the computations of basic and diluted earnings per share information for each of the years in the three-year period ended May31, 2018 (shares in millions). For the Year Ended May31, Basic and Diluted EPS:\n Income from continuing operations\n $ 73.7 $ 52.0 $ 45.5 Less income attributable to participating shares\n (0.6 ) (0.5 ) (0.4 ) Income from continuing operations attributable to common shareholders\n 73.1 51.5 45.1 Income (Loss) from discontinued operations attributable to common shareholders\n (58.1 ) 4.5 2.2 Net income attributable to common shareholders for earnings per share\n $ 15.0 $ 56.0 $ 47.3 Weighted average common shares outstandingbasic\n 34.2 33.9 34.4 Additional shares from assumed exercise of stock options\n 0.4 0.4 0.2 Weighted average common shares outstandingdiluted\n 34.6 34.3 34.6 Earnings per sharebasic:\n Earnings from continuing operations\n $ 2.14 $ 1.53 $ 1.30 Earnings (Loss) from discontinued operations\n (1.70 ) 0.13 0.07 Earnings per sharebasic\n $ 0.44 $ 1.66 $ 1.37 Earnings per sharediluted:\n Earnings from continuing operations\n $ 2.11 $ 1.51 $ 1.30 Earnings (Loss) from discontinued operations\n (1.70 ) 0.13 0.07 Earnings per sharediluted\n $ 0.41 $ 1.64 $ 1.37 At May31, 2018, the average market price of our common shares was in excess of the exercise prices of all of our outstanding options. At May31, 2017 and 2016, respectively, outstanding options to purchase 11,200 shares and 1,374,200 shares of common stock were not included in the computation of diluted earnings per share, because the exercise price of these options was greater than the average market price of the common shares for the period then ended. 8. Employee Benefit Plans\n Defined Benefit Plans\nPrior to January1, 2000, the pension plan for domestic salaried and non-union hourly employees had a benefit formula based primarily on\nyears of service and compensation. Effective January1, 2000, we converted our defined benefit plan for substantially all domestic salaried and certain hourly employees to a cash balance pension plan. Under the cash balance pension plan, the retirement benefit is expressed as a dollar amount in an account that grows with annual pay-based credits and interest on the account balance. The interest crediting rate under our cash balance plan is determined quarterly and is equal to 100% of the average 30-year treasury rate for the second month preceding the applicable quarter published by the Table of Contents AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\nInternal Revenue Service. The average interest crediting rate under our cash balance plan for the fiscal year ended May31, 2018 was 4.46%. Effective June1, 2005, the existing cash balance plan was frozen and the annual pay-based credits were discontinued. Also effective June1, 2005, the defined contribution plan was modified to include increased employer contributions and an enhanced profit sharing formula. Defined pension benefits for certain union hourly employees are based primarily on a fixed amount per year of service and the plan was frozen in fiscal 2018. We also have a defined benefit pension plan covering certain employees in the Netherlands. Benefit formulas are based generally on years of service and compensation. We also have a benefit plan which provides benefits to certain retired outside directors. In fiscal 2001, we froze the plan for any new members of the Board of Directors and no current directors participate in this plan. The change to our projected benefit obligation and the fair value of our plan assets for our pension plans was as follows: May31, Change in projected benefit obligation:\n Projected benefit obligation at beginning of year\n $ 145.4 $ 145.7 Service cost\n 2.4 2.5 Interest cost\n 4.3 4.2 Participant contributions\n 0.4 0.3 Net actuarial gain\n (2.3 ) (2.0 ) Benefits and administrative payments\n (6.5 ) (6.0 ) Plan change\n 0.7 Foreign currency translation adjustment\n 2.1 0.7 Projected benefit obligation at end of year\n $ 146.5 $ 145.4 Change in the fair value of plan assets:\n Fair value of plan assets at beginning of year\n $ 118.8 $ 111.0 Actual return on plan assets\n 11.6 9.9 Employer contributions\n 8.4 2.9 Participant contributions\n 0.4 0.3 Benefits and administrative payments\n (6.5 ) (6.0 ) Foreign currency translation adjustment\n 1.8 0.7 Fair value of plan assets at end of year\n $ 134.5 $ 118.8 Funded status at end of year\n $ (12.0 ) $ (26.6 ) Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued) Amounts recognized in the Consolidated Balance Sheets consisted of the following: May31, Non-current assets\n $ 0.5 $ Accrued liabilities\n (1.2 ) (2.7 ) Other liabilities and deferred income\n (11.3 ) (23.9 ) Funded status at end of year\n $ (12.0 ) $ (26.6 ) Amounts recognized in accumulated other comprehensive loss at May31, 2018 and 2017, respectively, consisted of the following: May31, Actuarial loss\n $ 50.5 $ 58.8 Prior service credit\n (0.1 ) (0.4 ) Total $ 50.4 $ 58.4 For our frozen defined benefit plan for domestic salaried and non-union hourly employees, plan assets exceeded both the projected benefit obligation and the accumulated benefit obligation by $0.5million. For all of our other pension plans, both the projected benefit obligation and the accumulated benefit obligation are in excess of the individual plans\' assets. The accumulated benefit obligation for all pension plans was $140.2million and $140.0million at May31, 2018 and 2017, respectively. Net Periodic Benefit Cost\nPension expense charged to the Consolidated Statements of Income includes the following components:\n For the Year Ended May31, Service cost\n $ 2.4 $ 2.5 $ 2.5 Interest cost\n 4.3 4.2 4.5 Expected return on plan assets\n (7.3 ) (6.5 ) (6.5 ) Curtailment 0.3 Amortization of prior service cost\n 0.1 Recognized net actuarial loss\n 2.3 2.4 2.4 $ 2.0 $ 2.6 $ 3.0 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued) The estimated amounts to be amortized from accumulated other comprehensive loss into expense during fiscal 2019 are as follows: Net actuarial loss\n $ 1.8 Prior service cost\n Total $ 1.8 Assumptions The assumptions used in accounting for our plans are estimates of factors including, among other things, the amount and timing of future benefit\npayments. The following table presents the key weighted-average assumptions used in the measurement of our projected benefit obligations: May31, Discount rate:\n Domestic plans\n 4.05 % 3.82 % International plan\n 1.90 2.00 Rate of compensation increase:\n Domestic plans\n n/a 2.50 % International plans\n 3.00 % 3.00 A summary of the weighted-average assumptions used to determine net periodic pension expense is as follows: For the Year Ended May31, Discount rate:\n Domestic plans\n 3.82 % 3.83 % 4.15 % International plan\n 2.00 1.90 1.90 Rate of compensation increase:\n Domestic plans\n 2.50 % 2.50 % 2.50 % International plan\n 3.00 3.00 3.00 Expected long-term rate on plan assets:\n Domestic plans\n 7.25 % 7.25 % 7.25 % International plan\n 4.00 4.00 4.00 The discount rate was determined by projecting the expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\n Plan Assets\n The following table sets forth the actual asset allocation and target allocations for our U.S. pension plans: May31, Target Asset\nAllocation Equity securities\n 59 % % 45-75 % Fixed income securities\n 22 16 15-45 % Other 19 22 0-25 % 100 % % The assets of U.S pension plans are invested in compliance with the Employee Retirement Income Security Act of 1974. The investment goals are to provide a total return that, over the long term, optimizes the long-term return on plan assets at an acceptable risk, and to maintain a broad diversification across asset classes and among investment managers. We believe that there are no significant concentrations of risk within our plan assets as of May31, 2018. The use of derivatives for the purpose of speculation are not permitted. The assets of the U.S. pension plans are invested primarily in equity and fixed income mutual funds, individual common stocks, and fund-of-funds hedge funds. The assets of the non-domestic plan are invested in funds-of-funds where each fund holds a portfolio of equity and fixed income mutual funds. To develop our expected long-term rate of return assumption on domestic plans, we use long-term historical return information for our targeted asset mix and current market conditions. The expected return for each asset class is weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption. While consideration is given to recent performance, the assumption represents a long-term, prospective rate of return. The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May31, 2018: Level11 Level22 Level33 Total Equity securities:\n U.S. mutual funds\n $ 32.8 $ $ $ 32.8 International mutual funds\n 10.4 10.4 Fixed income:\n Government securities and corporate bond mutual funds\n 15.7 15.7 Funds-of-funds 53.6 7.7 61.3 Hedge funds\n 4.4 4.4 Insurance annuities\n 7.8 7.8 Cash and cash equivalents\n 2.1 2.1 Total investments\n $ 61.0 $ 53.6 $ 19.9 $ 134.5 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\nThe following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May31, 2017: Level11 Level22 Level33 Total Equity securities:\n U.S. mutual funds\n $ 30.6 $ $ $ 30.6 International mutual funds\n 9.5 9.5 Fixed income:\n Government securities and corporate bond mutual funds\n 10.1 10.1 Funds-of-funds 51.6 7.3 58.9 Hedge funds\n 6.8 6.8 Cash and cash equivalents\n 2.9 2.9 Total investments\n $ 53.1 $ 51.6 $ 14.1 $ 118.8 1Quoted prices in active markets for identical assets that we have the ability to access as of the reporting date. 2Inputs other than quoted prices included within Level1 that are directly observable for the asset or indirectly observable through corroboration with observable market data. 3Unobservable inputs, such as internally developed pricing models or third party valuations for the asset due to little or no market activity for the asset. The following table presents the reconciliation of Level3 pension assets measured at fair value for the fiscal years ended May31, 2018 and 2017: Hedge Funds\nFund-of-funds Insurance Annuities\nTotal Balance as of May31, 2016\n $ 6.6 $ 7.5 $ $ 14.1 Sales (0.8 ) (0.8 ) Return on plan assets related to assets still held at May31, 2017\n 0.2 0.6 0.8 Balance as of May31, 2017\n 6.8 7.3 14.1 Purchases 7.8 7.8 Sales (3.0 ) (3.0 ) Return on plan assets related to assets still held at May31, 2018\n 0.6 0.4 1.0 Balance as of May31, 2018\n $ 4.4 $ 7.7 $ 7.8 $ 19.9 Valuation Techniques Used to Determine Fair Value\nCash equivalents are investments with maturities of three months or less when purchased. The fair values are based on observable market prices\nand categorized as Level1. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\nWith respect to individually held equity securities, including investments in U.S. and international securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, which we are able to independently corroborate. Equity securities held individually are primarily traded on exchanges that contain only actively traded securities, due to the volume trading requirements imposed by these exchanges. Equity securities are valued based on quoted prices in active markets and categorized as Level1. Equity and fixed income mutual funds are maintained by investment companies that hold certain investments in accordance with a stated set of fund objectives, which are consistent with our overall investment strategy. The values of some of these funds are publicly quoted. For equity and fixed income mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level1. As certain of our funds-of-funds investments are also derived from quoted prices in active markets, we have categorized certain funds-of-funds investments as Level2. Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair value of hedge funds is determined using net asset value or its equivalent subject to certain restrictions, such as a lock-up period. As we may be limited in our ability to redeem the investments at the measurement date or within a reasonable period of time, the hedge fund investments are categorized as Level3. Our other Level3 investments require the utilization of unobservable inputs resulting in Level3 treatment in the fair value hierarchy. Future Benefit Payments and Funding The following table summarizes our estimated future pension payments by fiscal year:\n Fiscal Year\n 2024 to\n2028 Estimated future pension payments\n $ 8.0 $ 6.2 $ 6.0 $ 6.5 $ 6.9 $ 34.2 Our contribution policy for the domestic plans is to contribute annually, at a minimum, an amount which is deductible for federal income tax purposes and that is sufficient to meet actuarially computed pension benefits. For our Netherlands pension plan, our policy is to fund at least the minimum amount required by the local laws and regulations. We anticipate contributing approximately $2.9million to our pension plans during fiscal 2019. Postretirement Benefits Other Than Pensions\nWe provide health and life insurance benefits for certain eligible retirees. The postretirement plan is unfunded and in fiscal 1995, we\ncompleted termination of postretirement health and life insurance benefits attributable to future services of collective bargaining and other domestic employees. The unfunded projected benefit obligation for this plan was $0.4million and $0.7million as of May31, 2018 and 2017, respectively. We have omitted substantially all of the required disclosures related to this plan because the plan is not material to our consolidated financial position or results of operations. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\n Defined Contribution Plan\nThe defined contribution plan is a profit sharing plan that is intended to qualify as a 401(k) plan under the Internal Revenue Code. Under the\nplan, employees may contribute up to 75% of their pretax compensation, subject to applicable regulatory limits. We may make matching contributions up to 5% of compensation as well as discretionary profit sharing contributions. Our contributions vest on a pro-rata basis during the first three years of employment. We also provide profit sharing benefits for certain executives and key employees to supplement the benefits provided by the defined contribution plan. Expense charged to the Consolidated Statements of Income for our matching contributions, including profit sharing contributions, was $9.2million in fiscal 2018, $11.6million in fiscal 2017 and $10.3million in fiscal 2016 for these plans. 9. Accumulated Other Comprehensive Loss\n Changes in our accumulated other comprehensive loss ("AOCL") by component for each of the years in the three-year period ended May31, 2018 were as follows (all amounts are net of tax): Currency Translation Adjustments Pension Plans Total Balance as of June1, 2015\n $ 0.9 $ (41.3 ) $ (40.4 ) Reclassifications within AOCL\n (2.0 ) 2.0 Other comprehensive loss before reclassifications\n (5.6 ) (5.6 ) Amounts reclassified from AOCL\n 1.6 1.6 Total other comprehensive loss\n (4.0 ) (4.0 ) Balance as of May31, 2016\n (1.1 ) (43.3 ) (44.4 ) Other comprehensive income (loss) before reclassifications\n (0.6 ) 3.5 2.9 Amounts reclassified from AOCL\n 1.6 1.6 Total other comprehensive income (loss)\n (0.6 ) 5.1 4.5 Balance as of May31, 2017\n (1.7 ) (38.2 ) (39.9 ) Other comprehensive income before reclassifications\n 2.0 4.2 6.2 Amounts reclassified from AOCL\n 1.7 1.7 Total other comprehensive income\n 2.0 5.9 7.9 Balance as of May31, 2018\n $ 0.3 $ (32.3 ) $ (32.0 ) 10. Commitments and Contingencies\n On October3, 2003, we entered into a sale-leaseback transaction whereby we sold and leased back a facility located in Garden City, New York. The lease is classified as an operating lease. Net proceeds from the sale of the facility were $14.0million and the cost and related accumulated depreciation of the facility of $9.5million and $4.6million, respectively, were removed from the Consolidated Balance Sheet at the time of sale. The gain realized on the sale of $9.1million has been deferred and is being amortized over the 20-year lease term. As of May31, 2018 and 2017, the unamortized balance of the deferred gain was Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 10. Commitments and Contingencies (Continued)\napproximately $2.5million and $2.9million, respectively, and is included in Other liabilities and deferred income on the Consolidated Balance Sheet. In addition to the leases described above, we lease other facilities and equipment under agreements that are classified as operating leases that expire at various dates through 2034. Future minimum payments under all operating leases at May31, 2018 are as follows: $ 17.5 16.3 13.0 10.8 10.0 2024 and thereafter\n 27.2 Rental expense for facilities and equipment during fiscal years 2018, 2017, and 2016 was $23.5million, $22.9million, and $21.3million, respectively. We enter into purchase obligations which arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts and components, as well as equipment to support the operations of our business. The aggregate amount of purchase obligations due in each of the next five fiscal years is $203.4million in 2019, $43.8million in 2020, $6.0million in 2021, none in 2022 and none in 2023. We routinely issue letters of credit and performance bonds in the ordinary course of our business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May31, 2018 was approximately $16.7million. We are involved in various claims and legal actions, including environmental matters, arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial condition or results of operations. 11. Other Noncurrent Assets\n At May31, 2018 and 2017, other noncurrent assets consisted of the following: May31, Costs in excess of billings\n $ 39.0 $ 19.1 Assets under deferred compensation plan\n 35.7 32.1 Cash surrender value of life insurance\n 16.8 17.8 License fees\n 10.6 14.4 Investments in joint ventures\n 7.6 15.0 Other 9.2 6.5 $ 118.9 $ 104.9 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 11. Other Noncurrent Assets (Continued)\n License Fees\nIn June 2011, we entered into a ten-year agreement with Unison Industries to be the exclusive worldwide aftermarket distributor for Unison\'s\nelectrical components, sensors, switches and other systems for aircraft and industrial uses. In connection with the agreement, we agreed to pay Unison Industries $20.0million for the exclusive distribution rights with $7.0million paid in June 2011 and $1.3million payable by January31 of each calendar year beginning in January 2012 through 2021. As of May31, 2018 and 2017, the unamortized balance of the license is $5.6million and $7.2million, respectively, and is being amortized over a ten-year period. The current portion of the deferred payments of $1.3million is recorded in Accrued liabilities and the long-term portion of $2.2million is included in Other liabilities and deferred income on the Consolidated Balance Sheet. Investments in Joint Ventures\nDuring fiscal 2018, we sold interests in two aircraft joint ventures which were accounted for under the equity method of accounting. We received\ncash proceeds of $7.3million and recognized a gain on the sale of $0.4million. As of May31, 2018, all of our remaining investments in aircraft joint ventures are accounted for under the cost method. Under the terms of servicing agreements with certain of our aircraft joint ventures, we provide administrative services and technical advisory services, including aircraft evaluations, oversight and logistical support of the maintenance process and records management. We also provide evaluation and inspection services prior to the purchase of an aircraft and remarketing services with respect to the divestiture of aircraft by the joint ventures. During fiscal 2018, 2017, and 2016, we were paid $0.4million, $1.2million, and $0.9million, respectively, for such services. Distributions from joint ventures are classified as operating or investing activities in the Consolidated Statements of Cash Flows based upon an evaluation of the specific facts and circumstances of each distribution. 12. Acquisitions\n On September19, 2017, we acquired the outstanding shares of two MRO facilities in Canada owned by Premier Aviation for approximately $24.8million. The purchase price includes $22.9million paid at closing and deferred consideration of $1.9million payable September 2018. This business is included in our Aviation Services segment. The amounts recorded for certain assets are preliminary in nature and are subject to adjustment as additional information is obtained about their acquisition date fair value. The final determination of the fair values will be completed within the one year measurement period. The preliminary fair value of assets acquired and liabilities assumed is as follows: Current assets\n $ 4.1 Property and equipment\n 13.1 Intangible assets, including goodwill\n 16.0 Accounts payable and accrued liabilities\n (8.4 ) $ 24.8 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 12. Acquisitions (Continued)\n On April10, 2017, we acquired the trading business of ACLAS Global Limited ("ACLAS"). In conjunction with the acquisition, we entered into a multi-year component support and repair contract covering approximately 100 of ACLAS\' aircraft. The purchase price of the acquisition was $12.0million paid at closing with $3.0million in deferred consideration payable over the next three years. This business operates as part of our Aviation Services segment. The fair value of assets acquired is as follows: Inventory $ 5.0 Equipment on or available for long-term lease\n 6.2 Intangible assets\n 3.8 Assets acquired\n $ 15.0 On December4, 2015, we acquired certain assets of Vantem ModularLLC, which designs, manufactures, and distributes modular shelters. The purchase price of the acquisition was $4.8million paid at closing with future royalties of up to $5.0million. This business operates as part of our Expeditionary Services segment. The fair value of net assets acquired is as follows: Current assets\n $ 1.5 Equipment 0.5 Intangible assets\n 3.5 Contingent consideration\n (2.0 ) Net assets acquired\n 3.5 Goodwill 1.3 Purchase price\n $ 4.8 13. Business Segment Information\n Segment Reporting\nConsistent with how our chief operating decision making officer (Chief Executive Officer) evaluates performance and the way we are organized\ninternally, we report our activities in two segments: Aviation Services comprised of supply chain and MRO activities and Expeditionary Services comprised of airlift and mobility activities. The Aviation Services segment consists of aftermarket support and services businesses that provide spares and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components and aircraft to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, aircraft component repair management services, and aircraft modifications. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead. The Expeditionary Services segment consists of businesses that provide products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and other Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 13. Business Segment Information (Continued)\nnon-governmental organizations. Sales in the Expeditionary Services segment are derived from fleet management and operations of customer-owned aircraft and the design and manufacture of pallets, shelters, and containers used to support the U.S. military\'s requirements for a mobile and agile force. We also design and manufacture advanced composite materials for commercial, business and military aircraft. Cost of sales consists principally of the cost of material to manufacture products, direct labor and overhead. The accounting policies for the segments are the same as those described in Note1. Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services. Selected financial information for each segment is as follows: For the Year Ended May31, Net sales:\n Aviation Services\n $ 1,618.9 $ 1,485.4 $ 1,425.0 Expeditionary Services\n 129.4 105.4 100.4 $ 1,748.3 $ 1,590.8 $ 1,525.4 For the Year Ended May31, Gross profit:\n Aviation Services\n $ 271.9 $ 246.0 $ 229.5 Expeditionary Services\n 22.7 17.4 3.6 $ 294.6 $ 263.4 $ 233.1 May31, Total assets:\n Aviation Services\n $ 1,205.8 $ 1,057.0 Expeditionary Services\n 130.2 122.8 Corporate and discontinued operations\n 188.7 324.3 $ 1,524.7 $ 1,504.1 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 13. Business Segment Information (Continued) For the Year Ended May31, Capital expenditures:\n Aviation Services\n $ 18.6 $ 15.0 $ 16.4 Expeditionary Services\n 2.1 2.0 1.6 Corporate 1.3 8.2 22.1 Total continuing operations\n 22.0 25.2 40.1 Discontinued operations\n 5.0 8.4 48.9 $ 27.0 $ 33.6 $ 89.0 For the Year Ended May31, Depreciation and amortization:1\n Aviation Services\n $ 34.6 $ 30.8 $ 26.2 Expeditionary Services\n 4.6 5.0 6.8 Corporate 16.6 10.9 6.7 Total continuing operations\n 55.8 46.7 39.7 Discontinued operations\n 7.3 17.2 18.1 $ 63.1 $ 63.9 $ 57.8 1Includes depreciation and amortization of stock-based compensation. The following table reconciles segment gross profit to income from continuing operations before provision for income taxes. For the Year Ended May31, Segment gross profit\n $ 294.6 $ 263.4 $ 233.1 Selling, general and administrative\n (208.6 ) (181.1 ) (157.6 ) Other expenses\n (0.9 ) (0.4 ) Interest expense\n (8.0 ) (5.3 ) (6.4 ) Interest income\n 0.1 0.1 0.2 Income from continuing operations before provision for income taxes\n $ 77.2 $ 77.1 $ 68.9 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 13. Business Segment Information (Continued)\nThe U.S. Department of Defense, other U.S. government agencies and their contractors are our only customers representing 10% or more of total sales in any of the last three fiscal years. Sales by segment for these customers are as follows: For the Year Ended May31, Aviation Services\n $ 224.4 $ 260.2 $ 301.1 Expeditionary Services\n 79.9 61.3 65.0 $ 304.3 $ 321.5 $ 366.1 Percentage of total sales\n 17.4 % 20.2 % 24.0 % Sales by type of product/service was as follows: For the Year Ended May31, Aviation supply chain\n $ 1,066.0 $ 998.7 $ 903.2 Maintenance, repair and overhaul services\n 552.9 486.7 521.8 Mobility products\n 112.5 105.4 100.4 Airlift 16.9 $ 1,748.3 $ 1,590.8 $ 1,525.4 Geographic Data May31, Long-lived assets:\n United States\n $ 393.1 $ 369.1 Europe 103.3 108.5 Other 85.6 40.3 Total continuing operations\n 582.0 517.9 Discontinued operations\n 97.8 $ 582.0 $ 615.7 Sales to unaffiliated customers in foreign countries (including sales through foreign sales offices of domestic subsidiaries) were approximately $694.0million (39.7% of total sales), $595.4million (37.4% of total sales) and $498.0million (32.6% of total sales) in fiscal 2018, 2017 and 2016, respectively. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 14. Legal Proceedings\n We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business except for the following: DynCorp InternationalLLC v. AAR Airlift Group,Inc.\nOn September5, 2015, DynCorp InternationalLLC ("DynCorp") filed a complaint in the United States District Court for the Middle\nDistrict of Florida, Orlando Division (the "District Court"), accusing AAR Airlift Group,Inc. ("Airlift"), a wholly-owned subsidiary of AAR CORP., of misappropriation of DynCorp information, including trade secrets, and other related allegations, in connection with the submission of proposals in response to the solicitation issued by the U.S. Department of State ("DoS") Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation in support of the Worldwide Aviation Support Services program ("WASS"). On October19, 2015, DynCorp filed an amended complaint with the District Court. On January14, 2016, the District Court granted Airlift\'s motion to dismiss DynCorp\'s amended complaint. On February2, 2016, DynCorp appealed the District Court\'s order to the United States Court of Appeals for the Eleventh Circuit (the "Eleventh Circuit"). On November21, 2016, the Eleventh Circuit reversed in part the District Court\'s dismissal of the amended complaint and remanded the case to the District Court for further proceedings. On January31, 2018, Airlift and DynCorp filed a joint notice of settlement, advising the District Court that they had reached an agreement in principle to resolve DynCorp\'s lawsuit and that they expected to filea stipulation of dismissal with prejudice within 14days. On February1, 2018, the District Court entered an order dismissing the DynCorp lawsuit without prejudice, subject to the right of any party within 60days to move the court for the purpose of entering a stipulated form of a final order or judgment or, on good cause shown, to reopen the case for further proceedings. On June20, 2018, the parties entered into a confidential settlement agreement to dismiss the lawsuit with prejudice without the payment of any money by either party. On June26, 2018, the District Court entered an order dismissing the lawsuit with prejudice. Department of Justice Investigation The U.S. Department of Justice ("DoJ"), acting through the U.S. Attorney\'s Office for the Southern District of Illinois, is conducting an\ninvestigation of Airlift under the federal civil False Claims Act ("FCA"). The investigation relates to Airlift\'s performance of several contracts awarded by the U.S. Transportation Command concerning the operations and maintenance of rotary-wing and fixed-wing aircraft in Afghanistan and Africa, as well as several U.S. Navy contracts. In June 2018, the DoJ informed Airlift that part of the investigation was precipitated by a lawsuit filed under the qui tam provisions of the FCA by a former employee of Airlift. That lawsuit remains under seal. Airlift is cooperating with the DoJ investigation. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 15. Selected Quarterly Data (Unaudited)\n The unaudited selected quarterly data for fiscal years ended May31, 2018 and 2017 is as follows: Fiscal 2018\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year Sales $ 397.9 $ 420.6 $ 456.3 $ 473.5 $ 1,748.3 Gross profit\n 61.6 70.7 77.6 84.7 294.6 Income from continuing operations\n 11.0 13.3 31.3 18.1 73.7 Loss from discontinued operations1\n (0.4 ) (35.8 ) (15.8 ) (6.1 ) (58.1 ) Net income (loss)\n 10.6 (22.5 ) 15.5 12.0 15.6 Earnings (Loss) per sharebasic:2\n Continuing operations\n 0.32 0.39 0.91 0.53 2.14 Discontinued operations\n (0.01 ) (1.05 ) (0.46 ) (0.18 ) (1.70 ) Earnings per sharebasic\n 0.31 (0.66 ) 0.45 0.35 0.44 Earnings (Loss) per sharediluted:2\n Continuing operations\n 0.32 0.38 0.90 0.52 2.11 Discontinued operations\n (0.01 ) (1.05 ) (0.46 ) (0.18 ) (1.70 ) Earnings per sharediluted\n 0.31 (0.67 ) 0.44 0.34 0.41 Fiscal 2017\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year Sales $ 361.8 $ 371.3 $ 407.2 $ 450.5 $ 1,590.8 Gross profit\n 59.5 59.5 66.5 77.9 263.4 Income from continuing operations\n 11.6 9.7 14.4 16.3 52.0 Income (Loss) from discontinued operations\n (2.1 ) 2.4 (0.7 ) 4.9 4.5 Net income\n 9.5 12.1 13.7 21.2 56.5 Earnings (Loss) per sharebasic:2\n Continuing operations\n 0.34 0.28 0.43 0.48 1.53 Discontinued operations\n (0.06 ) 0.07 (0.02 ) 0.14 0.13 Earnings per sharebasic\n 0.28 0.35 0.41 0.62 1.66 Earnings (Loss) per sharediluted:2\n Continuing operations\n 0.34 0.28 0.42 0.48 1.51 Discontinued operations\n (0.06 ) 0.07 (0.02 ) 0.14 0.13 Earnings per sharediluted\n 0.28 0.35 0.40 0.62 1.64 1Loss from discontinued operations in fiscal 2018 includes pre-tax aircraft and other asset impairment charges of $54.2million in the second quarter and a goodwill impairment charge of $9.8million in the third quarter. 2The earnings-per-share computation for the year is a separate, annual calculation. Accordingly, the sum of the quarterly earnings-per-share amounts does not necessarily equal the earnings per share for the year. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 16. Allowance for Doubtful Accounts\n May31, Balance, beginning of year\n $ 4.9 $ 3.3 $ 4.8 Provision charged to operations\n 0.5 2.1 0.3 Recoveries, deductions for accounts written off and other reclassifications\n 2.1 (0.5 ) (1.8 ) Balance, end of year\n $ 7.5 $ 4.9 $ 3.3 Table of Contents\n ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE\nNot Applicable.\n ITEM 9A.CONTROLS AND PROCEDURES\n As required by Rules13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Act"), we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of May31, 2018. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of May31, 2018, ensuring that information required to be disclosed in the reports that are filed under the Act is recorded, processed, summarized and reported in a timely manner. There were no changes in our internal control over financial reporting during the three-month period ended May31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING\nManagement of AAR CORP. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is\ndefined in Rules13a-15(f) and 15d-15(f) of the Act. The Company\'s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems which are determined to be effective provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of its internal control over financial reporting based on criteria for effective internal control over financial reporting described in the Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, management concluded that the Company maintained effective internal control over financial reporting as of May31, 2018. KPMGLLP, our independent registered public accounting firm, has issued a report on the effectiveness of our internal control over financial reporting. That report appears below. Table of Contents\n Report of Independent Registered Public Accounting Firm\nThe Board of Directors and Stockholders AAR CORP.: Opinion on Internal Control Over Financial Reporting\nWe have audited AAR CORP. and subsidiaries\' (the Company) internal control over financial reporting as of May31, 2018, based on the\ncriteria established in Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May31, 2018, based on the criteria established in Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Consolidated Balance Sheets of the Company as of May31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended May31, 2018, and the related notes (collectively, the Consolidated Financial Statements), and our report dated July11, 2018, expressed an unqualified opinion on those Consolidated Financial Statements. Basis for Opinion\nThe Company\'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the\neffectiveness of internal control over financial reporting, included in the accompanying Management\'s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company\'s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Definition and Limitations of Internal Control Over Financial Reporting\nA company\'s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of\nfinancial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company\'s internal control over financial reporting includes those policies and procedures that (1)pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2)provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3)provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company\'s assets that could have a material effect on the financial statements. Table of Contents\nBecause of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. /s/ KPMGLLP Chicago, Illinois\nJuly11, 2018 Table of Contents\n ITEM 9B.OTHER INFORMATION\n Not applicable. PARTIII ITEM10.DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE\nThe information required by this item regarding the Directors of the Company and nominees for election of the Board is incorporated by reference\nto the information contained under the caption "Information about Our Director Nominees and Our Continuing Directors" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. The information required by this item regarding the Executive Officers of the Company appears under the caption "Supplemental Item: Executive Officers of the Registrant" following PartI, Item4 above. The information required by this item regarding the compliance with Section16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information contained under the caption "Section16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. The information required by this item regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and the status of one or more members of the Audit Committee being an "audit committee financial expert" is incorporated by reference to the information contained under the caption "Corporate GovernanceBoard Committees" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. The information required by this item regarding our Code of Business Ethics and Conduct applicable to our directors, officers and employees is incorporated by reference to the information contained under the caption "Corporate GovernanceCode of Business Ethics and Conduct" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. There have been no material changes to the procedures by which stockholders may recommend nominees to the Company\'s board of directors. The information regarding these procedures is incorporated by reference to the information contained under the caption "Corporate GovernanceDirector Nominations and Qualifications" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. ITEM 11.EXECUTIVE COMPENSATION\nThe information required by this item is incorporated by reference to the information contained under the following captions:\n(a)"Executive CompensationCompensation Committee\'s Report on Executive Compensation for Fiscal 2018," (b)"Executive CompensationSummary Compensation Table," (c)"Executive CompensationFiscal 2018 Grants of Plan-Based Awards," (d)"Executive CompensationOutstanding Equity Awards at Fiscal Year End Table," (e)"Executive CompensationFiscal 2018 Option Exercises and Stock Vested," (f)"Executive CompensationFiscal 2018 Pension Benefits," (g)"Executive CompensationFiscal 2018 Non-Qualified Deferred Compensation," (h)"Executive CompensationPotential Payments Upon Termination of Employment or Change in Control of the Company," (i)"Corporate GovernanceDirector Compensation," and (j)"Corporate GovernanceCompensation Committee Interlocks and Insider Participation" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. Table of Contents\n ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS\n The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information contained under the caption "Security Ownership of Management and Others" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. The information required by this item regarding equity compensation plan information is incorporated by reference to the information contained under the caption "Equity Compensation Plan Information" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. ITEM 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE\nThe information required by this item is incorporated by reference to the information contained under the captions "Corporate\nGovernanceDirector Independence" and "Corporate GovernanceRelated Person Transaction Policy" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. ITEM 14.PRINCIPAL ACCOUNTING FEES AND SERVICES\n The information required by this item is incorporated by reference to the information contained under the caption "Independent Registered Public Accounting Firm Fees and Services" in our definitive proxy statement for the 2018 Annual Meeting of Stockholders. Table of Contents\n PART IV\n ITEM 15.EXHIBITS, FINANCIAL STATEMENT SCHEDULES\n (a)(1) Financial Statements Our consolidated financial statements are as set forth under Item8 of this report on Form10-K.\n(a)(2) Financial Statement Schedules\nAll schedules are omitted because they are not applicable, not required, or the information is included in the consolidated financial statements.\n (a)(3) Exhibits Management contracts and compensatory arrangements have been marked with an asterisk (\*) on the Exhibit Index which is contained below:\n Index Exhibits 3. Articles of Incorporation and By-Laws\n3.1 Restated Certificate of Incorporation.6\n 3.2 By-Laws, as amended and restated through July9, 2008.14\n 4. Instruments defining the rights of security holders\n4.1 Restated Certificate of Incorporation (seeExhibit3.1).\n 4.2 By-Laws, as amended and restated through July9, 2008 (See Exhibit3.2).\n 4.3 Form of 2.25% Convertible Senior Note due 2016.12\n 4.4 Indenture for 2.25% Convertible Senior Notes due 2016 between AAR CORP. and U.S. Bank National Association, as trustee, dated as of February11,\n2008.12 4.5 Indenture providing for Issuance of Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December1,\n2010.17 4.6 Indenture providing for Issuance of Subordinated Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of\nDecember1, 2010.17\n Table of Contents\n Index Exhibits 4.7 Credit Agreement dated April12, 2011 among AAR CORP., Bank of America National Association, as administrative agent, and the various financial\ninstitutions party thereto,18 as amended August26, 2011 and October13, 2011,20 and as further amended on April8, 2013 and April24, 201321 and as further amended on March24,\n201527 and as further amended on November1, 201629 and as further amended on February28, 2018.31\n 4.8 Indenture dated as of February14, 2013 governing $30,000,000 of 1.75% Convertible Senior Notes due 2015, by and between AAR CORP., as Issuer, and U.S.\nNational Bank National Association, as Trustee.22\n 4.9 Form of 1.75% Convertible Senior Notes due 2015.25\n Pursuant to Item601(b)(4)(iii)(A) of RegulationS-K, the Registrant is not filing certain documents. The Registrant agrees to furnish a copy of each such document upon the request of the Commission.\n 10. Material Contracts\n10.1\* Amended and Restated AAR CORP. Stock Benefit Plan effective October1, 2001,3 as amended June27, 2003,4 May5, 2005,\n7 July12, 2005,8 June23, 2006,10 January23, 2007,10 January27, 2007,13 and July11, 2011.19\n 10.2\* AAR CORP. Directors\' Retirement Plan, dated April14, 1992,1 amended May26, 2000 and April10, 2001.2\n 10.3\* AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated effective July10, 2017.32\n 10.4\* AAR CORP. Nonemployee Directors\' Deferred Compensation Plan, as Amended and Restated effective July10, 2017.32\n 10.5 Indenture dated October3, 2003 between AAR Distribution,Inc. and iStar Garden CityLLC.5\n Table of Contents\n Index Exhibits 10.6 Lease Agreement dated October3, 2003 between AAR Allen Services,Inc., as tenant and iStar Garden CityLLC, as Landlord, and related\nGuaranty dated October3, 2003 from Registrant to iStar Garden CityLLC.5\n 10.7 Lease Agreement by and between Indianapolis Airport Authority and AAR Aircraft Services,Inc. dated as of December19,\n2014.28 10.8\* Form of Non-Employee Director Non-Qualified Stock Option Agreement.24\n 10.9\* Form of Fiscal 2019 Director Restricted Stock Agreement (filed herewith).\n 10.10\* Form of Split Dollar Insurance Agreement.9\n 10.11 Confirmation of OTC Convertible Note Hedge Transaction for 2016 Notes, dated February5, 2008, by and between AAR CORP., and Merrill Lynch Financial\nMarkets,Inc.11 10.12 Confirmation of OTC Warrant Transaction for 2016 Notes, dated February5, 2008, by and between AAR CORP., and Merrill Lynch Financial Markets,\nInc.11 10.13\* Form of Directors\' and Officers\' Indemnification Agreement.15\n 10.14\* Employment Agreement dated as of April18, 2017 between Registrant and David P. Storch.16\n 10.15\* Form of Policy for Recoupment of Incentive Compensation.23\n 10.16\* Section162(m) Annual Cash Incentive Plan.28\n 10.17\* AAR CORP. 2013 Stock Plan.28 and as amended July11, 2016.30\n 10.18\* Amended and Restated Severance and Change in Control Agreement dated as of October11, 2017 between AAR CORP. and Robert J.\nRegan.33 10.19\* Severance and Change in Control Agreement dated as of October11, 2017 between AAR CORP. and Michael D. Milligan.33\n Table of Contents\n Index Exhibits 10.20 Credit Agreement among AAR CORP., as parent guarantor, AAR Canada HoldingsULC, as borrower, and Canadian Imperial Bank of Commerce, as lender, dated\nas of October18, 2017.34\n 10.21 Purchase Agreement dated February23, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to time party thereto, and\nCitibank, N.A., as buyer.35\n 10.22 First Amendment to Purchase Agreement dated as of May22, 2018 by and among AAR CORP., as seller representative and servicer, the sellers time to\ntime party thereto, and Citibank, N.A., as buyer.36\n 10.23\* Retirement Agreement dated May24, 2018 between AAR CORP. and David P. Storch.36\n 10.24\* Post-Retirement Agreement dated May24, 2018 between AAR CORP. and David P. Storch.36\n 10.25\* Amended and Restated Employment Agreement dated as of May24, 2018 between AAR CORP. and John M. Holmes.36\n 10.26\* Form of AAR CORP. Fiscal 2018 Short-Term Incentive Plan.37\n 10.27\* Form of AAR CORP. Fiscal 2018 Non-Qualified Stock Option Agreement.37\n 10.28\* Form of AAR CORP. Fiscal 2018 Restricted Stock Agreement.37\n 10.29\* Form of AAR CORP. Fiscal 2018 Performance Restricted Stock Agreement.37\n 21. Subsidiaries of the Registrant\n21.1 Subsidiaries of AAR CORP. (filed herewith).\n 23. Consents of experts and counsel\n23.1 Consent of Independent Registered Public Accounting Firm (filed herewith).\n 31. Rule13a-14(a)/15(d)-14(a) Certifications\n31.1 Section302 Certification dated July11, 2018 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).\n Table of Contents\n Index Exhibits 31.2 Section302 Certification dated July11, 2018 of Michael D. Milligan, Vice President and Chief Financial Officer of Registrant (filed herewith).\n 32. Rule13a-14(b)/15d-14(b) Certifications\n32.1 Section906 Certification dated July11, 2018 of John M. Holmes, President and Chief Executive Officer of Registrant (filed herewith).\n 32.2 Section906 Certification dated July11, 2018 of Michael D. Milligan, Vice President and Chief Financial Officer of Registrant (filed herewith).\n 101. Interactive Data File\n The following materials from the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i)Consolidated Balance Sheets at May31, 2018 and 2017,\n(ii)Consolidated Statements of Income for the fiscal years ended May31, 2018, 2017 and 2016 , (iii)Consolidated Statements of Comprehensive Income for fiscal years ended May31, 2018, 2017 and 2016 (iv)Consolidated\nStatements of Cash Flows for the fiscal years ended May31, 2018, 2017 and 2016 , (v)Consolidated Statement of Changes in Equity for the three years ended May31, 2018 and (vi)Notes to Consolidated Financial\nStatements.\*\* Notes: \*\*Pursuant to Rule406T of RegulationS-T, the Interactive Data Files on Exhibit101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections. 1Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 1992. 2Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2001. 3Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended November30, 2001. 4Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2003. 5Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended November30, 2003. Table of Contents\n 6Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2004. 7Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2005. 8Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended February28, 2006. 9Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2006. 10Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2007. 11Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated February11, 2008. 12Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated February14, 2008. 13Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended February29, 2008. 14Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated July11, 2008. 15Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended August31, 2008. 16Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated April18, 2017. 17Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended November30, 2010. 18Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated April14, 2011. 19Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended August31, 2011. 20Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October11, 2011. 21Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated April24, 2013. 22Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form10-Q for the quarterly period ended February28, 2013. 23Incorporated by reference to the Registrant\'s Quarterly Report on Form10-Q for the quarterly period ended August31, 2012. 24Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2012. 25Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2013. Table of Contents\n 26Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarterly period ended August31, 2014. 27Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated March24, 2015. 28Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2015. 29Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated November1, 2016. 30Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October11, 2016. 31Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated February28, 2018. 32Incorporated by reference to Exhibits to the Registrant\'s Current Report on FormS-8 dated July20, 2017. 33Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October13, 2017. 34Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October18, 2017. 35Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated February28, 2018. 36Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated May25, 2018. 37Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q dated September20, 2017. ITEM 16.FORM 10-K SUMMARY\nNot applicable.\n Table of Contents\n Pursuant to the requirements of Section13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual\nreport on Form10-K to be signed on its behalf by the undersigned, thereunto duly authorized. AAR CORP. (Registrant) Date: July11, 2018\nBY: /s/JOHN M. HOLMES\n John M. Holmes President and Chief Executive Officer\n Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report on Form10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Signature Title Date /s/JOHN M. HOLMES\n John M. Holmes\nPresident and Chief Executive Officer; Director (Principal Executive Officer)\n /s/MICHAEL D. MILLIGAN\n Michael D. Milligan\nVice President and Chief Financial Officer (Principal Financial Officer)\n /s/ERIC S. PACHAPA\n Eric S. Pachapa\nVice President, Controller and Chief Accounting Officer (Principal Accounting Officer)\n /s/DAVID P. STORCH\n David P. Storch\nChairman of the Board; Director\n /s/ANTHONY K. ANDERSON\n Anthony K. Anderson\nDirector /s/NORMAN R. BOBINS\n Norman R. Bobins\nDirector /s/MICHAEL R. BOYCE\n Michael R. Boyce\nDirector /s/JAMES E. GOODWIN\n James E. Goodwin\nDirector July11, 2018\n /s/PATRICK J. KELLY\n Patrick J. Kelly\nDirector /s/DUNCAN J. MCNABB\n Duncan J. McNabb\nDirector /s/PETER PACE\n Peter Pace\nDirector /s/JENNIFER L. VOGEL\n Jennifer L. Vogel\nDirector /s/MARC J. WALFISH\n Marc J. Walfish\nDirector /s/RONALD B. WOODARD\n Ronald B. Woodard\nDirector ', '10-K 1 a2232622z10-k.htm 10-K Use these links to rapidly review the document\nTABLE OF CONTENTS\nPART IV\n Table of Contents\n UNITED STATES\nSECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 FORM 10-K\n(Mark One)\n Annual Report Pursuant to Section13 or 15(d) of the Securities Exchange Act of 1934\n For the fiscal year ended May31, 2017 or\n o Transition Report Pursuant to Section13 or 15(d) of the Securities Exchange Act of 1934\n For the transition period fromto Commission file number1-6263\nAAR CORP. (Exact name of registrant as specified in its charter)\n Delaware (State or other jurisdiction of incorporation or organization) 36-2334820 (I.R.S. Employer Identification No.) One AAR Place, 1100 N. Wood Dale Road, Wood Dale, Illinois 60191(Address of principal executive offices, including zip code)\nRegistrant\'s telephone number, including area code: (630)227-2000 Securities registered pursuant to Section12(b) of the Act: Title of Each Class Name of Each Exchange on Which Registered\n Common Stock, $1.00 par value New York Stock Exchange\nChicago Stock Exchange Common Stock Purchase Rights\nNew York Stock Exchange\nChicago Stock Exchange Securities registered pursuant to Section12(g) of the Act: None Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule405 of the Securities Act. YesNoo Indicate by check mark if the registrant is not required to file reports pursuant to Section13 or 15(d) of the Act.\nYesoNo Indicate by check mark whether the registrant (1)has filed all reports required to be filed by Section13 or 15(d) of the Securities Exchange Act of\n1934 during the preceding 12months (or for such shorter period that the registrant was required to file such reports), and (2)has been subject to such filing requirements for the past 90days. YesNoo Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule405 of RegulationS-T during the preceding 12months (or for such shorter period that the registrant was required to submit and post such files). YesNoo Indicate by check mark if disclosure of delinquent filers pursuant to Item405 of RegulationS-K is not contained herein, and will not be contained,\nto the best of registrant\'s knowledge, in definitive proxy or information statements incorporated by reference in PartIII of this Form10-K or any amendment to this Form10-K. Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an\nemerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule12b-2 of the Exchange Act. Large accelerated filer Accelerated filero\nNon-accelerated filero (Do not check if a\nsmaller reporting company) Smaller reporting companyo Emerging growth companyo\n If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section13(a) of the Exchange Act.o Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2 of the Exchange Act).\nYesoNo The aggregate market value of the registrant\'s voting stock held by nonaffiliates was approximately $1,355million (based upon the closing price of the Common Stock at November30, 2016 as reported on the New York Stock Exchange). On June30, 2017, there were 34,396,501 shares of Common Stock outstanding. Documents Incorporated by Reference\n Portions of the Company\'s proxy statement for the Company\'s 2017 Annual Meeting of Stockholders, to be held October11, 2017, are incorporated by reference in PartIII of this report. Table of Contents\n TABLE OF CONTENTS\n Page PART I\n Item1. Business Item1A. Risk Factors\n Item1B. Unresolved Staff Comments\n Item2. Properties Item3. Legal Proceedings\n Item4. Mine Safety Disclosures\n Supplemental ItemExecutive Officers of the Registrant\n PART II\n Item5. Market for Registrant\'s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities\n Item6. Selected Financial Data\n Item7. Management\'s Discussion and Analysis of Financial Condition and Results of Operations\n Item7A. Quantitative and Qualitative Disclosures about Market Risk\n Item8. Financial Statements and Supplementary Data\n Item9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure\n Item9A. Controls and Procedures\n Item9B. Other Information\n PART III\n Item10. Directors, Executive Officers and Corporate Governance\n Item11. Executive Compensation\n Item12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters\n Item13. Certain Relationships and Related Transactions, and Director Independence\n Item14. Principal Accounting Fees and Services\n PART IV\n Item15. Exhibits and Financial Statement Schedules\n Item16. Form 10-K Summary\n SIGNATURES EXHIBIT INDEX\n Table of Contents PART I\n ITEM 1.BUSINESS\n General AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," and "our" unless the context indicates\notherwise. AAR was founded in 1951, organized in 1955 and reincorporated in Delaware in 1966. We are a diversified provider of products and services to the worldwide aviation and government and defense markets. Beginning in fiscal 2015, we implemented a comprehensive strategic plan to narrow our strategy to focus on our best in class aviation and expeditionary services through our two business segments: Aviation Services and Expeditionary Services. We sold our Telair Cargo Group for cash of $714million, resulting in pre-tax gains of $198.6million in the fourth quarter of fiscal 2015 (and $27.7million in the first quarter of fiscal 2016 from the receipt of contingent consideration). We used the proceeds from the sale in fiscal 2015 to reduce our total debt by $480million and we returned capital to shareholders through $151.5million in common stock repurchases and $12.5million of dividends. In fiscal 2016, our Aviation Services segment succeeded in expanding customer relationships and securing new program work with multiple international carriers. In our Expeditionary Services segment, we completed the successful start-up of our new contract with the U.K. Ministry of Defence providing search and rescue services in the Falkland Islands. We maintained our focus on shareholder return through additional common stock repurchases of $18.8million and dividends of $10.4million. In fiscal 2017, we increased our Aviation Services segment revenues by securing additional flight hour component inventory management and repair programs from our commercial airline customers and investing in our capacity and business development resources. During fiscal 2017, our investment in business development resulted in the award of new contracts from commercial operators, including South African Airways, Air New Zealand, flydubai, CommutAir, Allegiant Air, Small Planet Airlines, Enter Air, SaudiGulf, and ASL Aviation Holdings. Also during fiscal 2017, we invested over $80million in rotable assets to support our commercial aviation programs. We started to recognize revenue and income in fiscal 2017 on most of these contract awards and expect to continue the ramp-up in fiscal 2018. On September1, 2016, the Department of State awarded AAR Airlift Group,Inc. the contract for INL/A Global Aviation Support Services. This contract will leverage our capabilities in aviation services, including flight operations, supply chain logistics, and other services. The potential duration of this contract is 11years and the potential revenue stream, including all related task orders, is $10billion. The incumbent contractor filed a protest that was denied by the United States Government Accountability Office in December 2016 and subsequently filed a separate protest with the United States Court of Federal Claims ("COFC"). The COFC stayed the contract award to AAR Airlift pending its decision on the protest. The COFC\'s decision on the protest is expected on or before October31, 2017. In our Expeditionary Services segment, the government markets we serve in support of troop movements and related activities continue to be weak with revenue and earnings significantly lower than peak levels. As we enter fiscal 2018, we remain in a strong financial position to further execute on our strategy as a best in class aviation and expeditionary services company. Our cash on hand plus unused capacity on our Revolving Credit Facility was $366million at May31, 2017. We expect to invest opportunistically in expanding our comprehensive suite of services to the global commercial aviation and government and defense markets. We continue to have the flexibility in our balance sheet allowing us to invest in our growth. As we generate positive cash flow, we will continue our past strategy of returning capital to our shareholders without hampering our future operating flexibility. Table of Contents\n Business Segments\n Aviation Services The Aviation Services segment provides aftermarket support and services for the commercial aviation and government and defense markets and\naccounted for 84%, 84%, and 81% of our sales in fiscal 2017, 2016, and 2015, respectively. In this segment, we also provide inventory management and distribution services, maintenance, repair and overhaul ("MRO"), and engineering services. Business activities in this segment are primarily conducted through AAR Supply Chain,Inc. (formerly known as AAR Parts Trading,Inc.); AAR Aircraft& Engine Sales& Leasing,Inc.; AAR Aircraft Services,Inc.; AAR Allen Services,Inc.; AAR Landing GearLLC; and AAR International,Inc. We sell and lease a wide variety of new, overhauled and repaired engine and airframe parts and components to our commercial aviation and government/defense customers. We provide customized flight hour component inventory and repair programs, warranty claim management, and outsourcing programs for engine and airframe parts and components in support of our airline and government customers\' maintenance activities. The types of services provided under these programs include material planning, sourcing, logistics, information and program management, and parts and component repair and overhaul. We are also an authorized distributor for more than 70 leading aviation product manufacturers. We also provide customized performance-based supply chain logistics programs in support of the U.S. Department of Defense ("DoD") and foreign governments. The types of services provided under these programs include material planning, sourcing, logistics, information and program management, airframe maintenance and maintenance planning, and component repair and overhaul. We provide major airframe inspection, maintenance, repair and overhaul, painting services, line maintenance, airframe modifications, structural repairs, avionic service and installation, exterior and interior refurbishment, and engineering services and support for many types of commercial and military aircraft. We also repair and overhaul various components, landing gears, wheels, and brakes for commercial and military aircraft. We operate five airframe maintenance facilities and one landing gear overhaul facility. Our landing gear overhaul facility is in Miami, Florida, where we repair and overhaul landing gear, wheels, brakes, and actuators for different types of commercial and military aircraft. Our airframe maintenance facilities are in Indianapolis, Indiana; Oklahoma City, Oklahoma; Duluth, Minnesota; Miami, Florida; and Rockford, Illinois. In fiscal 2017, we transitioned our facility in Lake Charles, Louisiana from an airframe maintenance facility to a more limited operation focused on painting services. Activities in our Aviation Services segment also include the sale and lease of used commercial aircraft. Each sale or lease is negotiated as a separate agreement that includes term, price, representations, warranties, and lease return provisions. During fiscal 2015, we sold our last two remaining wholly-owned aircraft and one aircraft owned with joint venture partners. At May31, 2017, our remaining portfolio consisted of two aircraft owned through joint ventures. The majority of our product sales are made pursuant to standard commercial purchase orders. U.S. government sales are generally made under standard types of government contracts, including definite contracts which call for the performance of specified services or the delivery of specified products and ID/IQ (i.e.,indefinite delivery/indefinite quantity) contracts. Certain inventory supply and management and performance-based logistics program agreements reflect negotiated terms and conditions. To support activities within the Aviation Services segment, we acquire aviation parts and components from domestic and foreign airlines, independent aviation service companies, aircraft leasing companies, and original equipment manufacturers ("OEM"s). We have ongoing arrangements with OEMsthat provide us access to parts, repair manuals, and service bulletins in support of parts manufactured by them. Table of Contents\nAlthough the terms of each arrangement vary, they typically are made on standard OEM terms as to duration, price, and delivery. From time to time, we purchase engines for disassembly into individual parts and components. These engines may be leased to airlines on a short-term basis prior to disassembly. Expeditionary Services\nThe Expeditionary Services segment consists of businesses that primarily provide products and services supporting the movement of equipment and\npersonnel by the DoD, foreign governments and non-governmental organizations. The Expeditionary Services segment accounted for 16%, 16%, and 19% of our sales in fiscal 2017, 2016, and 2015, respectively. Business activities in this segment are primarily conducted through AAR Airlift Group,Inc.; AAR Manufacturing,Inc. and Brown International Corporation. We provide expeditionary airlift services to the United States and other government customers. Our expeditionary airlift services provide fixed-wing and rotary-wing flight operations. These operations include search and rescue operations and the transportion of personnel and cargo principally in support of the DoD. We operate and maintain a fleet of special mission customized fixed-wing and rotary-wing aircraft, principally in Afghanistan, Falkland Islands, and Northern Africa. We hold FAR Part133 and 135 certificates to operate aircraft and a FAR Part145 certificate to operate a repair station. We are also Commercial Airlift Review Board certified with the DoD. We design, manufacture, and repair transportation pallets, and a wide variety of containers and shelters used in support of military and humanitarian tactical deployment activities. The containers and shelters are used in numerous mission requirements, including armories, supply and parts storage, refrigeration systems, tactical operation centers, briefing rooms, laundry and kitchen facilities, water treatment, and sleeping quarters. Shelters include both stationary and vehicle-mounted applications. We also provide engineering, design, and system integration services for specialized command and control systems and design and manufacture advanced composite materials for commercial, business and military aircraft. Sales in this segment are made to customers pursuant to standard commercial purchase orders and contracts. U.S. government sales are generally made under standard types of government contracts, including definite contracts which call for the performance of specified services or the delivery of specified products and ID/IQ (i.e.,indefinite delivery/indefinite quantity) contracts. The majority of our products and services are procured via definite contracts. We purchase raw materials for this segment, including steel, aluminum, extrusions, balsa, and other necessary supplies from several vendors. Raw Materials\nAlthough we generated 54% of our fiscal 2017 sales from the sale of products, our businesses are generally engaged in limited manufacturing\nactivities and have minimal exposure to fluctuations in both the availability and pricing of raw materials. Where necessary, we have been able to obtain raw materials and other inventory items from numerous sources for each segment at competitive prices, terms, and conditions, and we expect to be able to continue to do so. Terms of Sale\nWe generally sell our products and services under standard 30-day payment terms. On occasion, certain customers, principally foreign customers,\nwill negotiate extended payment terms of 60-90days. Except for customary warranty provisions, customers neither have the right to return products nor do they have the right to extended financing. Our contracts with the DoD and its contractors and other governmental agencies are typically firm agreements to provide products and services at a fixed price or on Table of Contents\na time and material basis, and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government customer. Customers The principal customers for our products and services in the Aviation Services segment are domestic and foreign commercial airlines, domestic\nand foreign freight airlines, regional and commuter airlines, business and general aviation operators, OEMs, aircraft leasing companies, aftermarket aviation support companies, the DoD and its contractors, and foreign military organizations or governments. In the Expeditionary Services segment, our principal customers include the DoD and its contractors, foreign governmental, defense organizations, and OEMs. Sales of aviation products and services to our commercial airline customers are generally affected by such factors as the number, type and average age of aircraft in service, the levels of aircraft utilization (e.g.,frequency of schedules), the number of airline operators, the general economy, and the level of sales of new and used aircraft. Sales to the DoD and other government agencies are subject to a number of factors, including the level of troop deployment worldwide, government funding, competitive bidding, and requirements generated by worldwide geopolitical events. We primarily market and sell products and services through our own employees. In certain markets outside of the United States, we rely on foreign sales representatives to assist in the sale of our products and services. Sales to Government and Defense Customers\nSales to global government and defense customers (including sales to branches, agencies, and departments of the U.S. government) were\n$597.6million (33.8% of consolidated sales), $652.8million (38.4% of consolidated sales) and $592.3million (36.5% of consolidated sales) in fiscal 2017, 2016 and 2015, respectively. Sales to branches, agencies, and departments of the U.S. government and their contractors were $454.8million (25.7% of consolidated sales), $523.6million (30.8% of consolidated sales), and $495.6million (30.6% of consolidated sales) in fiscal 2017, 2016, and 2015, respectively. Sales to government and defense customers are reported in each of our reportable segments (See Note14 of Notes to Consolidated Financial Statements). Since such sales are subject to competitive bidding and government funding, no assurance can be given that such sales will continue at levels previously experienced. The majority of our U.S. government contracts are for products and services supporting the DoD logistics and mobility strategy, as well as for expeditionary airlift services. Thus, our government contracts have changed, and may continue to change, with fluctuations in defense and other governmental agency spending. Our government contracts are also subject to termination by the customer; in the event of such a termination, we are entitled to recover all allowable costs incurred by us through the date of termination. Government Regulation and Certificates\nThe Federal Aviation Administration ("FAA") regulates the manufacture, repair, and operation of all aircraft and aircraft parts operated in the\nUnited States. Similar rules and regulatory authorities exist in other countries. The inspection, maintenance and repair procedures for the various types of aircraft and equipment are prescribed by these regulatory authorities and can be performed only by certified repair facilities utilizing certified technicians. The FAA requires that various maintenance routines be performed on aircraft engines, certain engine parts, and airframes at regular intervals based on take off and landing cycles or flight time. Our businesses which sell defense products and services directly to the U.S. government or through its contractors can be subject to various laws and regulations governing pricing and other factors. We have 13 FAA certificated repair stations in the United States and Europe. Of the 13 certificated FAA repair stations, eight are also European Aviation Safety Agency ("EASA") certificated repair stations. Table of Contents\nSuch certificates, which are ongoing in duration, are required for us to perform authorized maintenance, repair and overhaul services for our customers and are subject to revocation by the government for non-compliance with applicable regulations. Of the 13 FAA certificated repair stations, 12 are in the Aviation Services segment and one is in the Expeditionary Services segment. The eight EASA certificated repair stations are in the Aviation Services segment. We also hold FAR Part133 and 135certificates to operate aircraft in our Expeditionary Services segment. We are also Commercial Airlift Review Board certified with the DoD. We believe that we possess all licenses and certifications that are material to the conduct of our business. Competition Competition in each of our markets is based on quality, ability to provide a broad range of products and services, speed of delivery, and price.\nCompetitors in our Aviation Services segment include OEMs, the service divisions of large commercial airlines, and other independent suppliers of parts, repair, and overhaul services to the commercial and defense markets. Our Expeditionary Services segment competes with domestic and foreign contracting companies and a number of divisions of large corporations and other large and small companies. Although certain of our competitors have substantially greater financial and other resources than we do, we believe that we have maintained a satisfactory competitive position through our responsiveness to customer needs, our attention to quality, and our unique combination of market expertise and technical and financial capabilities. Backlog Backlog represents the amount of revenue that we expect to derive from unshipped orders or signed contracts. At May31, 2017, backlog was\napproximately $769.4million compared to $978.7million at May31, 2016. Approximately $366.3million of our May31, 2017 backlog is expected to be filled within the next 12months. Employees At May31, 2017, we employed approximately 4,600 employees worldwide, of which approximately 125employees are subject to a\ncollective bargaining agreement. We also retain approximately 750 contract workers, the majority of whom are located at our airframe maintenance facilities. Available Information For additional information concerning our business segments, see Item7, "Management\'s Discussion and Analysis of Financial Condition and\nResults of Operations" and "Business Segment Information" in Note14 of Notes to Consolidated Financial Statements under Item8, "Financial Statements and Supplementary Data." Our internet address is www.aarcorp.com. We make available free of charge through our web site our annual report on Form10-K, quarterly reports on Form10-Q, current reports on Form8-K, and all amendments to those reports filed or furnished pursuant to Section13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. Information contained on our web site is not a part of this report. Table of Contents\n ITEM 1A.RISK FACTORS\nThe following is a description of the principal risks inherent in our business.\n We are affected by factors that adversely impact the commercial aviation industry.\nAs a provider of products and services to the commercial aviation industry, we are greatly affected by overall economic conditions of that\nindustry. The commercial aviation industry is historically cyclical and has been negatively affected in the past by geopolitical events, high fuel and oil prices, lack of capital, and weak economic conditions. As a result of these and other events, from time to time certain of our customers have filed for bankruptcy protection or ceased operation. The impact of instability in the global financial markets may lead airlines to reduce domestic or international capacity. In addition, certain of our airline customers have in the past been impacted by tight credit markets, which limited their ability to buy parts, services, engines, and aircraft. A reduction in the operating fleet of aircraft both in the U.S. and abroad will result in reduced demand for parts support and maintenance activities for the type of aircraft affected. Further, tight credit conditions negatively impact the amount of liquidity available to buy parts, services, engines, and aircraft. A deteriorating airline environment may also result in additional airline bankruptcies, and in such circumstances we may not be able to fully collect outstanding accounts receivable. Reduced demand from customers caused by weak economic conditions, including tight credit conditions and customer bankruptcies, may adversely impact our financial condition or results of operations. Our business, financial condition, results of operations, and growth rates may be adversely affected by these and other events that impact the aviation industry, including the following: deterioration in the financial condition of our existing and potential customers;\nreductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support;\nretirement of older generation aircraft, resulting in lower prices for spare parts and services for those aircraft;\nreductions in demand for used aircraft and engines;\nincreased in-house maintenance by airlines;\nlack of parts in the marketplace;\nacts of terrorism;\nfuture outbreaks of infectious diseases; and\nacts of God.\n Our U.S. government contracts may not continue at present sales levels, which may have a material adverse effect on our financial condition and results of operations. Our sales to branches, agencies and departments of the U.S. government and their contractors were $454.8million (25.7% of consolidated\nsales) in fiscal 2017 (See Note14 of Notes to Consolidated Financial Statements). The majority of our U.S. government contracts is for products and services supporting DoD logistics and mobility strategy, as well as for expeditionary airlift services and is, therefore, subject to changes in defense and other governmental agency funding and spending. Our contracts with the U.S. government, including the DoD and its contractors, are typically agreements to provide products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the government customer. Sales to agencies of the U.S. government and their contractors are subject to a number of factors, including the level of troop Table of Contents\ndeployment worldwide, competitive bidding, U.S. government funding, requirements generated by world events, and budgetary constraints. U.S. government programs are subject to annual congressional budget authorization and appropriation processes. In recent years, U.S. government appropriations have been affected by larger U.S. government budgetary issues and related legislation. The Bipartisan Budget Act of 2015 (the "Budget Act") which raised the statutory limit on the amount of permissible federal debt (the debt ceiling) until March 2017 and raised the sequester caps imposed by the Budget Control Act of 2011. The suspension of the federal debt limit has not been extended beyond March 2017 which could negatively affect the timely collection of our U.S. government invoices. Future congressional appropriation and authorization of defense spending and the application of sequestration remain marked by significant debate and an uncertain schedule. The federal debt limit continues to be actively debated as plans for long-term national fiscal policy are discussed. The outcome of these debates could have a significant impact on defense spending broadly and programs we support in particular. If the existing federal debt limit is not raised, we may be required to continue to perform for some period of time on certain of our U.S. government contracts even if the U.S. government is unable to make timely payments. Future budget cuts, including cuts mandated by sequestration, or future procurement decisions could result in reductions, cancellations, and/or delays of existing contracts or programs which could adversely affect our results of operations and financial condition. We face risks of cost overruns and losses on fixed-price contracts.\nWe sell certain of our products and services to our commercial, government, and defense customers under firm contracts providing for fixed unit\nprices, regardless of costs incurred by us. The cost of producing products or providing services may be adversely affected by increases in the cost of labor, materials, fuel, overhead, and other unknown variants, including manufacturing and other operational inefficiencies and differences between assumptions used by us to price a contract and actual results. Increased costs may result in cost overruns and losses on such contracts, which could adversely affect our results of operations and financial condition. Success at our airframe maintenance facilities is dependent upon continued outsourcing by the airlines. We currently perform airframe maintenance, repair and overhaul activities at five leased facilities. Revenues at these facilities fluctuate\nbased on demand for maintenance which, in turn, is driven by the number of aircraft operating and the extent of outsourcing of maintenance activities by airlines. In addition, certain airlines operate certain new fleet types and/or newer generation aircraft and we may not have contractual arrangements to service these aircraft nor technicians trained and certified to perform the required airframe maintenance, repair and overhaul activities. If either the number of aircraft operating or the level of outsourcing of maintenance activities declines, we may not be able to execute our operational and financial plans at our maintenance, repair and overhaul facilities, which could adversely affect our results of operations and financial condition. We operate in highly competitive markets, and competitive pressures may adversely affect us.\nThe markets for our products and services to our commercial, government, and defense customers are highly competitive, and we face competition\nfrom a number of sources, both domestic and international. Our competitors include aircraft manufacturers, aircraft component and parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, other aircraft spare parts distributors and redistributors, and other expeditionary airlift service providers. Some of our competitors have substantially greater financial and other resources than we have and others may price their products and services below our selling prices. We believe that our ability to compete depends Table of Contents\non superior customer service and support, on-time delivery, sufficient inventory availability, competitive pricing and effective quality assurance programs. Our government customers, including the DoD, may turn to commercial contractors, rather than traditional defense contractors, for certain work, or may utilize small business contractors or determine to source work internally rather than use us. We are also impacted by bid protests from unsuccessful bidders on new program awards. Bid protests could result in significant expense for us, contract modifications, or the award decision being overturned and loss of the contract award. Even where a bid protest does not result in the loss of an award, the resolution can extend the time until the contract activity can begin, and delay earnings. These competitive pressures, with potential impacts on both our commercial and government business, could adversely affect our results of operations and financial condition. We are subject to significant government regulation and may need to incur significant expenses to comply with\nnew or more stringent governmental regulation. The aviation industry is highly regulated by the FAA in the United States and equivalent regulatory agencies in other countries. Before we sell\nany of our products that are to be installed in an aircraft, such as engines, engine parts and components, and airframe and accessory parts and components, they must meet certain standards of airworthiness established by the FAA or the equivalent regulatory agencies in certain other countries. We operate repair stations that are licensed by the FAA and the equivalent regulatory agencies in certain other countries, and hold certificates to operate aircraft. Specific regulations vary from country to country, although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. New and more stringent governmental regulations may be adopted in the future that, if enacted, may have an adverse impact on us. If any of our material licenses, certificates, authorizations, or approvals were revoked or suspended by the FAA or equivalent regulatory agencies in other countries, our results of operations and financial condition may be adversely affected. If we fail to comply with government procurement laws and regulations, we could lose business and be liable\nfor various penalties or sanctions. We must comply with laws and regulations relating to the formation, administration, and performance of U.S. government contracts. These laws and\nregulations include the Federal Acquisition Regulations, Defense Federal Acquisition Regulations, the Truth in Negotiations Act, Cost Accounting Standards, and laws, regulations, and orders restricting the use and dissemination of classified information under the U.S. export control laws and the export of certain products and technical information. Certain government contracts provide audit rights by government agencies, including with respect to performance, costs, internal controls and compliance with applicable laws and regulations. In complying with these laws and regulations, we may incur significant costs, and non-compliance may result in the imposition of fines and penalties, including contractual damages. If we fail to comply with these laws and regulations or if a government audit, review, or investigation uncovers improper or illegal activities, we may be subject to civil penalties, criminal penalties, or administrative sanctions, including suspension or debarment from contracting with the U.S. government. Our reputation could suffer harm if allegations of impropriety were made or found against us, which could adversely affect our operating performance and may result in additional expenses and possible loss of revenue. A significant portion of our expeditionary airlift revenue is derived from providing expeditionary airlift\nservices in Afghanistan. Our expeditionary airlift business derives a significant portion of its revenue from providing expeditionary airlift services in Afghanistan for\nthe DoD. The U.S. has been reducing military activities in Afghanistan and the number of troops in Afghanistan is currently less than 10,000. Our expeditionary Table of Contents\nairlift services revenue will likely experience further declines should troop reductions occur in Afghanistan or we do not receive task orders for future services under our indefinite delivery, indefinite quantity contract awards. We are bidding on expeditionary airlift contracts in other regions supporting both DoD and non-DoD customers, although there can be no assurance we will be awarded any of these contracts. Although we expect ongoing demand for expeditionary airlift services in Afghanistan and other regions from the DoD and other governmental departments, we are exposed to the risk that our expeditionary airlift revenues may further decline if contracts are not renewed, renewed only in part, or are terminated, which could adversely affect our results of operations and financial condition. If we are unable to successfully redeploy aircraft not actively supporting current customers at favorable rates or sell them on favorable terms, it could have a material adverse effect on our business, results of operations and financial condition. U.S. government contractors that provide support services in theaters of conflict such as Afghanistan have come under increasing scrutiny by agency inspectors general, government auditors and congressional committees. Investigations pursued by any or all of these groups may result in additional expense, adverse publicity for us and reputational harm, regardless of the underlying merit of the allegations being investigated. We are exposed to risks associated with operating internationally.\nWe conduct our business in a number of foreign countries, some of which are politically unstable or subject to military or civil conflicts.\nConsequently, we are subject to a variety of risks that are specific to international operations, including the following: military conflicts, civil strife, and political risks;\nexport regulations that could erode profit margins or restrict exports;\ncompliance with the U.S. Foreign Corrupt Practices Act, United Kingdom ("UK") Anti-bribery Act, and other anti-bribery and anti-corruption\nlaws; the burden and cost of compliance with foreign laws, treaties, and technical standards and changes in those regulations;\ncontract award and funding delays;\npotential restrictions on transfers of funds;\nimport and export duties and value added taxes;\nforeign exchange risk;\ntransportation delays and interruptions;\nuncertainties arising from foreign local business practices and cultural considerations; and\nchanges in U.S. policies on trade relations and trade policy, including implementation of or changes in trade sanctions, tariffs, and\nembargoes. In addition, the UK held a referendum in 2016 in which voters approved an exit from the European Union ("EU"). On March29, 2017, the UK government commenced the exit process under Article50 of the Treaty of the EU by notifying the European Council of the UK\'s intention to leave the EU. This notification starts a two-year time period for the UK and the remaining EU countries to negotiate a withdrawal agreement. The terms of the UK\'s potential exit from the EU have yet to be determined and it is possible there will be greater restrictions on imports and exports between the UK and EU countries along with increased regulatory complexities. Table of Contents\nWhile we have adopted and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of doing business internationally, such measures may not be adequate, and the regions in which we operate might not continue to be stable enough to allow us to operate profitably or at all. Acquisitions expose us to risks, including the risk that we may be unable to effectively integrate acquired\nbusinesses. We explore and have discussions with third parties regarding acquisitions on a regular basis. Acquisitions involve risks, including difficulties\nin integrating the operations and personnel, the effects of amortization of any acquired intangible assets and the potential impairment of goodwill, and the potential loss of key employees of the acquired business. In addition, acquisitions often require substantial management resources and have the potential to divert our attention from our existing business. For any businesses we may acquire in the future, we may not be able to execute our operational, financial, or integration plans for the acquired businesses, which could adversely affect our results of operations and financial condition. Market values for our aviation products fluctuate, and we may be unable to re-lease or sell aircraft and\nengines when their current leases expire. We make a number of assumptions when determining the recoverability of aircraft, engines, and other assets which are on lease or available for\nlease. These assumptions include historical sales trends, current and expected usage trends, replacement values, current and expected lease rates, residual values, future demand, and future cash flows. Reductions in demand for these assets or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the recoverability of our aircraft, engines, and other assets could result in impairment charges in future periods, which would adversely affect our results of operations and financial condition. We lease aircraft and engines to our customers on an operating lease basis. Our ability to re-lease or sell these assets on acceptable terms when the lease expires is subject to a number of factors which drive industry capacity, including new aircraft deliveries, availability of used aircraft and engines in the marketplace, competition, financial condition of our customers, overall health of the airline industry, and general economic conditions. Our inability to re-lease or sell aircraft and engines could adversely affect our results of operations and financial condition. We may need to reduce the carrying value of our assets.\nWe own and distribute a significant amount of aircraft, aircraft parts and components, and manufacturing facilities and related equipment. The\nremoval of aircraft from service or recurring losses in certain operations could require us to evaluate the recoverability of the carrying value of those assets and record an impairment charge through earnings to reduce the carrying value. We recognized impairment charges and other losses of $71.4million in fiscal 2015 related to our actions to address underperforming product lines and inventories. In addition, if aircraft or engines for which we offer replacement parts or supply repair and overhaul services are retired and there are fewer aircraft that require these parts or services, our revenues may decline. We have recorded goodwill and other intangible assets related to acquisitions. If we are unable to achieve the projected levels of operating results, it may be necessary to record an impairment charge to reduce the carrying value of goodwill and related intangible assets. Similarly, if we were to lose a key customer or one of our airframe maintenance or landing gear facilities were to lose its authority to operate, we might be required to record an impairment charge. Table of Contents\n We are dependent upon continued availability of financing to manage our business and to execute our business\nstrategy, and additional financing may not be available on terms acceptable to us. Our ability to manage our business and to execute our business strategy is dependent, in part, on the continued availability of debt and equity\ncapital. Access to the debt and equity capital markets may be limited by various factors, including the condition of overall credit markets, general economic factors, state of the aviation industry, our financial performance, and credit ratings. Debt and equity capital may not continue to be available to us on favorable terms, or at all. Our inability to obtain financing on favorable terms could adversely affect our results of operations and financial condition. Our existing debt includes restrictive and financial covenants.\nCertain loan and debt agreements, including our Revolving Credit Facility, require us to comply with various restrictive covenants and some\ncontain financial covenants that require us to comply with specified financial ratios and tests. Our failure to meet these covenants could result in default under these loan and debt agreements and may result in a cross-default under other debt agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under our debt agreements could be declared immediately due and payable. Our failure to comply with these covenants could adversely affect our results of operations and financial condition. Our industry is susceptible to product and other liability claims, and claims not adequately covered by\ninsurance may adversely affect our financial condition. Our business exposes us to possible claims for property damage and bodily injury or death which may result if an engine, engine part or\ncomponent, airframe part or accessory, or any other aviation product which we have sold, manufactured, or repaired fails, or if an aircraft we operated, serviced, or in which our products are installed, crashes. We carry substantial liability insurance in amounts that we believe are adequate for our risk exposure and commensurate with industry norms. However, claims may arise in the future, and our insurance coverage may not be adequate to protect us in all circumstances. Additionally, we might not be able to maintain adequate insurance coverage in the future at an acceptable cost. Any liability claim not covered by adequate insurance could adversely affect our results of operations and financial condition. Our business could be negatively affected by cyber or other security threats or other disruptions.\nOur businesses depend heavily on information technology and computerized systems to communicate and operate effectively. The Company\'s systems\nand technologies, or those of third parties on which we rely, could fail or become unreliable due to equipment failures, software viruses, cyber threats, ransomware attacks, terrorist acts, natural disasters, power failures or other causes. These threats arise in some cases as a result of our role as a defense contractor. Cyber security threats are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to our sensitive information, ransomware attacks, including our customers, suppliers, subcontractors, and joint venture partners, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. Although we utilize various procedures and controls to monitor and mitigate these threats, these procedures and controls may not be sufficient to prevent security threats from materializing. If any of these events were to materialize, the costs related to cyber or other security threats or disruptions may not be fully insured or indemnified and could have a material adverse effect on our reputation, operating results, and financial condition. Table of Contents\nMoreover, expenditures incurred in implementing and maintaining cyber security and other procedures and controls could adversely affect our results of operations and financial condition. We must comply with extensive environmental requirements, and any exposure to environmental liabilities may\nadversely affect us. Federal, state, and local requirements relating to the discharge and emission of substances into the environment, the disposal of hazardous\nwastes, the remediation and abatement of contaminants, and other activities affecting the environment have had and may continue to have an impact on our operations. Management cannot assess the possible effect of compliance with future environmental requirements or of future environmental claims for which we may not have adequate indemnification or insurance coverage. If we were required to pay the expenses related to any future environmental claims for which neither indemnification nor insurance coverage were available, these expenses could have an adverse impact on our results of operations and financial condition. Future environmental regulatory developments in the United States and abroad concerning environmental issues, such as climate change, could adversely affect our operations and increase operating costs and, through their impact on our customers, reduce demand for our products and services. Actions may be taken in the future by the U.S. government, state governments within the United States, foreign governments, the International Civil Aviation Organization, or by signatory countries through a new global climate change treaty to regulate the emission of greenhouse gases by the aviation industry. The precise nature of any such requirements and their applicability to us and our customers are difficult to predict, but the impact to us and the aviation industry would likely be adverse and could be significant, including the potential for increased fuel costs, carbon taxes or fees, or a requirement to purchase carbon credits. We may need to make significant capital expenditures to keep pace with technological developments in our\nindustry. The industries in which we participate are constantly undergoing development and change, and it is likely that new products, equipment, and\nmethods of repair and overhaul services will be introduced in the future. We may need to make significant expenditures to purchase new equipment and to train our employees to keep pace with any new technological developments. These expenditures could adversely affect our results of operations and financial condition. Our operations would be adversely affected by a shortage of skilled personnel or work stoppages.\nWe are dependent on an educated and highly skilled workforce because of the complex nature of many of our products and services. Furthermore, we\nhave a collective bargaining agreement covering approximately 125 employees. Our ability to operate successfully and meet our customers\' demands could be jeopardized if we are unable to attract and retain a sufficient number of skilled personnel, including qualified licensed mechanics, to conduct our business, or if we experience a significant or prolonged work stoppage. These and similar events may adversely affect our results of operations and financial condition. ITEM 1B.UNRESOLVED STAFF COMMENTS\nNot Applicable.\n ITEM 2.PROPERTIES\nIn the Aviation Services segment, we conduct inventory management and distribution activities from our headquarters in Wood Dale, Illinois,\nwhich we own. In addition to warehouse space, this facility includes executive, sales and administrative offices. Our principal maintenance, repair, overhaul, engineering and other service activities for this segment are conducted at facilities leased by us in Indianapolis, Indiana; Oklahoma City, Oklahoma; Miami, Florida; Duluth, Minnesota; Lake Charles, Louisiana; and Rockford, Illinois. Table of Contents\nWe also lease facilities in Garden City, New York; Jacksonville, Florida; Brussels, Belgium; Singapore, Republic of Singapore; London, England; Crawley, England; and Dubai, UAE, and own a building near Schiphol International Airport in the Netherlands to support activities in the Aviation Services segment. Our principal activities in the Expeditionary Services segment are conducted at facilities we lease in Melbourne, Florida, Huntsville, Alabama, and Sacramento, California and own in Cadillac, Michigan; Clearwater, Florida; and Goldsboro, North Carolina. We also operate sales offices which support all our activities and are leased in London, England; Crawley, England; Paris, France; Rio de Janeiro, Brazil; Shanghai, China; Singapore, Republic of Singapore; and Abu Dhabi, UAE. We believe that our owned and leased facilities are suitable and adequate for our operational requirements. ITEM 3.LEGAL PROCEEDINGS\nWe are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine\nlitigation incidental to our business except for the following: DynCorp InternationalLLC v. AAR Airlift Group,Inc.\nOn September5, 2015, DynCorp InternationalLLC ("DynCorp") filed a complaint in the United States District Court for the Middle\nDistrict of Florida, Orlando Division (the "District Court"), accusing AAR Airlift Group,Inc. ("AAR Airlift"), a wholly-owned subsidiary of AAR CORP., of misappropriation of DynCorp information, including trade secrets, and other related allegations. DynCorp\'s complaint, which sought damages in an unspecified amount and a preliminary injunction, alleged that AAR Airlift engaged in this conduct in connection with the submission of proposals in response to the solicitation issued by the U.S. Department of State ("DOS") Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation ("INL/A") in support of the Global Aviation Support Services program. The INL/A contract was subsequently awarded to AAR Airlift on September1, 2016 as described below under "Court of Federal Claims INL/A Proceeding". The District Court denied DynCorp\'s preliminary injunction motion, and on October19, 2015, DynCorp filed an amended complaint with the District Court. On January14, 2016, the District Court granted AAR Airlift\'s motion to dismiss DynCorp\'s amended complaint. On February2, 2016, DynCorp appealed the District Court\'s order to the United States Court of Appeals for the Eleventh Circuit (the "Eleventh Circuit"). On November21, 2016, the Eleventh Circuit reversed in part the District Court\'s dismissal of the amended complaint and remanded the case to the District Court for further proceedings. The District Court set a discovery schedule that ends September1, 2017 and a trial date of April2, 2018. On June16, 2017, the District Court granted AAR Airlift\'s motion to stay the legal proceeding against AAR Airlift. The stay will remain in effect until the earlier of (a)November1, 2017 or (b)the entry of a decision of the United Stated Court of Federal Claims ("COFC"), on DynCorp\'s protest of the award of the INL/A contract to AAR Airlift. The District Court\'s stay immediately halted all discovery and other activity in the DynCorp lawsuit. AAR Airlift will continue to defend itself vigorously against DynCorp\'s lawsuit, which it believes is entirely without merit. Table of Contents\n OIG Investigation\nThe DOS receivedand referred to its Office of Inspector General ("OIG")a May 2015 letter from DynCorp in which DynCorp\nmade substantially the same allegations against AAR Airlift as set forth in both its original Complaint and its First Amended Complaint filed with the District Court. The OIG conducted an 18-month investigation into DynCorp\'s allegations with the full cooperation of AAR Airlift. The OIG closed its investigation in a written closing memorandum (the "OIG Memorandum") dated December23, 2016 that was made public on February23, 2017. The OIG Memorandum stated that there was no evidence that AAR Airlift used any DynCorp information in winning the INL/A contract and that there was no evidence of any harm to DynCorp or to the U.S. Government. The OIG briefed the U.S. Department of Justice ("DOJ") on the results of its investigation, and both the DOJ and the OIG declined to take any action against AAR Airlift. Court of Federal Claims INL/A Proceeding\n On September1, 2016, the DOS awarded the INL/A contract to AAR Airlift. On December20, 2016, the U.S. Government Accountability Office ("GAO") denied a protest filed by DynCorp and confirmed the award of the INL/A contract to AAR Airlift. On December28, 2016, DynCorp filed a further protest, this time with the U.S. Court of Federal Claims ("COFC"), bringing again essentially the same arguments it brought before the GAO. The parties in the COFC proceeding are DynCorp and the U.S. Government, represented by the DOJ. AAR Airlift is an intervenor in the COFC proceeding. The COFC proceeding will be based entirely on the administrative record in the GAO proceeding. The COFC initially expected to issue its decision on or before August9, 2017. On June12, 2017, the COFC issued a revised scheduling order indicating that it expects to render a decision on or before October31, 2017. AAR Airlift remains confident that the COFC will deny DynCorp\'s latest protest consistent with the findings of the OIG, the DOS Contracting Officer, the DOJ and the GAO. ITEM 4.MINE SAFETY DISCLOSURES\nNot Applicable.\n Supplemental Item:\n EXECUTIVE OFFICERS OF THE REGISTRANT Information concerning each of our executive officers is set forth below:\n Name Age Present Position with the Company\n David P. Storch Chairman and Chief Executive Officer, Director\n Timothy J. Romenesko Vice Chairman and Chief Financial Officer, Director\n John M. Holmes President and Chief Operating Officer, Director\n Robert J. Regan Vice President, General Counsel and Secretary\n Eric S. Pachapa Vice President, Controller and Chief Accounting Officer\n Mr.Storch is Chairman of the Board and Chief Executive Officer of AAR, having served in that capacity since June 2017 and from\n2007 to August 2015. From August 2015 to May 2017 and from 2005 to 2007, Mr.Storch served as Chairman of the Board, President and Chief Executive Officer. From 1996 to 2005, Mr.Storch served as President and Chief Executive Officer and from 1989 to 1996 he served as Chief Operating Officer. Prior to that, Mr.Storch served as a Vice President of the Company from 1988 to 1989. Table of Contents\nMr.Storch joined the Company in 1979 and also served as president of a major subsidiary from 1984 to 1988. Mr.Storch has been a director of the Company since 1989. Mr.Romenesko is Vice Chairman and Chief Financial Officer, having served in that capacity since August 2016. From August 2015 to\nAugust 2016, Mr.Romenesko served as Vice Chairman and Chief Operating OfficerExpeditionary Services. From March 2015 to August 2015, he served as President and Chief Operating OfficerExpeditionary Services. Previously, he served as President and Chief Operating Officer of the Company from 2007, and Vice President and Chief Financial Officer from 1994 to 2007. Mr.Romenesko also served as Controller from 1991 to 1995, and in various other positions since joining AAR in 1981. Mr.Romenesko has been a director of the Company since July 2007. As previously announced, Mr. Romenesko will retire from the Company on December31, 2017. Mr.Holmes is President and Chief Operating Officer, having served in that capacity since June 2017. Mr.Holmes previously\nserved as Chief Operating OfficerAviation Services since 2015, Group Vice President, Aviation ServicesInventory Management and Distribution since 2012, General Manager and Division President of our Allen Asset Management business since 2003, and in various other positions since joining the Company in September 2001. Mr.Holmes has been a director of the Company since July10, 2017. Mr.Regan is Vice President, General Counsel and Secretary, having served in that capacity since June 2009. From 2008 to June 2009,\nMr.Regan served as Vice President and General Counsel and, prior to that, Associate General Counsel since joining AAR in February 2008. Prior to joining AAR, he was a partner at the law firm of Schiff HardinLLP since 1989. Mr.Pachapa is Vice President, Controller and Chief Accounting Officer, having served in that capacity since July 2016.\nMr.Pachapa previously served as Controller since October 2015 and Senior Director of Accounting and Reporting since April 2014. Prior to joining the Company, he was with Glanbiaplc from 2011 to 2014, and with Ernst& YoungLLP from 1996 to 2011. Each executive officer is elected annually by the Board of Directors. Executive officers continue to hold office until their successors are duly elected or until their death, resignation, termination or reassignment. Table of Contents\n PART II\n ITEM 5.MARKET FOR REGISTRANT\'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES\n Our common stock is traded on the New York Stock Exchange and the Chicago Stock Exchange under the symbol "AIR." On June30, 2017, there were approximately 928 holders of common stock, including participants in security position listings. The following table shows the range of prices for our common stock and the amount of dividends declared per share during each quarter of our last two fiscal years: Fiscal 2017\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year\n Market price\n High $ 25.04 $ 38.67 $ 38.31 $ 36.01 $ 38.67 Low 22.06 26.21 31.49 32.74 22.06 Dividends declared\n 0.075 0.075 0.075 0.075 0.30 Fiscal 2016\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year\n Market price\n High $ 32.60 $ 24.56 $ 26.66 $ 24.61 $ 32.60 Low 23.51 18.69 18.93 21.00 18.69 Dividends declared\n 0.075 0.075 0.075 0.075 0.30 Stockholder Return Performance Graph\nThe following graph compares the total return on a cumulative basis of $100 invested, and reinvestment of dividends in our common stock on\nMay31, 2012 to the Standard and Poor\'s ("S&P") 500 Index and the Proxy Peer Group. Comparison of Cumulative Five Year Total Return\n Table of Contents\nThe S&P500 Index is comprised of domestic industry leaders in four major sectors: Industrial, Financial, Utility, and Transportation, and serves as a broad indicator of the performance of the U.S. equity market. The Company\'s Fiscal 2017 Proxy Peer Group companies are listed as follows: Aerojet Rocketdyne Holdings,Inc. KLXInc. Barnes GroupInc. MoogInc. CACI International Inc Rockwell Collins,Inc.\n CraneCo. Science Applications International Corporation\n Cubic Corporation Teledyne Technologies Incorporated\n Curtiss-Wright Corporation TransDigm Group Incorporated\n Esterline Technologies Corporation Triumph Group,Inc.\n Heico Corporation Wesco International,Inc.\n Hexcel Corporation Woodward,Inc. Kaman Corporation The Company annually revisits the composition of the peer group to ensure that the Company\'s performance is measured against those of comparably-sized and situated companies. The mix of the Company\'s commercial and defense businesses presents a challenge in constructing a peer group, given that many defense contractors have substantially greater resources than the Company. No changes were made to the composition of the peer group for fiscal 2017. Issuer Purchases of Equity Securities The following table provides information about purchases of shares of our common stock that we made during the quarter ended May31,\n2017: Period Total Number\nof Shares Purchased Average Price Paid per Share Total Number\nof Shares Purchased as Part of Publicly Announced Plans or Programs1 Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs1 3/1/2017-3/31/2017 $ 4/1/2017-4/30/2017 96,050 33.47 96,050 5/1/2017-5/31/2017 Total 96,050 $ 33.47 96,050 $ 250,000,000 1On July10, 2017, our Board of Directors authorized a new stock repurchase program providing for the repurchase of up to $250million of our common stock with no expiration date. Table of Contents\n ITEM 6.SELECTED FINANCIAL DATA (In millions, except per share amounts)\n For the Year Ended May31, RESULTS OF OPERATIONS1\n Sales $ 1,767.6 $ 1,698.9 $ 1,621.4 $ 1,744.3 $ 1,842.6 Gross profit2\n 276.5 237.9 130.8 288.3 255.0 Operating income (loss)2\n 79.6 64.4 (41.4 ) 124.9 97.4 Loss on extinguishment of debt3\n (0.4 ) (44.9 ) (0.3 ) Interest expense\n 5.5 6.4 27.2 29.4 30.1 Income (Loss) from continuing operations\n 50.2 38.3 (73.9 ) 65.9 45.0 Income from discontinued operations4\n 6.3 9.4 84.1 7.0 10.0 Net income attributable to AAR\n 56.5 47.7 10.2 72.9 55.0 Share data:\n Earnings per sharebasic:\n Earnings (Loss) from continuing operations\n $ 1.47 $ 1.10 $ (1.90 ) $ 1.67 $ 1.13 Earnings from discontinued operations\n 0.19 0.27 2.16 0.18 0.25 Earnings per sharebasic\n $ 1.66 $ 1.37 $ 0.26 $ 1.85 $ 1.38 Earnings per sharediluted:\n Earnings (Loss) from continuing operations\n $ 1.45 $ 1.10 $ (1.90 ) $ 1.65 $ 1.13 Earnings from discontinued operations\n 0.19 0.27 2.14 0.18 0.25 Earnings per sharediluted\n $ 1.64 $ 1.37 $ 0.24 $ 1.83 $ 1.38 Cash dividends declared per share\n $ 0.30 $ 0.30 $ 0.30 $ 0.30 $ 0.30 Weighted average common shares outstandingbasic\n 33.9 34.4 39.1 38.6 38.3 Weighted average common shares outstandingdiluted\n 34.3 34.6 39.4 39.1 40.6 May31, FINANCIAL POSITION1\n Total cash and cash equivalents\n $ 10.3 $ 31.2 $ 54.7 $ 89.2 $ 75.3 Working capital\n 553.4 540.3 456.9 645.4 585.1 Total assets\n 1,504.1 1,456.0 1,454.1 2,159.8 2,107.0 Total debt3\n 159.3 150.1 154.0 634.0 708.6 Equity5 914.2 865.8 845.1 1,000.7 919.5 Number of shares outstanding at end of year5\n 34.4 34.5 35.4 39.6 39.4 Book value per share of common stock\n $ 26.58 $ 25.10 $ 23.87 $ 25.27 $ 23.34 Notes: 1During the first quarter of fiscal 2017, we decided to retain our composite manufacturing operations within our Expeditionary Services segment as a product line within our mobility products business. The Results of Operations and Financial Position data has been recast to reflect the classification of our composite manufacturing operations into continuing operations for all periods presented. Table of Contents\n 2In fiscal 2015, we recognized $71.4million in impairment charges and other losses related to product lines and inventories identified as underperforming or not part of our strategy going forward. These actions included aircraft in our aircraft lease portfolio, inventory in our supply chain and MRO operations, and certain aircraft and inventory in our expeditionary airlift business. We also recognized impairment charges of $25.6million related to our composite manufacturing operations. In fiscal 2013, we recorded a $29.8million charge due to lower revenue and profit expectations on a contract supporting the KC-10 aircraft as a result of lower than expected flight hours of the KC-10 aircraft and changes to our anticipated recovery of costs in excess of amounts billed within this contract. 3In fiscal 2015, we redeemed our $325million 7.25% Senior Notes due 2022 for $370.6million. We recognized a loss on extinguishment of debt of $44.9million comprised of a make-whole premium of $45.6million and unamortized deferred financing costs of $6.2million, partially offset by an unamortized net premium of $6.9million. 4In fiscal 2015, we sold our Telair Cargo Group for $725million resulting in a $198.6million pre-tax gain. We also recognized impairment charges of $31.9million in fiscal 2015 to reduce the carrying value of our metal machining business\'s net assets to their expected value at the time of sale. In fiscal 2016, we received contingent consideration from the sale of Telair Cargo Group and recognized a pre-tax gain of $27.7million. 5On May29, 2015, we repurchased 4,185,960 shares of our common stock at a price of $31.90 per share pursuant to a tender offer utilizing $133.5million cash on hand. Fees and expenses of $1.2million were incurred related to the tender offer and were recorded in treasury stock. Table of Contents\n ITEM 7.MANAGEMENT\'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Dollars in millions)\n Forward-Looking Statements\nManagement\'s Discussion and Analysis of Financial Condition and Results of Operations contain certain statements relating to future results,\nwhich are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the beliefs of management, as well as assumptions and estimates based on information available to us as of the dates such assumptions and estimates are made, and are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated, depending on a variety of factors, including those factors discussed under Item1A, "Risk Factors." Should one or more of those risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. Those events and uncertainties are difficult or impossible to predict accurately and many are beyond our control. We assume no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. General Overview\nWe report our activities in two business segments: Aviation Services comprised of supply chain\nand maintenance, repair and overhaul ("MRO") activities and Expeditionary Services comprised of airlift and mobility activities. The Aviation Services segment consists of aftermarket support and services businesses that provide spares and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, aircraft component repair management services, and aircraft modifications. The segment also includes MRO of aircraft, landing gear and components. We also sell and lease used commercial aircraft through joint venture arrangements. Cost of sales consists principally of the cost of product, direct labor, and overhead. The Expeditionary Services segment consists of businesses that provide products and services supporting the movement of equipment and personnel by the U.S. Department of Defense ("DoD"), foreign governments and non-governmental organizations. Sales in the Expeditionary Services segment are derived from the delivery of airlift services to mostly government and defense customers and the design and manufacture of pallets, shelters, and containers used to support the U.S. military\'s requirements for a mobile and agile force. We also provide system integration services for specialized command and control systems and composite manufacturing. Cost of sales consists principally of aircraft maintenance costs, depreciation, the cost of material to manufacture products, direct labor and overhead. Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services. Beginning in fiscal 2015, we implemented a comprehensive strategic plan to narrow our strategy to focus on our best in class aviation and expeditionary services through our two business segments: Aviation Services and Expeditionary Services. We sold our Telair Cargo Group for cash of $714million, resulting in pre-tax gains of $198.6million in the fourth quarter of fiscal 2015 (and $27.7million in the first quarter of Table of Contents\nfiscal 2016 from the receipt of contingent consideration). We used the proceeds from the sale in fiscal 2015 to reduce our total debt by $480million and we returned capital to shareholders through $151.5million in common stock repurchases and $12.5million of dividends. In fiscal 2016, our Aviation Services segment succeeded in expanding customer relationships and securing new program work with multiple international carriers. In our Expeditionary Services segment, we completed the successful start-up of our new contract with the U.K. Ministry of Defence providing search and rescue services in the Falkland Islands. We maintained our focus on shareholder return through additional common stock repurchases of $18.8million and dividends of $10.4million. In fiscal 2017, we increased our Aviation Services segment revenues by securing additional flight hour component inventory management and repair programs from our commercial airline customers and investing in our capacity and business development resources. During fiscal 2017, our investment in business development resulted in the award of new contracts from commercial operators, including South African Airways, Air New Zealand, flydubai, CommutAir, Allegiant Air, Small Planet Airlines, Enter Air, SaudiGulf, and ASL Aviation Holdings. Also during fiscal 2017, we invested over $80million in rotable assets to support our commercial aviation programs. We started to recognize revenue and income in fiscal 2017 on most of these contract awards and expect to continue the ramp-up in fiscal 2018. On September1, 2016, the Department of State awarded AAR Airlift Group,Inc. the contract for INL/A Global Aviation Support Services. This contract will leverage our capabilities in aviation services, including flight operations, supply chain logistics, and other services. The potential duration of this contract is 11years and the potential revenue stream, including all related task orders, is $10billion. The incumbent contractor filed a protest that was denied by the United States Government Accountability Office in December 2016 and subsequently filed a separate protest with the United States Court of Federal Claims ("COFC"). The COFC stayed the contract award to AAR Airlift pending its decision on the protest. The COFC\'s decision on the protest is expected on or before October31, 2017. In our Expeditionary Services segment, the government markets we serve in support of troop movements and related activities continue to be weak with revenue and earnings significantly lower than peak levels. Business Trends and Outlook for Fiscal 2018\nConsolidated sales for fiscal 2017 increased $68.7million or 4.0% compared to the prior year primarily due to an increase in sales of\n$60.4million or 4.2% in our Aviation Services segment. This increase was driven by strong growth in our aviation supply chain activities including our recent contract awards for component inventory management and repair programs across both commercial and government customers. This growth was partially offset by the impact from the wind-down of our KC-10 program. Sales in the Expeditionary Services segment increased $8.3million or 3.0% over the prior year as increased volumes continue to drive a recovery in our mobility business, however, these levels are still significantly below historical levels of performance for this business. In May 2017, the DoD awarded an indefinite-delivery/indefinite-quantity contract to AAR Airlift and other companies related to the re-compete for rotary-wing airlift services in Afghanistan. We did not receive task orders for this contract and have filed a protest with the DoD contesting the task orders awarded to our competitors. Our principal services under the KC-10 Program were completed in January 2017 with the wind-down expected to be complete in mid-fiscal 2018. Sales and gross profit for the KC-10 Program during fiscal 2017 were $110.6million and $3.7million, respectively. For fiscal 2018, we expect to see continued strength in our Aviation Services segment given its strong positions in the growing global aviation market. We believe there continues to be a favorable trend by both commercial and government and defense customers for comprehensive supply chain and maintenance Table of Contents\nprograms, as these customers continue to seek ways to reduce their operating cost structure. In our Expeditionary Services segment, we are experiencing an increase in demand for our low-cost solutions, services, and products; however, the level of demand remains significantly below historical levels for these businesses. We remain in a strong financial position to further execute on our strategy as a best in class aviation and expeditionary services company. Our cash on hand plus unused capacity on our Revolving Credit Facility was $366million at May31, 2017. We expect to invest opportunistically in expanding our comprehensive suite of services to the global commercial aviation and government and defense markets. We continue to have the flexibility in our balance sheet allowing us to invest in our growth. As we generate positive cash flow, we will continue our past strategy of returning capital to our shareholders without hampering our future operating flexibility. Results of OperationsFiscal 2017 Compared with Fiscal 2016\nSales and gross profit for our two business segments for the two years ended May31, 2017 and 2016 were as follows:\n For the Year Ended May31, % Change\n Sales: Aviation Services\n Commercial $ 1,114.9 $ 1,003.5 11.1 % Defense 370.5 421.5 (12.1 )% $ 1,485.4 $ 1,425.0 4.2 % Expeditionary Services\n Commercial $ 55.1 $ 42.6 29.3 % Defense 227.1 231.3 (1.8 )% $ 282.2 $ 273.9 3.0 % For the Year Ended May31, % Change\n Gross Profit:\n Aviation Services\n Commercial $ 183.3 $ 157.5 16.4 % Defense 62.9 72.3 (13.0 )% $ 246.2 $ 229.8 7.1 % Expeditionary Services\n Commercial $ 8.7 $ 3.5 148.6 % Defense 21.6 4.6 369.6 % $ 30.3 $ 8.1 274.1 % Aviation Services Segment\n Sales in the Aviation Services segment increased $60.4million or 4.2% over the prior year due to a $111.4million or 11.1%\nincrease in sales to commercial customers. The increase in sales to commercial customers was primarily attributable to higher volumes in aviation supply chain activities driven by new contract awards. Table of Contents\nDuring fiscal 2017, sales in this segment to government and defense customers decreased $51.0million or 12.1% from the prior year. The decrease was primarily due to the wind-down of our KC-10Program. Cost of sales in Aviation Services increased $44.0million or 3.7% over the prior year which was in line with the sales increase discussed above. Gross profit in the Aviation Services segment increased $16.4million or 7.1% over the prior year. Gross profit on sales to commercial customers increased $25.8million or 16.4% over the prior year primarily driven by the higher volumes in aviation supply chain activities. The gross profit margin on sales to commercial customers increased to 16.4% compared to 15.7% in the prior year and was largely attributable to strong profitability growth in aviation supply chain activities. Gross profit in this segment on sales to government and defense customers decreased $9.4million or 13.0% from the prior year primarily driven by the reduced services under our KC-10 Program. The gross profit margin decreased slightly from 17.2% to 17.0% primarily due to the decrease in volumes. Expeditionary Services Segment\n Sales in the Expeditionary Services segment increased $8.3million or 3.0% over the prior year period primarily due to higher demand for\nour mobility products; however, these levels are still significantly below historical levels of performance for this business. Gross profit in the Expeditionary Services segment increased $22.2million over the prior year period due to improved profitability for mobility products. During the first quarter of fiscal 2017, we sold certain assets related to our temperature-controlled container product line to Sonoco Protective Solutions,Inc. which resulted in a gain of $2.6million. Selling, General and Administrative Expenses\n Selling, general and administrative expenses increased $23.5million in fiscal 2017 or 13.6% from the prior year primarily attributable\nto incremental investments in business development activities, including legal costs related to our defense of the INL/A contract award. Interest Expense\n Interest expense decreased $0.9million in fiscal 2017 compared to the prior year primarily as a result of the retirement of our\nremaining convertible notes in fiscal 2016. Income Taxes\n Our fiscal 2017 effective income tax rate for continuing operations was 32.4% compared to 33.9% in the prior year. The effective income tax rate\nfor fiscal 2017 includes a benefit of $2.2million related to recognition of previously unrecognized uncertain tax positions. The effective income tax rate for fiscal 2016 includes a benefit of $1.3million related to the correction of prior year immaterial errors. Results of OperationsFiscal 2016 Compared with Fiscal 2015\nSales and gross profit for our two business segments for the two years ended May31, 2016 and 2015 were as follows:\n For the Year Ended May31, % Change\n Sales: Aviation Services\n Commercial $ 1,003.5 $ 985.7 1.8 % Defense 421.5 330.4 27.6 % $ 1,425.0 $ 1,316.1 8.3 % Expeditionary Services\n Commercial $ 42.6 $ 43.4 (1.8 )% Defense 231.3 261.9 (11.7 )% $ 273.9 $ 305.3 (10.3 )% Table of Contents\n For the Year Ended May31, % Change\n Gross Profit (Loss):\n Aviation Services\n Commercial $ 157.5 $ 93.5 68.4 % Defense 72.3 50.3 43.7 % $ 229.8 $ 143.8 59.8 % Expeditionary Services\n Commercial $ 3.5 $ (25.6 ) 113.7 % Defense 4.6 12.6 (63.5 )% $ 8.1 $ (13.0 ) 162.3 % Aviation Services Segment\n Sales in the Aviation Services segment increased $108.9million or 8.3% over the prior year due to a $91.1million or 27.6%\nincrease in sales to government and defense customers. The increase in sales to government and defense customers was primarily attributable to increased volumes in aviation supply chain activities. During fiscal 2016, sales in this segment to commercial customers increased $17.8million or 1.8% over the prior year primarily due to higher MRO sales of $49.8million largely offset by lower volumes in aviation supply chain activities. In fiscal 2015, we sold our last two wholly-owned aircraft for $11.0million. Cost of sales in Aviation Services increased $22.9million or 2.0% over the prior year primarily due to growth in sales volume partially offset by charges and other actions in fiscal 2015 that did not occur in fiscal 2016, including that in fiscal 2015 (i)we recognized an impairment charge of $19.5million for rotable assets and inventory supporting certain product lines we exited in our landing gear business, (ii)we sold our last two remaining wholly-owned aircraft in our aircraft leasing portfolio resulting in a loss of $14.8million, and (iii)we took actions to address underperforming inventories and equipment available for lease resulting in losses in the fourth quarter of fiscal 2015 of $24.0million. Gross profit in the Aviation Services segment increased $86.0million or 59.8% over the prior year. Gross profit on sales to commercial customers increased $64.0million or 68.4% over the prior year primarily driven by the fiscal 2015 charges and other actions discussed above. The gross profit margin on sales to commercial customers increased to 15.7% compared to 9.5% in the prior year which was also attributable to the fiscal 2015 actions discussed above. Gross profit in this segment on sales to government and defense customers increased $22.0million or 43.7% over the prior year with aviation supply chain activities contributing the majority of the increase. Gross profit margin increased from 15.2% to 17.2% primarily due to these increased volumes. Expeditionary Services Segment\n Sales in the Expeditionary Services segment decreased $31.4million or 10.3% from the prior year period. The decrease in sales was driven\nby a decrease of $31.5million due to lower demand for mobility products. This decrease was principally related to lower demand from the DoD due to reduced troop activity. Cost of sales in Expeditionary Services decreased $52.5million or 16.4% from the prior year primarily due to the decrease in sales volume and by charges and other actions in fiscal 2015 that did not occur in fiscal 2016. Fiscal 2015 cost of sales included impairment charges of $25.6million related to our composite manufacturing operations and $8.9million related to expeditionary airlift services for inventory, rotable assets and aircraft. Table of Contents\n Gross profit in the Expeditionary Services segment increased $21.1million or 162.3% from the prior year primarily related to the impairment charges recorded in fiscal 2015 offset by lower sales of mobility products. Selling, General and Administrative Expenses\n Selling, general and administrative expenses increased $0.8million in fiscal 2016 or 0.5% from the prior year as fiscal 2015 included\nasset impairment charges on corporate assets of $3.5million and severance costs of $1.7million which did not occur in fiscal 2016. Incremental investments in business development activities in fiscal 2016 partially offset the benefit of the non-recurring fiscal 2015 costs. Loss on Extinguishment of Debt and Interest Expense\n On April30, 2015, we redeemed our $325million 7.25% Senior Notes due 2022 for $370.6million. We recognized a loss on\nextinguishment of debt of $44.9million comprised of a make-whole premium of $45.6million and unamortized deferred financing costs of $6.2million, partially offset by an unamortized net premium of $6.9million. Interest expense decreased $20.8million in fiscal 2016 primarily as a result of the redemption of the Senior Notes. Income Taxes\n Our fiscal 2016 effective income tax rate for continuing operations was 33.9% compared to 34.7% in the prior year period. The effective income\ntax rate for fiscal 2016 includes a benefit of $1.3million related to the correction of prior year immaterial errors. Liquidity, Capital Resources and Financial Position\nOur operating activities are funded and commitments met through the generation of cash from operations. Periodically, we may raise capital\nthrough common stock and debt financings in the public or private markets. In addition to these cash sources, our current capital resources include an unsecured credit facility. We continually evaluate various financing arrangements, including the issuance of common stock or debt, which would allow us to improve our liquidity position and finance future growth on commercially reasonable terms. Our continuing ability to borrow from our lenders and issue debt and equity securities to the public and private markets in the future may be negatively affected by a number of factors, including the overall health of the credit markets, general economic conditions, airline industry conditions, geo-political events, and our operating performance. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital. At May31, 2017, our liquidity and capital resources included cash of $10.3million and working capital of $553.4million. We maintain a Revolving Credit Facility with various financial institutions, as lenders and Bank of America, N.A., as administrative agent for the lenders which provides the Company an aggregate revolving credit commitment amount of $500million. The Company, under certain circumstances, has the ability to request an increase to the revolving credit commitment by an aggregate amount of up to $250million, not to exceed $750million in total. On November1, 2016, we entered into an amendment to our Revolving Credit Facility which extended the maturity of the Revolving Credit Facility to November1, 2021, eliminated the condition of no material adverse change for credit extensions and modified certain other provisions. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 100 to 200 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 100 basis points based on certain financial measurements if a Base Rate loan. Table of Contents\nBorrowings outstanding under the Revolving Credit Facility at May31, 2017 were $131.0million and there were approximately $13.6million of outstanding letters of credit, which reduced the availability of this facility to $355.4million. There are no other terms or covenants limiting the availability of this facility. We also had $9.6million available under foreign lines of credit at May31, 2017. At May31, 2017, we complied with all financial and other covenants under each of our financing arrangements. Cash FlowsFiscal 2017 Compared with Fiscal 2016\n Cash Flows from Operating Activities Net cash provided from operating activitiescontinuing operations was $24.2million in fiscal 2017 compared to\n$32.6million in fiscal 2016. The decrease of $8.4million was primarily attributable to greater investments in equipment on or available for long-term lease in fiscal 2017. These investments primarily support new government program awards such as the U.S. Navy\'s C-40A fleet as well as new flight hour component inventory management and repair programs with commercial airline customers including South African Airways, Air New Zealand, and other operators. Cash Flows from Investing Activities Net cash used in investing activitiescontinuing operations was $30.1million in fiscal 2017 compared to $47.6million\nin fiscal 2016. The prior year included higher capital expenditures, primarily in our Expeditionary Services segment. In fiscal 2016, we completed sale-leaseback transactions for two AW-189 rotary-wing aircraft which resulted in proceeds of $38.5million. Net cash provided from investing activitiesdiscontinued operations was $30.7million in fiscal 2016 which included $28.3 of proceeds from contingent consideration related to our fiscal 2015 sale of Telair Cargo Group. In fiscal 2015, we received proceeds of $686.1million after fees and expenses from the sale of Telair Cargo Group. Cash Flows from Financing Activities\nNet cash used in financing activitiescontinuing operations was $12.1million in fiscal 2017 compared to $38.4million\nin fiscal 2016. The reduction in cash used in financing activities of $26.3million was primarily attributable to an increase in net borrowings in fiscal 2017 compared to the prior year. Cash FlowsFiscal 2016 Compared with Fiscal 2015 Cash Flows from Operating Activities\nNet cash provided from operating activitiescontinuing operations was $32.6million in fiscal 2016 compared to\n$86.4million in fiscal 2015. The decrease of $53.8million was primarily attributable to a decrease in accrued and other liabilities including income tax payments of $35.7million in fiscal 2016. In addition, inventory and accounts receivable increased $31.5million in Aviation Services driven by sales growth in fiscal 2016 of 8.3% over the prior fiscal year. The sales growth was principally due to new contract wins in aviation supply chain activities. Cash Flows from Investing Activities\nNet cash used in investing activitiescontinuing operations was $47.6million in fiscal 2016 compared to cash provided by\ninvesting activitiescontinuing operations of $7.2million in fiscal 2015. The decrease of $54.8million over the comparable prior period was attributable to additional capital expenditures in fiscal 2016 primarily in expeditionary airlift services. Proceeds from sale-leaseback transactions were $38.5million and $40.3million in fiscal 2016 and 2015, respectively. Table of Contents\nNet cash provided from investing activitiesdiscontinued operations was $30.7million in fiscal 2016 which included $28.3 of proceeds from contingent consideration related to our fiscal 2015 sale of Telair Cargo Group. In fiscal 2015, we received proceeds of $686.1million after fees and expenses from the sale of Telair Cargo Group. Cash Flows from Financing Activities\nNet cash used in financing activitiescontinuing operations was $38.4million in fiscal 2016 compared to\n$677.5million in fiscal 2015. The decrease of $639.1million was primarily attributable to the use of our proceeds from our sale of the Telair Cargo Group in fiscal 2015 to reduce our long-term borrowings by $394.8million, including the redemption of our $325million 7.25% Senior Notes for $370.6million. Proceeds from the sale of the Telair Cargo Group were also used to repurchase common stock via a tender offer in fiscal 2015 and other open market purchases which used $151.5million of cash including fees and expenses compared to treasury stock purchases in fiscal 2016 of only $18.8million. Contractual Obligations and Off-Balance Sheet Arrangements\n A summary of contractual cash obligations and off-balance sheet arrangements as of May31, 2017 is as follows: Payments Due by Period Total Due in\nFiscal 2018 Due in\nFiscal 2019 Due in\nFiscal 2020 Due in\nFiscal 2021 Due in\nFiscal 2022 After Fiscal 2023 On Balance Sheet:\n Debt $ 25.0 $ $ 25.0 $ $ $ $ Bank borrowings\n 131.0 131.0 Capital leases\n 3.3 1.9 1.2 0.2 Interest1 12.6 3.3 2.8 2.7 2.7 1.1 Off Balance Sheet:\n Facilities and equipment operating leases\n 126.5 24.0 18.1 16.5 14.4 13.5 40.0 Purchase obligations2\n 273.0 231.2 37.7 1.4 2.7 Pension contribution3\n 9.5 9.5 Notes: 1Interest associated with variable rate debt was determined using the interest rate in effect on May31, 2017. 2Purchase obligations arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts, and components, as well as equipment to support the operations of our business. 3We anticipate contributing approximately $9.5million to our pension plans during fiscal 2018 compared to contributions of $2.9million in fiscal 2017. Our additional contributions in fiscal 2018 will provide the benefits of lower premiums payable to the Pension Benefit Guaranty Corporation and an increased income tax deduction. We routinely issue letters of credit and performance bonds in the ordinary course of business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May31, 2017 was $13.6million. Table of Contents\n Critical Accounting Policies and Significant Estimates\nOur Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States. Management\nhas made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare the Consolidated Financial Statements. The most significant estimates made by management include those related to assumptions used in assessing goodwill impairment, adjustments to reduce the value of inventories and certain rotables, revenue recognition, and assumptions used in determining pension plan obligations. Accordingly, actual results could differ materially from those estimates. The following is a summary of the accounting policies considered critical by management. Goodwill and Other Intangible Assets\nUnder accounting standards for goodwill and other intangible assets, goodwill and other intangible assets deemed to have indefinite lives are\nnot amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May31, or more frequently if circumstances indicate that impairment is possible. The accounting standards for goodwill allow for either a qualitative or quantitative approach for the annual impairment test. Under the qualitative approach, factors such as macroeconomic conditions, industry and market conditions and entity relevant events or circumstances are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. For the quantitative approach, we compare the fair value of each reporting unit with the carrying value of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying value of the reporting unit, we would be required to complete a second step to determine the amount of goodwill impairment. The second step of the test requires the allocation of the reporting unit\'s fair value to its assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill is less than the carrying value, the difference is recorded as an impairment loss. As of May31, 2017, we have five reporting units as defined by Accounting Standards Codification ("ASC") 350, IntangiblesGoodwill and Other with only four of the reporting units\' assigned goodwill. Our four reporting units with goodwill include two in our Aviation Services segment (Aviation Supply Chain and Maintenance, Repair, and Overhaul) and two in our Expeditionary Services segment (Airlift and Mobility). We utilized the qualitative assessment approach for the two Aviation Services reporting units and the two-step quantitative approach for the two Expeditionary Services reporting units. We estimate the fair value of the Expeditionary Services reporting units using an income approach based on discounted cash flows. The assumptions we used to estimate the fair value of these reporting units are based on historical performance as well as forecasts derived from our current business plan. The discounted cash flow valuation approach is highly dependent on certain components of our business plan including estimates of future sales, operating income, depreciation and amortization, income taxes, changes in working capital, and capital expenditures. All of these factors are affected by economic conditions related to the aerospace and defense industries as well as conditions in the global capital markets. In addition to the business plan specific assumptions, the expected long-term cash flow growth rates and weighted average cost of capital ("WACC") are significant assumptions in the valuations. The WACC for each reporting unit was comprised of a weighted blend of an estimated rate of return on equity (based on publicly traded companies with business and economic risk characteristics comparable to each of our reporting units, i.e.,"Market Participants"), risk-free rate of return based on long-term U.S. Treasury Bond rates, an equity risk premium, and an after-tax rate of return on Market Participants\' debt. There Table of Contents\nwere no significant changes to the underlying methods used in fiscal 2017 as compared to the prior year reporting unit valuations. We performed the annual qualitative analysis for the two Aviation Services reporting units and concluded it was more likely than not that the fair value of each reporting unit exceeded their carrying values, and thus no impairment charge was recorded. Step one of the quantitative goodwill impairment test was completed for the two Expeditionary Services reporting units and the estimated fair value for each reporting unit exceeded its carrying value. Accordingly, there was no indication of impairment and the second step was not performed. We also evaluate the sensitivity of the Airlift and Mobility discounted cash flow valuations by assessing the impact of changes in certain assumptions on the estimated fair value of each reporting unit by increasing the WACC or reducing the expected long-term cash flow growth rates. We also perform sensitivity analysis on our business plan assumptions including sales and profitability. These reporting units would have had fair values in excess of their carrying values under all our sensitivity scenarios. Inventories Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification,\naverage cost or first-in, first-out methods. Write-downs are made for excess and obsolete inventories and inventories that have been impaired as a result of industry conditions. We have utilized certain assumptions when determining the market value of inventories, such as inventory quantities and aging, historical sales of inventory, current and expected future aviation usage trends, replacement values, expected future demand, and historical scrap recovery rates. Reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories, could result in the recognition of impairment charges in future periods. Due to the remote geographic locations where we operate our expeditionary airlift business and the nature of our fixed-wing and rotary-wing aircraft, carrying large quantities of aircraft support parts is necessary in order to ensure availability of parts for servicing our fleet of aircraft. We record an excess and obsolete reserve for parts when our quantity on hand exceeds our forecasted needs or when the parts have been deemed obsolete or beyond economical repair. In addition, changes in the utilization of our fleet can affect estimates associated with our provision for excess and obsolete parts. Revenue Recognition\nCertain supply chain management programs that we provide to our customers contain multiple elements or deliverables, such as program and\nwarehouse management, parts distribution and maintenance and repair services. We recognize revenue for each element or deliverable that can be identified as a separate unit of accounting at the time of delivery based upon the relative fair value of the products and services. Sales and related cost of sales for certain large airframe maintenance contracts and performance-based logistics programs are recognized using contract accounting under the percentage of completion method in accordance with ASC 605-35, ConstructionType and ProductionType Contracts. In applying the percentage of completion method, we use the cost-to-cost method based on the ratio of actual costs incurred to total estimated costs to be incurred. In connection with these contracts and programs, we are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the program and the relative fair value of each element of the arrangement. Key assumptions involved in our contract accounting include future labor costs and efficiencies, overhead costs, and ultimate timing of Table of Contents\nproduct delivery. Differences may occur between the judgments and estimates made by management and actual program results. Impairment of Long-Lived Assets\nWe are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset\nmay not be recoverable from its undiscounted cash flows. When applying accounting standards addressing impairment to long-lived assets, we have utilized certain assumptions to estimate future undiscounted cash flows, including current and future sales volumes or lease rates, expected changes to cost structures, lease terms, residual values, market conditions, and trends impacting future demand. Differences between actual results and the assumptions utilized by us when determining undiscounted cash flows could result in future impairments of long-lived assets. We maintain a significant inventory of rotable parts and equipment to service customer aircraft and components. Portions of that inventory are used parts that are often exchanged with parts removed from aircraft or components, and are reworked to a useable condition. We may have to recognize an impairment of our rotable parts and equipment if we discontinue using or servicing certain aircraft models or if an older aircraft model is phased-out in the industry. Pension Plans\nThe liabilities and net periodic cost of our pension plans are determined utilizing several actuarial assumptions, the most significant of which\nare the discount rate and the expected long-term rate of return on plan assets. AAR uses discount rates to measure our benefit obligation and net periodic benefit cost for our pension plans. We used a broad population of Aa-rated corporate bonds as of May31, 2017 to determine the discount rate assumption. All bonds were denominated in U.S. Dollars, with a minimum outstanding of $50.0million. This population of bonds was narrowed from a broader universe of over 500 Moody\'s Aa-rated, non-callable (or callable with make-whole provisions) bonds by eliminating the top 10thpercentile and the bottom 40thpercentile to adjust for any pricing anomalies and to represent the bonds we would most likely select if we were to actually annuitize our pension plan liabilities. This portfolio of bonds was used to generate a yield curve and associated spot rate curve to discount the projected benefit payments for the domestic plans. The discount rate is the single level rate that produces the same result as the spot rate curve. We establish the long-term asset return assumption based on a review of historical compound average asset returns, both company-specific and relating to the broad market, as well as analysis of current market and economic information and future expectations. The current asset return assumption is supported by historical market experience for both our actual and target asset allocation. In calculating the net pension cost, the expected return on assets is applied to a calculated value on plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. The difference between this expected return and the actual return on plan assets is a component of the total net unrecognized gain or loss and is subject to amortization in the future. New Accounting Pronouncements\nIn May 2014, the FASB issued ASU No.2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition.\nThis ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance. This ASU will also supersede certain cost guidance included in Subtopic605-35, Revenue Recognition-Construction-Type and Production-Type Contracts. In August 2015, the FASB issued ASU No.2015-14 which deferred the effective date of the new standard by one year which Table of Contents\nwill make the new standard effective for us beginning June1, 2018. The ASU may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We continue to gain an understanding of the standard\'s revenue recognition model and are in the process of analyzing and documenting our significant customer contracts to evaluate the potential impact of the adoption of this new ASU. We have not yet selected a transition method for adoption nor determined the potential effect on our accounting policies and consolidated financial statements. In February 2016, the FASB issued ASU 2016-02, Leases. This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets, including those classified as operating leases under the current accounting guidance. In addition, this ASU will require new qualitative and quantitative disclosures about the Company\'s leasing activities. This new standard will be effective for us beginning June1, 2019 with early adoption permitted. This ASU requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are in the preliminary phases of assessing the effect of this ASU on our portfolio of leases. While this assessment continues, we have not yet selected a transition date nor have we determined the effect of this ASU on our consolidated financial statements. In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which amends ASC Topic 718, CompensationStock Compensation. This ASU requires excess tax benefits or deficiencies for share-based payments be recorded in the period shares vest as income tax expense or benefit, rather than within Capital surplus. Cash flows related to excess tax benefits will be included in operating activities and will no longer be classified as a financing activity. This ASU will be effective for us beginning June1, 2017 and no material impact on our financial statements is expected. Table of Contents\n ITEM 7A.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Dollars in millions)\nOur exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit\nlosses on accounts receivable. See Note1 of Notes to Consolidated Financial Statements for a discussion on accounts receivable exposure. We are exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates. We manage interest costs by using a mix of fixed- and floating-rate debt. A 10percent increase in the average interest rate affecting our financial instruments, including the average outstanding balance of our debt obligations and related derivatives, would not have had a significant impact on our pre-tax income during fiscal 2017. Revenues and expenses of our foreign operations are translated at average exchange rates during the year, and balance sheet accounts are translated at year-end exchange rates. Balance sheet translation adjustments are excluded from the results of operations and are recorded in stockholders\' equity as a component of accumulated other comprehensive loss. A hypothetical 10percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations during fiscal 2017. Table of Contents ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA\n Report of Independent Registered Public Accounting Firm\n The Board of Directors and Stockholders AAR CORP.: We have audited the accompanying consolidated balance sheets of AAR CORP. and subsidiaries as of May31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended May31, 2017. These consolidated financial statements are the responsibility of the Company\'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AAR CORP. and subsidiaries as of May31, 2017 and 2016, and the results of their operations, and their cash flows for each of the years in the three-year period ended May31, 2017, in conformity with U.S. generally accepted accounting principles. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AAR CORP.\'s internal control over financial reporting as of May31, 2017, based on criteria established in Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July12, 2017 expressed an unqualified opinion on the effectiveness of the Company\'s internal control over financial reporting. /s/ KPMGLLP Chicago, Illinois\nJuly12, 2017 Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME\n For the Year Ended May31, (In millions, except per share data)\n Sales: Sales from products\n $ 956.6 $ 934.4 $ 916.7 Sales from services\n 811.0 764.5 704.7 1,767.6 1,698.9 1,621.4 Costs and operating expenses:\n Cost of products\n 800.7 787.4 891.0 Cost of services\n 690.4 673.6 599.6 Selling, general and administrative\n 196.7 173.2 172.4 1,687.8 1,634.2 1,663.0 Earnings (Loss) from joint ventures\n (0.2 ) (0.3 ) 0.2 Operating income (loss)\n 79.6 64.4 (41.4 ) Loss on extinguishment of debt\n (0.4 ) (44.9 ) Interest expense\n (5.5 ) (6.4 ) (27.2 ) Interest income\n 0.2 0.3 0.3 Income (Loss) from continuing operations before provision for income taxes\n 74.3 57.9 (113.2 ) Provision for income tax (benefit)\n 24.1 19.6 (39.3 ) Income (Loss) from continuing operations\n 50.2 38.3 (73.9 ) Income from discontinued operations attributable to AAR\n 6.3 9.4 84.1 Net income attributable to AAR\n $ 56.5 $ 47.7 $ 10.2 Earnings per sharebasic:\n Earnings (Loss) from continuing operations\n $ 1.47 $ 1.10 $ (1.90 ) Earnings from discontinued operations\n 0.19 0.27 2.16 Earnings per sharebasic\n $ 1.66 $ 1.37 $ 0.26 Earnings per sharediluted:\n Earnings (Loss) from continuing operations\n $ 1.45 $ 1.10 $ (1.90 ) Earnings from discontinued operations\n 0.19 0.27 2.14 Earnings per sharediluted\n $ 1.64 $ 1.37 $ 0.24 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)\n For the Year Ended May31, (In millions)\n Net income\n $ 56.5 $ 47.7 $ 10.4 Other comprehensive income, net of tax:\n Currency translation adjustments, net of tax\n (0.6 ) (7.8 ) Derivative instruments, net of tax expense of $1.4 in 2015\n 2.6 Unrecognized pension and post retirement costs, net of tax expense (benefit) of $2.8 in 2017, ($2.1) in 2016, and ($3.2) in 2015\n 5.1 (4.0 ) (5.9 ) Total other comprehensive income (loss), net of tax\n 4.5 (4.0 ) (11.1 ) Comprehensive income (loss)\n 61.0 43.7 (0.7 ) Less: Comprehensive income attributable to noncontrolling interest\n (0.2 ) Comprehensive income (loss) attributable to AAR\n $ 61.0 $ 43.7 $ (0.9 ) The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS ASSETS\n May31, (In millions)\n Current assets:\n Cash and cash equivalents\n $ 10.3 $ 31.2 Accounts receivable\n 251.4 248.3 Inventories 483.1 452.0 Rotable spares and equipment on or available for short-term lease\n 118.0 118.3 Deposits, prepaids and other\n 25.7 31.9 Total current assets\n 888.5 881.7 Property, plant and equipment, at cost:\n Land 4.3 4.5 Buildings and improvements\n 100.1 99.5 Aircraft, equipment, furniture and fixtures\n 511.4 571.8 615.8 675.8 Accumulated depreciation\n (413.9 ) (437.7 ) 201.9 238.1 Other assets:\n Goodwill 115.4 117.3 Intangible assets, net\n 32.8 35.8 Equipment on or available for long-term lease\n 159.6 81.1 Other 105.9 102.0 413.7 336.2 $ 1,504.1 $ 1,456.0 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS LIABILITIES AND EQUITY\n May31, (In millions)\n Current liabilities:\n Current maturities of long-term debt\n $ 2.0 $ 12.0 Accounts and trade notes payable\n 177.4 166.3 Accrued liabilities\n 155.7 163.1 Total current liabilities\n 335.1 341.4 Long-term debt, less current maturities\n 155.3 136.1 Deferred tax liabilities\n 37.2 34.3 Other liabilities and deferred income\n 62.3 78.4 254.8 248.8 Equity: Preferred stock, $1.00 par value, authorized 250,000 shares; none issued\n Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,175,302 and 44,867,703 shares at cost, respectively\n 45.2 44.9 Capital surplus\n 460.8 451.3 Retained earnings\n 727.9 681.6 Treasury stock, 10,820,844 and 10,353,153 shares at cost, respectively\n (279.8 ) (267.6 ) Accumulated other comprehensive loss\n (39.9 ) (44.4 ) Total equity\n 914.2 865.8 $ 1,504.1 $ 1,456.0 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE THREE YEARS ENDED MAY 31, 2017\n (In millions) Common Stock Capital Surplus Retained Earnings Treasury Stock Accumulated Other Comprehensive Income (Loss) Total AAR\nStockholders\' Equity Noncontrolling Interest Total Equity Balance, May31, 2014\n $ 44.7 $ 436.4 $ 646.0 $ (98.3 ) $ (29.3 ) $ 999.5 $ 1.2 $ 1,000.7 Net income\n 10.2 10.2 0.2 10.4 Cash dividends\n (11.9 ) (11.9 ) (0.6 ) (12.5 ) Stock option activity\n 2.1 4.2 6.3 6.3 Restricted stock activity\n 0.2 4.7 (0.7 ) 4.2 4.2 Repurchase of shares\n (151.5 ) (151.5 ) (151.5 ) Other (0.6 ) (0.6 ) (0.8 ) (1.4 ) Other comprehensive income, net of tax\n (11.1 ) (11.1 ) (11.1 ) Balance, May31, 2015\n $ 44.9 $ 442.6 $ 644.3 $ (246.3 ) $ (40.4 ) $ 845.1 $ $ 845.1 Net income\n 47.7 47.7 47.7 Cash dividends\n (10.4 ) (10.4 ) (10.4 ) Stock option activity\n 4.4 2.3 6.7 6.7 Restricted stock activity\n 4.5 (4.8 ) (0.3 ) (0.3 ) Repurchase of shares\n (18.8 ) (18.8 ) (18.8 ) Other (0.2 ) (0.2 ) (0.2 ) Other comprehensive loss, net of tax\n (4.0 ) (4.0 ) (4.0 ) Balance, May31, 2016\n $ 44.9 $ 451.3 $ 681.6 $ (267.6 ) $ (44.4 ) $ 865.8 $ $ 865.8 Net income\n 56.5 56.5 56.5 Cash dividends\n (10.2 ) (10.2 ) (10.2 ) Stock option activity\n 3.1 8.9 12.0 12.0 Restricted stock activity\n 0.3 6.4 (1.3 ) 5.4 5.4 Repurchase of shares\n (19.8 ) (19.8 ) (19.8 ) Other comprehensive income, net of tax\n 4.5 4.5 4.5 Balance, May31, 2017\n $ 45.2 $ 460.8 $ 727.9 $ (279.8 ) $ (39.9 ) $ 914.2 $ $ 914.2 The accompanying notes to consolidated financial statements are an integral part of these statements. Table of Contents\n AAR CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS\n (In millions) For the Year Ended May31, Cash flows provided from (used in) operating activities:\n Net income\n $ 56.5 $ 47.7 $ 10.4 Less: Income from discontinued operations\n (6.3 ) (9.4 ) (84.3 ) Income (Loss) from continuing operations\n 50.2 38.3 (73.9 ) Adjustments to reconcile net income to net cash provided from (used in) operating activities:\n Depreciation and intangible amortization\n 52.9 51.1 58.0 Impairment charges\n 53.0 Amortization of stock-based compensation\n 11.0 6.7 7.4 Amortization of overhaul costs\n 18.1 20.8 23.2 Deferred tax provision (benefit)\n 0.6 4.8 (52.6 ) Gain on sale of product line\n (2.6 ) Loss on extinguishment of debt\n 0.4 44.9 Changes in certain assets and liabilities, net of acquisitions:\n Accounts receivable\n (4.0 ) (14.1 ) (6.5 ) Inventories (18.8 ) (24.6 ) (29.2 ) Rotable spares and equipment on or available for short-term lease\n 2.3 (7.4 ) 6.6 Equipment on or available for long-term lease\n (82.5 ) (10.2 ) 6.2 Accounts and trade notes payable\n 14.1 19.9 3.0 Accrued and other liabilities\n 3.3 (30.2 ) 46.4 Other, primarily program and overhaul costs\n (20.4 ) (22.9 ) (0.1 ) Net cash provided from operating activitiescontinuing operations\n 24.2 32.6 86.4 Net cash used in operating activitiesdiscontinued operations\n (2.4 ) (0.5 ) (129.4 ) Net cash provided from (used in) operating activities\n 21.8 32.1 (43.0 ) Cash flows used in investing activities:\n Property, plant and equipment expenditures\n (33.6 ) (88.9 ) (42.1 ) Proceeds from asset disposals\n 18.7 45.1 46.8 Payments for acquisitions\n (12.5 ) (4.8 ) (1.0 ) Other (2.7 ) 1.0 3.5 Net cash provided by (used in) investing activitiescontinuing operations\n (30.1 ) (47.6 ) 7.2 Net cash provided from investing activitiesdiscontinued operations\n 30.7 682.0 Net cash provided from (used in) investing activities\n (30.1 ) (16.9 ) 689.2 Cash flows used in financing activities:\n Short-term borrowings (repayments), net\n 21.0 60.0 (80.0 ) Reduction in long-term borrowings\n (10.0 ) (70.6 ) (394.8 ) Cash dividends\n (10.2 ) (10.4 ) (11.9 ) Premium paid on early retirement of debt\n (45.6 ) Purchase of treasury stock\n (19.8 ) (18.8 ) (151.5 ) Other 6.9 1.4 6.3 Net cash used in financing activitiescontinuing operations\n (12.1 ) (38.4 ) (677.5 ) Net cash used in financing activitiesdiscontinued operations\n (0.6 ) Net cash used in financing activities\n (12.1 ) (38.4 ) (678.1 ) Effect of exchange rate changes on cash\n (0.5 ) (0.3 ) (2.6 ) Decrease in cash and cash equivalents\n (20.9 ) (23.5 ) (34.5 ) Cash and cash equivalents, beginning of year\n 31.2 54.7 89.2 Cash and cash equivalents, end of year\n $ 10.3 $ 31.2 $ 54.7 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies\n Description of Business AAR CORP. is a diversified provider of services and products to the worldwide commercial aviation and government and defense markets. Services\nand products include: aviation supply chain and parts support programs; maintenance, repair and overhaul of airframes, landing gear, and certain other airframe components; design and manufacture of specialized pallets, shelters, and containers; expeditionary airlift services; aircraft modifications and aircraft and engine sales and leasing. We serve commercial, defense and governmental aircraft fleet operators, original equipment manufacturers, and independent service providers around the world, and various other domestic and foreign military customers. Principles of Consolidation\nThe accompanying Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries after elimination of\nintercompany accounts and transactions. The equity method of accounting is used for investments in other companies in which we have significant influence; generally this represents common stock ownership of at least 20% and not more than 50% (see Note10 for a discussion of aircraft joint ventures). Revenue Recognition\nSales and related cost of sales for product sales are recognized upon shipment of the product to the customer. Our standard terms and conditions\nprovide that title passes to the customer when the product is shipped to the customer. Sales of certain defense products are recognized upon customer acceptance, which includes transfer of title. Under the majority of our expeditionary airlift services contracts, we are paid and record as revenue a fixed daily amount per aircraft for each day an aircraft is available to perform airlift services. In addition, we are paid and record as revenue an amount which is based on number of hours flown. Sales from services and the related cost of services are generally recognized when customer-owned material is shipped back to the customer. We have adopted this accounting policy because at the time the customer-owned material is shipped back to the customer; all services related to that material are complete as our service agreements generally do not require us to provide services at customer sites. Furthermore, serviced units are typically shipped to the customer immediately upon completion of the related services. Sales and related cost of sales for certain large airframe maintenance contracts and performance-based logistics programs are recognized by the percentage of completion method, based on the relationship of costs incurred to date to the estimated total costs. When our experience and projections indicate adjustments to the estimated margin are required, changes are recognized using the cumulative catch-up method with the impact of the change from inception to date recorded in the current period. Net favorable cumulative catch-up adjustments recognized during fiscal 2017, 2016, and 2015 were $8.5million, $3.7million, and $2.5million, respectively. Lease revenues are recognized as earned. Income from monthly or quarterly rental payments is recorded in the pertinent period according to the lease agreement. However, for leases that provide variable rents, we recognize lease income on a straight-line basis. In addition to a monthly lease rate, some engine leases require an additional rental amount based on the number of hours the engine is used in a particular month. Lease income associated with these contingent rentals is recorded in the period in which actual usage is reported to us by the lessee, which is normally the month following the actual usage. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\nCertain supply chain management programs we provide to our customers contain multiple elements or deliverables, such as program and warehouse management, parts distribution, and maintenance and repair services. We recognize revenue for each element or deliverable that can be identified as a separate unit of accounting at the time of delivery based upon the relative fair value of the products and services. Included in accounts receivable as of May31, 2017 and 2016, are $14.5million and $29.8million, respectively, of unbilled accounts receivable related to our KC-10 supply agreement. These unbilled accounts receivable relate to costs we have incurred on parts that were requested and accepted by our customer to support the program. These costs have not been billed by us because the customer has not issued the final paperwork necessary to allow for billing. In June 2016, the U.S. Air Force awarded the new contract for the KC-10 Extender Contractor Logistics Support Program ("KC-10 Program") to a competitor. Our principal services under the prior contract for the KC-10 Program were completed in January 2017; however, we expect limited services will continue for an unspecified period of time. Sales for the KC-10 Program during fiscal 2017, 2016 and 2015 were $110.6million, $148.1million, and $111.4million, respectively. Gross profit for the KC-10 Program during fiscal 2017, 2016 and 2015 was $3.7million, $12.0million, and $4.5million, respectively. Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts to reflect the expected uncollectibility of accounts receivable based on past collection history\nand specific risks identified among uncollected accounts. In determining the required allowance, we consider factors such as general and industry-specific economic conditions, customer credit history, and our customers\' current and expected future financial performance. The majority of our customers are recurring customers with an established payment history. Certain customers are required to undergo an extensive credit check prior to delivery of products or services. Goodwill and Other Intangible Assets In accordance with Accounting Standards Codification ("ASC") 350, IntangiblesGoodwill and\nOther, goodwill and other intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment tests. We review and evaluate our goodwill and indefinite life intangible assets for potential impairment at a minimum annually, on May31, or more frequently if circumstances indicate that impairment is possible. We utilize both the qualitative approach and the two-step quantitative approach to evaluate goodwill for impairment. In the first step of the quantitative approach, we compare the fair value of the reporting unit with its carrying value, including goodwill. If the estimated fair value of the reporting unit is less than its carrying value, we would be required to complete a second step to determine the amount of goodwill impairment. The second step of the test requires the allocation of the reporting unit\'s fair value to its assets and liabilities, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill as if the reporting unit was being acquired in a business combination. If the implied fair value of goodwill is less than the carrying value, the difference is recorded as an impairment loss. As of May31, 2017, we have five reporting units with only four of the reporting units assigned goodwill. Our four reporting units with goodwill include two in our Aviation Services segment (Aviation Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\nSupply Chain and Maintenance, Repair, and Overhaul) and two in our Expeditionary Services segment (Airlift and Mobility). We utilized the qualitative assessment approach for the two Aviation Services reporting units and the two-step quantitative approach for the two Expeditionary Services reporting units. We performed the annual qualitative analysis for the two Aviation Services reporting units and concluded it was more likely than not that the fair value of each reporting unit exceeded their carrying values, and thus no impairment charge was recorded. Step one of the quantitative goodwill impairment test was completed for the two Expeditionary Services reporting units and the estimated fair value for each reporting unit exceeded its carrying value. Accordingly, there was no indication of impairment and the second step was not performed. We estimate the fair value of each Expeditionary Services reporting unit using an income approach based on discounted cash flows. The assumptions we used to estimate the fair value of these reporting units are based on historical performance, as well as forecasts used in our current business plan, and require considerable management judgment. We use a discount rate based on our consolidated weighted average cost of capital which is adjusted for each of our reporting units based on their specific risk and size characteristics. The fair value measurements used for our goodwill impairment testing use significant unobservable inputs, which reflect our own assumptions about the inputs that market participants would use in measuring fair value. The fair value of our reporting units is also impacted by our overall market capitalization and may be impacted by volatility in our stock price and assumed control premium, among other items. Changes in the carrying amount of goodwill by segment for fiscal 2017 and 2016 are as follows: Aviation Services Expeditionary Services Total Balance as of May31, 2015\n $ 73.8 $ 49.7 $ 123.5 Acquisition 1.3 1.3 Deferred tax adjustments\n (6.5 ) (6.5 ) Foreign currency translation adjustments\n (1.0 ) (1.0 ) Balance as of May31, 2016\n 66.3 51.0 117.3 Foreign currency translation adjustments\n (1.9 ) (1.9 ) Balance as of May31, 2017\n $ 64.4 $ 51.0 $ 115.4 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\n Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets, other than goodwill, are comprised of the following: May31, 2017 Gross Accumulated Amortization Net Amortizable intangible assets:\n Customer relationships\n $ 24.4 $ (11.6 ) $ 12.8 Developed technology\n 8.8 (4.7 ) 4.1 Lease agreements\n 22.5 (11.2 ) 11.3 FAA certificates\n 5.6 (2.3 ) 3.3 Trademarks 0.2 0.2 61.5 (29.8 ) 31.7 Unamortized intangible assets:\n Trademarks 1.1 1.1 $ 62.6 $ (29.8 ) $ 32.8 May31, 2016 Gross Accumulated Amortization Net Amortizable intangible assets:\n Customer relationships\n $ 22.7 $ (10.5 ) $ 12.2 Developed technology\n 11.4 (4.6 ) 6.8 Lease agreements\n 21.5 (9.9 ) 11.6 FAA certificates\n 5.2 (1.5 ) 3.7 Trademarks 0.2 0.2 61.0 (26.5 ) 34.5 Unamortized intangible assets:\n Trademarks 1.3 1.3 $ 62.3 $ (26.5 ) $ 35.8 Customer relationships are being amortized over 10-20years, developed technology is being amortized over 7-15years, lease agreements are being amortized over 5-18years, and the FAA certificates are being amortized over 20years. Amortization expense recorded during fiscal 2017, 2016 and 2015 was $4.3million, $4.4million, and $4.6million, respectively. The estimated aggregate amount of amortization expense for intangible assets in each of the next five fiscal years is $4.5million in 2018, $3.8million in 2019, $3.5million in 2020, $3.5million in 2021 and $2.7million in 2022. Foreign Currency\nOur foreign subsidiaries utilize the local currency as their functional currency. All balance sheet accounts of foreign subsidiaries transacting\nbusiness in currencies other than the U.S. dollar are translated Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\nat year-end exchange rates. Revenues and expenses are translated at average exchange rates during the year. Translation adjustments are excluded from the results of operations and are recorded in stockholders\' equity as a component of accumulated other comprehensive loss until such subsidiaries are liquidated. Cash and Cash Equivalents Cash and cash equivalents consist of highly liquid instruments which have original maturities of three months or less when purchased.\n Financial Instruments and Concentrations of Market or Credit Risk\nFinancial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our\ntrade receivables are diverse and represent a number of entities and geographic regions, the majority are with the U.S. Department of Defense and its contractors and entities in the aviation industry. Accounts receivable due from the U.S. Department of Defense were $43.0million and $43.7million at May31, 2017 and 2016, respectively. Additionally, included in accounts receivable as of May31, 2017 and 2016, are $25.5million and $42.4million, respectively, of accounts receivable from a large defense contractor. We perform regular evaluations of customer payment experience, current financial condition, and risk analysis. We may require collateral in the form of security interests in assets, letters of credit, and/or obligation guarantees from financial institutions for transactions executed on other than normal trade terms. The carrying amounts of cash and cash equivalents, accounts receivable, and accounts and trade notes payable approximate fair value because of the short-term maturity of these instruments. The carrying value of long-term debt bearing a variable interest rate approximates fair value. Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Inventories Inventories are valued at the lower of cost or market (estimated net realizable value). Cost is determined by the specific identification,\naverage cost, or first-in, first-out methods. From time-to-time, we purchase aircraft and engines for disassembly to individual parts and components. Costs are assigned to these individual parts and components utilizing list prices from original equipment manufacturers and recent sales history. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued) The following is a summary of inventories: May31, Raw materials and parts\n $ 45.0 $ 46.3 Work-in-process 25.8 23.4 Aircraft and engine parts, components and finished goods\n 393.1 366.6 Aircraft held for sale and related support parts\n 19.2 15.7 $ 483.1 $ 452.0 We classify certain aircraft from our expeditionary airlift business as assets held for sale at the time management commits to a plan to sell the aircraft, changes to the planned sale are not likely, the aircraft are actively marketed and available for immediate sale, and the sale is expected to be completed within one year. Upon designation of an aircraft as held for sale, we record the aircraft\'s value at the lower of its carrying value or its estimated fair value, less estimated costs to sell. Assets held for sale are not depreciated. Aircraft may be classified as assets held for sale for more than one year as we continue to actively market the aircraft at reasonable prices. Certain aircraft types we currently have available for sale are specifically designed for particular functions which limits the marketability of those assets. During fiscal 2015, we recognized impairment charges of $8.9million reflecting the decrease in fair value for certain aircraft held for sale and related rotable assets. During the fourth quarter of fiscal 2015, we entered into a sale-leaseback transaction for our two S-92 rotary-wing aircraft resulting in the recognition of a loss of $1.1million. We received sales proceeds of $40.3million in fiscal 2015 which were deferred as a sale-leaseback advance pending completion of the sale transactions. Both of the S-92 aircraft sales were completed in fiscal 2016 and the related leases ended in fiscal2017. Equipment under Leases\nLease revenue is recognized as earned. The cost of the asset under lease is the original purchase price plus overhaul costs. Depreciation for\naircraft is computed using the straight-line method over the estimated service life of the equipment. The balance sheet classification of equipment under lease is generally based on lease term, with fixed-term leases less than twelve months generally classified as short-term and all others generally classified as long-term. Equipment on short-term lease includes aircraft engines and parts on or available for lease to satisfy customers\' immediate short-term requirements. The leases are renewable with fixed terms, which generally vary from one to twelve months. In conjunction with our decision to exit certain product lines in our landing gear business, we recognized an impairment charge of $17.7million related to rotable assets in fiscal 2015. Equipment on long-term lease consists of engines on lease with commercial airlines generally for more than twelve months and rotable parts used to support long-term supply chain programs. The rotable parts included in equipment on long-term lease are being depreciated on a straight-line basis over their estimated useful lives. During the fourth quarter of fiscal 2015, we sold our two remaining wholly-owned aircraft which were on long-term leases for $11.0million which resulted in a loss on sale of $14.8million. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued)\n Future rent due to us under non-cancelable leases during each of the next five fiscal years is $31.6million in 2018, $31.3million in 2019, $31.2million in 2020, $30.6million in 2021, and $30.6million in 2022. Property, Plant and Equipment We record property, plant and equipment at cost. Depreciation is computed on the straight-line method over useful lives of 10-40years\nfor buildings and improvements and 3-10years for equipment, furniture and fixtures, and capitalized software. Aircraft, major components in service, and associated rotable assets to support our expeditionary airlift services are depreciated over their estimated useful lives, which is generally 7-30years. Leasehold improvements are amortized over the shorter of the estimated useful life or the term of the applicable lease. Repair and maintenance expenditures are expensed as incurred. Upon sale or disposal, cost and accumulated depreciation are removed from the accounts, and related gains and losses are included in results of operations. In accordance with ASC 360, Property, Plant and Equipment, we are required to test for impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from its undiscounted cash flows. We utilize certain assumptions to estimate future undiscounted cash flows, including demand for our services, future market conditions and trends, business development pipeline of opportunities, current and future lease rates, lease terms, and residual values. Income Taxes\nWe are subject to income taxes in the U.S., state, and several foreign jurisdictions. In the ordinary course of business, there can be\ntransactions and calculations where the ultimate tax determination is uncertain. We recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns in accordance with applicable accounting guidance for accounting for income taxes, using currently enacted tax rates in effect for the year in which the differences are expected to reverse. We record a valuation allowance when necessary to reduce deferred tax assets to the amount expected to be realized. Deferred tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Both positive and negative evidence are considered in forming our judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. Valuation allowances are reassessed whenever there are changes in circumstances that may cause a change in judgment. The accounting for uncertainty in income taxes requires a more-likely-than-not threshold for financial statement recognition of tax positions taken or expected to be taken in a tax return. Where necessary, we record a liability for the difference between the benefit recognized for financial statement purposes and the tax position taken or expected to be taken on our tax return. To the extent that our assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued) Supplemental Information on Cash Flows\nSupplemental information on cash flows is as follows:\n For the Year Ended May31, Interest paid\n $ 4.4 $ 4.7 $ 42.7 Income taxes paid\n 12.7 35.7 105.6 Income tax refunds and interest received\n 1.3 1.3 12.1 During fiscal 2017, treasury stock increased $12.2million reflecting the repurchase of common shares of $19.8million, restricted stock grants of $1.3million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $8.9million. During fiscal 2016, treasury stock increased $21.3million reflecting the repurchase of common shares of $18.8million, restricted stock grants of $4.8million and the re-issuance of shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $2.3million. On May29, 2015, we repurchased 4,185,960 shares of our common stock at a price of $31.90 per share pursuant to a tender offer utilizing $133.5million cash on hand. Fees and expenses of $1.2million were incurred related to the tender offer and were recorded in treasury stock. In addition to the tender offer, we also repurchased common shares of $16.8million and re-issued shares upon exercise of stock options, net of shares withheld to satisfy statutory tax obligations, of $3.6million during fiscal 2015. Use of Estimates\nWe have made estimates and utilized certain assumptions relating to the reporting of assets and liabilities and the disclosures of contingent\nliabilities to prepare these Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates. New Accounting Pronouncements In May 2014, the FASB issued ASU No.2014-09, Revenue from Contracts with Customers, which provides guidance for revenue recognition.\nThis ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of non-financial assets. This ASU will supersede the revenue recognition requirements in ASC 605, Revenue Recognition, and most industry-specific guidance. This ASU will also supersede certain cost guidance included in Subtopic605-35, Revenue RecognitionConstruction-Type and Production-Type Contracts. In August 2015, the FASB issued ASU No.2015-14 which deferred the effective date of the new standard by one year which will make the new standard effective for us beginning June1, 2018. The ASU may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We continue to gain an understanding of the standard\'s revenue recognition model and are in the process of analyzing and documenting our significant customer contracts to evaluate the potential impact of the adoption of this new ASU. We have not yet selected a transition method for Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 1. Summary of Significant Accounting Policies (Continued) adoption nor determined the potential effect on our accounting policies and consolidated financial statements. In February 2016, the FASB issued ASU 2016-02, Leases. This ASU amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets, including those classified as operating leases under the current accounting guidance. In addition, this ASU will require new qualitative and quantitative disclosures about the Company\'s leasing activities. This new standard will be effective for us beginning June1, 2019 with early adoption permitted. This ASU requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are in the preliminary phases of assessing the effect of this ASU on our portfolio of leases. While this assessment continues, we have not yet selected a transition date nor have we determined the effect of this ASU on our consolidated financial statements. In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which amends ASC Topic 718, CompensationStock Compensation. This ASU requires excess tax benefits or deficiencies for share-based payments be recorded in the period shares vest as income tax expense or benefit, rather than within Capital surplus. Cash flows related to excess tax benefits will be included in operating activities and will no longer be classified as a financing activity. This ASU will be effective for us beginning June1, 2017 and no material impact on our financial statements is expected. 2. Discontinued Operations\n On March26, 2015, we completed the sale of our Telair Cargo Group to TransDigm,Inc. The Telair Cargo Group was comprised of Telair International, Telair US, and Nordisk Aviation Products. Cash received at closing in the fourth quarter of fiscal 2015 before fees and expenses was $705million. The sale also allowed for contingent consideration of up to $35million based on the occurrence of certain post-closing events related to the A400M cargo system. We recognized a pre-tax gain on the sale (net of transaction expenses and fees) of $198.6million in the fourth quarter of fiscal 2015. In the first quarter of fiscal 2016, we recognized a gain of $27.7million net of expenses representing the receipt of the contingent consideration related to the A400M cargo system. During fiscal 2015, we also announced our intention to sell our Precision Systems Manufacturing ("PSM") businesses comprised of our metal and composite machined and fabricated parts manufacturing operations. We recognized impairment charges of $57.5million during fiscal 2015 to reduce the carrying value of the PSM business\'s net assets to their expected value at the time of sale. During the first quarter of fiscal 2017, we decided to retain our composite manufacturing operations within our Expeditionary Services segment as a product line within our mobility products business. As a result, we reclassified our composite manufacturing operations into continuing operations for all periods presented which included $25.6million of impairment charges previously classified in discontinued operations which are now classified as Cost of products in our fiscal 2015 Consolidated Statement of Income. Also during the first quarter of fiscal 2017, we decided to shut down our metal machining operation which had been available for sale. The shutdown of the metal machining operation was completed prior to the end of the first quarter of fiscal 2017. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 2. Discontinued Operations (Continued)\nTelair Cargo Group and PSM\'s metal machining operation are reported as discontinued operations in the Consolidated Statements of Income for all periods presented. No amounts for general corporate overhead were allocated to discontinued operations during the periods presented. Interest expense allocated to discontinued operations was $8.5million for fiscal 2015. No interest expense was allocated to discontinued operations in fiscal 2017 and fiscal 2016. Liabilities of discontinued operations of $6.9million and $12.5million at May31, 2017 and 2016, respectively, were classified as Accrued liabilities on the Consolidated Balance Sheet. Income from discontinued operations was comprised of the following: For the Year Ended May31, Sales $ 0.6 $ 11.5 $ 259.2 Cost of sales\n 1.0 15.3 219.7 Selling, general and administrative expenses\n 1.2 3.0 26.9 Interest expense, net.\n 9.4 Operating income (loss) from discontinued operations\n (1.6 ) (6.8 ) 3.2 Gain on sale of Telair Cargo Group\n 27.7 198.6 PSM Impairment charges\n (31.9 ) Provision for income taxes (benefit)\n (7.9 ) 11.5 85.6 Income from discontinued operations\n 6.3 9.4 84.3 Income attributable to noncontrolling interest\n (0.2 ) Income from discontinued operations attributable to AAR\n $ 6.3 $ 9.4 $ 84.1 During the third quarter of fiscal 2016, we recognized $2.8million of income tax expense in discontinued operations related to changes in estimates associated with tax provision to federal income tax return filing differences. During the fourth quarter of fiscal 2017, we recognized an income tax benefit in discontinued operations of $6.7million for an effective settlement of a previously reserved tax position. Unless otherwise noted, amounts and disclosures throughout these Notes to Consolidated Financial Statements relate to our continuing operations. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 3. Financing Arrangements\n Debt Outstanding\nA summary of the carrying amount of our debt is as follows:\n May31, Revolving Credit Facility expiring November1, 2021 with interest payable monthly\n $ 131.0 $ 110.0 Industrial revenue bond (secured by property, plant and equipment) due August1, 2018 with interest payable monthly\n 25.0 25.0 Note payable due March9, 2017 with floating interest rate, payable semi-annually on June1 and December1\n 10.0 Capital lease obligations\n 3.3 5.1 Total debt\n 159.3 150.1 Current maturities of debt\n (2.0 ) (12.0 ) Debt issuance costs, net\n (2.0 ) (2.0 ) Long-term debt\n $ 155.3 $ 136.1 At May31, 2017, our variable rate and fixed rate debt had a fair value that approximates the carrying value of $156.0million and are classified as Level2 in the fair value hierarchy. During fiscal 2016, the Company entered into capital leases in the amount of $5.1million related to new aircraft and IT equipment. We have omitted substantially all of the required disclosures as the capital leases are not material to our consolidated financial position or results of operations. We maintain a Revolving Credit Facility with various financial institutions, as lenders and Bank of America, N.A., as administrative agent for the lenders which provides the Company an aggregate revolving credit commitment amount of $500million. The Company, under certain circumstances, has the ability to request an increase to the revolving credit commitment by an aggregate amount of up to $250million, not to exceed $750million in total. On November1, 2016, we entered into an amendment to our Revolving Credit Facility which extended the maturity of the Revolving Credit Facility to November1, 2021, eliminated the condition of no material adverse change for credit extensions and modified certain other provisions. Borrowings under the Revolving Credit Facility bear interest at the offered Eurodollar Rate plus 100 to 200 basis points based on certain financial measurements if a Eurodollar Rate loan, or at the offered fluctuating Base Rate plus 0 to 100 basis points based on certain financial measurements if a Base Rate loan. Our financing arrangements also requires us to comply with leverage and interest coverage ratios and comply with certain affirmative and negative covenants, including those relating to financial reporting and notification, payment of indebtedness, cash dividends, taxes and other obligations, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. The Revolving Credit Facility also requires our significant domestic subsidiaries, and any subsidiaries that guarantee our other indebtedness, to provide a guarantee of payment under the Revolving Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 3. Financing Arrangements (Continued)\nCredit Facility. At May31, 2017, we were in compliance with the financial and other covenants in our financing agreements. Borrowing activity under the Revolving Credit Facility during fiscal 2017, 2016 and 2015 is as follows: For the Year Ended May31, Maximum amount borrowed\n $ 217.0 $ 200.0 $ 215.0 Average daily borrowings\n 175.5 134.2 140.7 Average interest rate during the year\n 1.77 % 1.41 % 1.69 % We also have $9.6million available under foreign lines of credit. 7.25% Senior Notes due 2022\nOn April30, 2015, we redeemed our $325million 7.25% Senior Notes due 2022 for $370.6million. We recognized a loss on\nextinguishment of debt of $44.9million comprised of a make-whole premium of $45.6million and unamortized deferred financing costs of $6.2million, partially offset by an unamortized net premium of $6.9million. Convertible Notes\n The interest expense associated with the convertible notes, which were paid in full in the fourth quarter of fiscal 2016, was as follows: For the Year\nEnded May31, Coupon interest\n $ 0.6 $ 1.5 Amortization of deferred financing fees\n 0.1 0.1 Amortization of discount\n 1.3 2.4 Interest expense related to convertible notes\n $ 2.0 $ 4.0 4. Derivative Instruments and Hedging Activities\n We are exposed to interest rate risk associated with fluctuations in interest rates on our variable rate debt. Prior to the fourth quarter of fiscal 2015, we utilized two derivative financial instruments to manage our variable interest rate exposure. We utilized a floating-to-fixed interest rate swap and an interest rate cap agreement with each hedging $50.0million of notional principal interest under our Revolving Credit Facility. In connection with the Amendment of our Revolving Credit Facility, we settled our floating-to-fixed interest rate swap and interest rate cap agreements in the fourth quarter of fiscal 2015 for approximately $2.6million. Prior to the settlement, the derivatives instruments were classified as cash flow hedges with gains and losses on the derivative instruments included in other comprehensive loss. We recognized gains and losses Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 4. Derivative Instruments and Hedging Activities (Continued)\non our derivative instruments as an adjustment to interest expense in the period the hedged interest payment affected earnings. We recognized a loss of $2.0million in fiscal 2015 related to the reclassification of previously unrealized losses in accumulated other comprehensive loss. 5. Stock-Based Compensation\n We have granted stock-based awards under the AAR CORP. 2013 Stock Plan (the "2013 Stock Plan") and the AAR CORP. Stock Benefit Plan ("Stock Benefit Plan") each of which has been approved by our stockholders. No further awards will be made under the Stock Benefit Plan. Under the 2013 Stock Plan, we are authorized to issue stock options to employees and non-employee directors that allow the grant recipients to purchase shares of common stock at a price not less than the fair market value of the common stock on the date of grant. Generally, stock options awarded expire ten years from the date of grant and are exercisable in three, four or five equal annual increments commencing one year after the date of grant. In addition to stock options, the 2013 Stock Plan also provides for the grant of restricted stock awards and performance-based restricted stock awards. The number of performance-based awards earned, subject to vesting, is based on achievement of certain Company-wide or segment financial goals or stock price targets. The 2013 Stock Plan also provides for the grant of stock appreciation units and restricted stock units; however, to date, no such awards have been granted. Restricted stock grants are designed, among other things, to align employee interests with the interests of stockholders and to encourage the recipient to build a career with us. Restricted stock typically vests over periods of one to five years from date of grant. Restricted stock grants may be performance-based with vesting to occur over periods of three to five years. All restricted stock that has been granted and, if performance-based, earned according to performance criteria carries full dividend and voting rights, regardless of whether it has vested. Substantially all stock options and restricted stock are subject to forfeiture prior to vesting if the employee\'s employment terminates for any reason other than death, disability or retirement. Since inception, a total of 11,149,000 shares have been granted under the Stock Benefit Plan. Subsequent to stockholder approval of the 2013 Stock Plan, we have granted a total of 2,018,000 shares under the 2013 Stock Plan. All future stock awards will be made under the 2013 Stock Plan. There were 2,689,733 shares available for grant under the 2013 Stock Plan as of May31, 2017. Stock Options During fiscal 2017 and 2016, we granted stock options with respect to 687,000 shares and 488,767 shares, respectively. No stock options were\ngranted during fiscal 2015. The weighted average fair value per share of stock options granted during fiscal 2017 and 2016 was $6.50 and $7.48, respectively. The fair value Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 5. Stock-Based Compensation (Continued) of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: Stock Options\nGranted In Fiscal Year Risk-free interest rate\n 1.0 % 1.6 % Expected volatility of common stock\n 36.8 % 36.1 % Dividend yield\n 1.3 % 1.1 % Expected option term in years\n 4.0 4.2 The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected volatility is based on historical volatility of our common stock, and the expected option term represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The dividend yield represents our anticipated cash dividends at the grant date over the expected option term. A summary of stock option activity for the three years ended May31, 2017 consisted of the following (shares in thousands): Shares Weighted Average Exercise Price Shares Weighted Average Exercise Price Shares Weighted Average Exercise Price Outstanding at beginning of year\n 2,096 $ 22.17 1,857 $ 21.05 2,753 $ 19.59 Granted 687 $ 24.10 489 $ 26.62 $ Exercised (396 ) $ 20.07 (122 ) $ 20.61 (793 ) $ 15.98 Cancelled (53 ) $ 25.42 (128 ) $ 24.47 (103 ) $ 21.03 Outstanding at end of year\n 2,334 $ 23.02 2,096 $ 22.17 1,857 $ 21.05 Options exercisable at end of year\n 910 $ 21.97 837 $ 21.21 627 $ 21.78 The total fair value of stock options that vested during fiscal 2017, 2016, and 2015 was $3.5million, $2.7million, and $3.1million, respectively. The total intrinsic value of stock options exercised during fiscal 2017, 2016, and 2015 was $4.7million, $1.0million, and $11.1million, respectively. The aggregate intrinsic value of options outstanding was $27.8million and $7.4million as of May31, 2017 and 2016, respectively. The tax benefit realized from stock options exercised during fiscal 2017, 2016, and 2015 was $1.2million, $0.2million, and $2.4million, respectively. Expense recognized in selling, general and administrative expenses for stock options during fiscal 2017, 2016, and 2015 was $4.6million, $3.5million, and $2.7million, respectively. As of May31, 2017, we had $5.5million of unrecognized compensation expense related to stock options that will be amortized over an average period of 0.8years. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 5. Stock-Based Compensation (Continued)\nThe following table provides additional information regarding stock options outstanding as of May31, 2017 (shares in thousands): Options Outstanding Options Exercisable\n Option Exercise Price Range Number Outstanding as of 5/31/17 Weighted-Average Remaining Contractual Life in Years Weighted- Average Exercise Price Number Exercisable as of 5/31/17 Weighted- Average Exercise Price $12.00 - $20.00\n 500 4.4 $ 14.02 349 $ 14.49 $20.01 - $26.00\n 1,305 7.6 $ 24.72 322 $ 25.44 $26.01 - $34.50\n 529 7.2 $ 27.36 239 $ 28.25 2,334 6.8 $ 23.02 910 $ 21.97 Restricted Stock\nWe provide executives and other key employees an opportunity to be awarded performance-based and time-based restricted stock. The\nperformance-based awards are contingent upon the achievement of certain performance objectives, including cumulative net income and average return on capital over a three-year performance period. During fiscal 2017, 2016, and 2015, we granted 212,583, 119,929, and 188,125 of performance-based restricted shares, respectively. Time-based restricted shares of 39,100, 42,557, and 97,581 were granted to executives and key employees during fiscal 2017, 2016, and 2015, respectively. We also award time-based restricted stock to our non-employee directors as part of their annual compensation. Time-based restricted shares of 50,625, 47,083, and 45,000 were granted to members of the Board of Directors during fiscal 2017, 2016, and 2015, respectively. The fair value of restricted shares is the market value of our common stock on the date of grant. Expense recognized in selling, general and administrative expenses for all restricted share programs during fiscal 2017, 2016, and 2015 was $6.4million, $3.2million, and $4.7million, respectively. Restricted share activity during the fiscal year ended May31, 2017 was as follows (shares in thousands): Number of\nShares Weighted Average\nFair Value on Grant Date Nonvested at May31, 2016\n 400 $ 25.61 Granted 302 $ 24.24 Vested (98 ) $ 21.98 Forfeited (9 ) $ 26.32 Nonvested at May31, 2017\n 595 $ 25.93 As of May31, 2017 we had $5.5million of unearned compensation related to restricted shares that will be amortized to expense over a weighted average period of 2.1years. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 5. Stock-Based Compensation (Continued)\n Shareholders\' Rights Plan Pursuant to a shareholder rights plan adopted in 2007, each outstanding share of our common stock carries with it a Right to purchase one share\nat a price of $140 per share. The Rights become exercisable (and separate from the shares) when certain specified events occur, including the acquisition of 15% or more of the common stock by a person or group (an "Acquiring Person") or the commencement of a tender or exchange offer for 15% or more of the common stock. In the event that an Acquiring Person acquires 15% or more of the common stock, or if we are the surviving corporation in a merger involving an Acquiring Person or if the Acquiring Person engages in certain types of self-dealing transactions, each Right entitles the holder to purchase for $140 per share (or the then-current exercise price), shares of our common stock having a market value of $280 (or two times the exercise price), subject to certain exceptions. Similarly, if we are acquired in a merger or other business combination or 50% or more of our assets or earning power is sold, each Right entitles the holder to purchase at the then-current exercise price that number of shares of common stock of the surviving corporation having a market value of two times the exercise price. The Rights do not entitle the holder thereof to vote or to receive dividends. The Rights will expire on August6, 2017, and may be redeemed by us for $.01 per Right under certain circumstances. 6. Income Taxes\n The provision for income tax (benefit) on income before taxes (benefit) includes the following components: For the Year Ended May31, Current: Federal $ 20.2 $ 10.6 $ 11.4 State 0.2 0.4 0.4 Foreign 3.1 3.8 1.5 23.5 14.8 13.3 Deferred 0.6 4.8 (52.6 ) $ 24.1 $ 19.6 $ (39.3 ) Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 6. Income Taxes (Continued)\nThe provision for income taxes on pre-tax income differs from the amount computed by applying the U.S. federal statutory income tax rate of 35% for fiscal 2017, 2016, and 2015 to income before taxes (benefit), due to the following: For the Year Ended May31, Provision for income tax (benefit) at the federal statutory rate\n $ 26.0 $ 20.3 $ (39.6 ) State income taxes, net of federal benefit and refunds\n 0.2 0.2 0.2 Federal adjustments\n 0.1 0.4 0.1 State net operating losses\n (5.7 ) (1.1 ) (0.1 ) Valuation allowance for state deferred tax assets\n 5.7 1.1 0.1 Prior period adjustments\n (1.3 ) Effective settlement of prior tax position\n (2.2 ) Provision for income tax (benefit)\n $ 24.1 $ 19.6 $ (39.3 ) During the third quarter of fiscal 2016, we completed a reconciliation of our tax basis assets and liabilities and an analysis of our income tax payable which identified prior year immaterial errors netting to $0.2million with $1.5million recognized as income tax expense in discontinued operations and $1.3million recognized as income tax benefit within income from continuing operations. Income (Loss) before provision for income tax (benefit) includes the following components: For the Year Ended May31, Domestic $ 54.9 $ 44.7 $ (124.4 ) Foreign 19.4 13.2 11.2 $ 74.3 $ 57.9 $ (113.2 ) Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 6. Income Taxes (Continued)\nDeferred tax liabilities and assets result primarily from the differences in the timing of the recognition of transactions for financial reporting and income tax purposes. Our deferred tax liabilities and assets consist of the following components: May31, Deferred tax assets:\n Inventory costs\n $ 21.3 $ 19.9 Impairments 5.6 9.4 Advanced billings\n 1.7 11.1 Postretirement benefits\n 6.8 12.0 Employee benefits\n 12.3 10.0 State NOLs, tax credits and incentives\n 9.4 6.5 Other 1.7 0.6 Total deferred tax assets\n 58.8 69.5 Valuation allowance\n (10.4 ) (4.7 ) Total deferred tax assets net of valuation allowance\n 48.4 64.8 Deferred tax liabilities:\n Tangible and intangible assets\n (85.5 ) (99.0 ) Other (0.1 ) (0.1 ) Total deferred tax liabilities\n (85.6 ) (99.1 ) Net deferred tax liabilities\n $ (37.2 ) $ (34.3 ) As of May31, 2017, we have determined that the realization of our deferred tax assets is more likely than not and that a valuation allowance is not required except for certain state deferred tax assets, net operating losses and credits. The change in the valuation allowance was primarily the result of state net operating losses in subsidiaries that are not expected to be utilized. The net operating losses have carry forward periods that range from 5 to 20years. Our history of operating earnings, our expectations for continued future earnings, the nature of certain of our deferred tax assets and the scheduled reversal of deferred tax liabilities, primarily related to depreciation, support the recoverability of the majority of the deferred tax assets. Income tax payable at May31, 2017 and 2016 was $12.3million and $1.1million, respectively and is included in Accrued Liabilities on the Consolidated Balance Sheets. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 6. Income Taxes (Continued)\n A reconciliation of the beginning and ending amounts of unrecognized tax benefits was as follows: For the Year Ended May31, Balance, beginning of year\n $ 12.9 $ 2.2 $ 2.2 Additions for tax positions of prior years\n 0.4 10.7 Effective settlement of prior tax position\n (8.9 ) Balance, end of year\n $ 4.4 $ 12.9 $ 2.2 In fiscal 2017, the reserve for unrecognized tax benefits decreased primarily as a result of effective settlement of tax positions for prior tax years which occurred upon the settlement of an IRS examination. Income tax expense in fiscal 2017 included a benefit of $2.2million and discontinued operations included a benefit of $6.7million for these effective settlements. All of our unrecognized tax benefits as of May31, 2017 and 2016 would be recorded as a component of income tax expense or income from discontinued operations, if recognized. We accrue interest and penalties related to unrecognized tax benefits as a component of income tax expense. Fiscal years 2015 and subsequent are open for examination. Various states and foreign jurisdictions also remain open subject to their applicable statute of limitations. 7. Earnings Per Share\n The computation of basic earnings per share is based on the weighted average number of common shares outstanding during each period. The computation of diluted earnings per share is based on the weighted average number of common shares outstanding during the period plus, when their effect is dilutive, incremental shares consisting of shares subject to stock options, shares issuable upon vesting of restricted stock awards and shares to be issued upon conversion of convertible debt. In accordance with ASC 260-10-45, Share-Based Payment Arrangements and Participating Securities and the Two-Class Method, our unvested restricted stock awards are deemed participating securities since these shares are entitled to participate in dividends declared on common shares. During periods of net income, the calculation of earnings per share for common stock excludes income attributable to unvested restricted stock awards from the numerator and excludes the dilutive impact of those shares from the denominator. During periods of net loss, no effect is given to the participating securities because they do not share in the losses of the Company. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 7. Earnings Per Share (Continued)\n The following tables provide a reconciliation of the computations of basic and diluted earnings per share information for each of the years in the three-year period ended May31, 2017 (shares in millions). For the Year Ended May31, Basic and Diluted EPS:\n Income (Loss) from continuing operations\n $ 50.2 $ 38.3 $ (73.9 ) Less income attributable to participating shares\n (0.5 ) (0.4 ) (0.3 ) Income (Loss) from continuing operations attributable to common shareholders\n 49.7 37.9 (74.2 ) Income from discontinued operations attributable to common shareholders\n 6.3 9.4 84.1 Net income attributable to common shareholders for earnings per share\n $ 56.0 $ 47.3 $ 9.9 Weighted average common shares outstandingbasic\n 33.9 34.4 39.1 Additional shares from assumed exercise of stock options\n 0.4 0.2 0.3 Weighted average common shares outstandingdiluted\n 34.3 34.6 39.4 Earnings per sharebasic:\n Earnings (Loss) from continuing operations\n $ 1.47 $ 1.10 $ (1.90 ) Earnings from discontinued operations\n 0.19 0.27 2.16 Earnings per sharebasic\n $ 1.66 $ 1.37 $ 0.26 Earnings per sharediluted:\n Earnings (Loss) from continuing operations\n $ 1.45 $ 1.10 $ (1.90 ) Earnings from discontinued operations\n 0.19 0.27 2.14 Earnings per sharediluted\n $ 1.64 $ 1.37 $ 0.24 At May31, 2017, 2016 and 2015, respectively, outstanding options to purchase 11,200 shares, 1,374,200 shares, and 168,200 shares of common stock were not included in the computation of diluted earnings per share, because the exercise price of these options was greater than the average market price of the common shares for the period then ended. 8. Employee Benefit Plans Defined Benefit Plans\nPrior to January1, 2000, the pension plan for domestic salaried and non-union hourly employees had a benefit formula based primarily on\nyears of service and compensation. Effective January1, 2000, we converted our defined benefit plan for substantially all domestic salaried and certain hourly employees to a cash balance pension plan. Under the cash balance pension plan, the retirement benefit is expressed as a dollar amount in an account that grows with annual pay-based credits and interest on the account balance. The interest crediting rate under our cash balance plan is determined quarterly and is equal to 100% of the average 30-year treasury rate for the second month preceding the applicable quarter published by the Internal Revenue Service. The average interest crediting rate under our cash balance plan for the fiscal Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\nyear ended May31, 2017 was 4.5%. Effective June1, 2005, the existing cash balance plan was frozen and the annual pay-based credits were discontinued. Also effective June1, 2005, the defined contribution plan was modified to include increased employer contributions and an enhanced profit sharing formula. Defined pension benefits for certain union hourly employees are based primarily on a fixed amount per year of service. We also have a defined benefit pension plan covering certain employees in the Netherlands. Benefit formulas are based generally on years of service and compensation. We provide eligible outside directors with benefits upon retirement on or after age 65 provided they have completed at least five years of service as a director. Benefits are paid quarterly in cash equal to 25% of the annual retainer fee payable to active outside directors. Payment of benefits commences upon retirement and continues for a period equal to the total number of years of the retired director\'s service up to a maximum of ten years, or death, whichever occurs first. In fiscal 2001, we terminated this plan for any new members of the Board of Directors first elected after May31, 2001. No current directors participate in this plan. The change to our projected benefit obligation and the fair value of our plan assets for our pension plans in the United States and other countries was as follows: May31, Change in projected benefit obligation:\n Projected benefit obligation at beginning of year\n $ 145.7 $ 144.9 Service cost\n 2.5 2.5 Interest cost\n 4.2 4.5 Participant contributions\n 0.3 0.3 Net actuarial gain\n (2.0 ) (1.1 ) Benefit payments\n (6.0 ) (6.0 ) Foreign currency translation adjustment\n 0.7 0.6 Projected benefit obligation at end of year\n $ 145.4 $ 145.7 Change in the fair value of plan assets:\n Fair value of plan assets at beginning of year\n $ 111.0 $ 115.8 Actual return on plan assets\n 9.9 (3.0 ) Employer contributions\n 2.9 3.4 Participant contributions\n 0.3 0.3 Benefit payments\n (6.0 ) (6.0 ) Foreign currency translation adjustment\n 0.7 0.5 Fair value of plan assets at end of year\n $ 118.8 $ 111.0 Funded status at end of year\n $ (26.6 ) $ (34.7 ) Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued) Amounts recognized in the Consolidated Balance Sheets consisted of the following: May31, Accrued liabilities\n $ (2.7 ) $ (3.8 ) Other liabilities and deferred income\n (23.9 ) (30.9 ) Funded status at end of year\n $ (26.6 ) $ (34.7 ) Amounts recognized in accumulated other comprehensive loss at May31, 2017 and 2016, respectively, consisted of the following: May31, Actuarial loss\n $ 58.8 $ 66.4 Prior service credit\n (0.4 ) (0.4 ) Total $ 58.4 $ 66.0 For all of our pension plans, both the projected benefit obligation and the accumulated benefit obligation are in excess of the individual plans\' assets. The accumulated benefit obligation for all pension plans was $140.0million as of both May31, 2017 and 2016. Net Periodic Benefit Cost Pension expense charged to the Consolidated Statements of Income includes the following components:\n For the Year Ended May31, Service cost\n $ 2.5 $ 2.5 $ 2.0 Interest cost\n 4.2 4.5 4.8 Expected return on plan assets\n (6.5 ) (6.5 ) (6.0 ) Curtailment 0.2 Amortization of prior service cost\n 0.1 0.2 Recognized net actuarial loss\n 2.4 2.4 1.8 $ 2.6 $ 3.0 $ 3.0 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued) The estimated amounts to be amortized from accumulated other comprehensive loss into expense during fiscal 2018 are as follows: Net actuarial loss\n $ 2.3 Prior service cost\n Total $ 2.3 Assumptions The assumptions used in accounting for our plans are estimates of factors including, among other things, the amount and timing of future benefit\npayments. The following table presents the key weighted-average assumptions used in the measurement of our projected benefit obligations: May31, Discount rate:\n Domestic plans\n 3.82 % 3.83 % International plan\n 2.00 1.90 Rate of compensation increase:\n Domestic plans\n 2.50 % 2.50 % International plan\n 3.00 3.00 A summary of the weighted-average assumptions used to determine net periodic pension expense is as follows: For the Year Ended May31, Discount rate:\n Domestic plans\n 3.83 % 4.15 % 4.23 % International plan\n 1.90 1.90 1.90 Rate of compensation increase:\n Domestic plans\n 2.50 % 2.50 % 2.50 % International plan\n 3.00 3.00 3.00 Expected long-term rate on plan assets:\n Domestic plans\n 7.25 % 7.25 % 7.50 % International plan\n 4.00 4.00 4.00 The discount rate was determined by projecting the expected future benefit payments as defined for the projected benefit obligation, discounting those expected payments using a theoretical zero-coupon spot yield curve derived from a universe of high-quality bonds as of the measurement date, and solving for the single equivalent discount rate that resulted in the same projected benefit obligation. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\n Plan Assets\n The following table sets forth the actual asset allocation and target allocations for our U.S. pension plans: May31, Target Asset\nAllocation Equity securities\n 62 % % 45-75 % Fixed income securities\n 16 17 15-25 % Other 22 24 0-25 % 100 % % The assets of U.S pension plans are invested in compliance with the Employee Retirement Income Security Act of 1974. The investment goals are to provide a total return that, over the long term, optimizes the long-term return on plan assets at an acceptable risk, and to maintain a broad diversification across asset classes and among investment managers. We believe that there are no significant concentrations of risk within our plan assets as of May31, 2017. The use of derivatives for the purpose of speculation are not permitted. The assets of the U.S. pension plans are invested primarily in equity and fixed income mutual funds, individual common stocks, and fund-of-funds hedge funds. The assets of the non-domestic plan are invested in funds-of-funds where each fund holds a portfolio of equity and fixed income mutual funds. To develop our expected long-term rate of return assumption on domestic plans, we use long-term historical return information for our targeted asset mix and current market conditions. The expected return for each asset class is weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets assumption. While consideration is given to recent performance, the assumption represents a long-term, prospective rate of return. The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May31, 2017: Level11 Level22 Level33 Total Equity securities:\n U.S. mutual funds\n $ 30.6 $ $ $ 30.6 International mutual funds\n 9.5 9.5 Fixed income:\n Government securities and corporate bond mutual funds\n 10.1 10.1 Funds-of-funds 51.6 7.3 58.9 Hedge funds\n 6.8 6.8 Cash and cash equivalents\n 2.9 2.9 Total investments\n $ 53.1 $ 51.6 $ 14.1 $ 118.8 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\nThe following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as of May31, 2016: Level11 Level22 Level33 Total Equity securities:\n U.S. common stock\n $ 2.3 $ $ $ 2.3 U.S. mutual funds\n 24.6 24.6 International common stock\n 0.1 0.1 International mutual funds\n 7.9 7.9 Fixed income:\n Government securities and corporate bond mutual funds\n 9.9 9.9 Funds-of-funds 50.2 7.5 57.7 Hedge funds\n 6.6 6.6 Cash and cash equivalents\n 1.9 1.9 Total investments\n $ 46.7 $ 50.2 $ 14.1 $ 111.0 1Quoted prices in active markets for identical assets that we have the ability to access as of the reporting date. 2Inputs other than quoted prices included within Level1 that are directly observable for the asset or indirectly observable through corroboration with observable market data. 3Unobservable inputs, such as internally developed pricing models or third party valuations for the asset due to little or no market activity for the asset. The following table presents the reconciliation of Level3 pension assets measured at fair value for the fiscal years ended May31, 2017 and 2016: Hedge Funds Fund-of-funds Total Balance as of May31, 2015\n $ 7.1 $ 8.0 $ 15.1 Return on plan assets related to assets still held at May31, 2016\n (0.5 ) (0.5 ) (1.0 ) Balance as of May31, 2016\n 6.6 7.5 14.1 Sales (0.8 ) (0.8 ) Return on plan assets related to assets still held at May31, 2017\n 0.2 0.6 0.8 Balance as of May31, 2017\n $ 6.8 $ 7.3 $ 14.1 Valuation Techniques Used to Determine Fair Value\nCash equivalents are investments with maturities of three months or less when purchased. The fair values are based on observable market prices\nand categorized as Level1. With respect to individually held equity securities, including investments in U.S. and international securities, the trustees obtain prices from pricing services, whose prices are obtained from direct feeds from market exchanges, which we are able to independently corroborate. Equity securities held Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\nindividually are primarily traded on exchanges that contain only actively traded securities, due to the volume trading requirements imposed by these exchanges. Equity securities are valued based on quoted prices in active markets and categorized as Level1. Equity and fixed income mutual funds are maintained by investment companies that hold certain investments in accordance with a stated set of fund objectives, which are consistent with our overall investment strategy. The values of some of these funds are publicly quoted. For equity and fixed income mutual funds which are publicly quoted, the funds are valued based on quoted prices in active markets and have been categorized as Level1. As our funds-of-funds investments are also derived from quoted prices in active markets, we have categorized the funds-of-funds investments as Level2. Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair value of hedge funds is determined using net asset value or its equivalent subject to certain restrictions, such as a lock-up period. As we may be limited in our ability to redeem the investments at the measurement date or within a reasonable period of time, the hedge fund investments are categorized as Level3. Future Benefit Payments and Funding\nThe following table summarizes our estimated future pension payments by fiscal year:\n Fiscal Year\n 2023 to\n2027 Estimated future pension payments\n $ 8.9 $ 5.6 $ 6.2 $ 5.9 $ 5.9 $ 35.0 Our contribution policy for the domestic plans is to contribute annually, at a minimum, an amount which is deductible for federal income tax purposes and that is sufficient to meet actuarially computed pension benefits. For our Netherlands pension plan, our policy is to fund at least the minimum amount required by the local laws and regulations. We anticipate contributing approximately $9.5million to our pension plans during fiscal 2018. Postretirement Benefits Other Than Pensions\nWe provide health and life insurance benefits for certain eligible retirees. The postretirement plan is unfunded and in fiscal 1995, we\ncompleted termination of postretirement health and life insurance benefits attributable to future services of collective bargaining and other domestic employees. The unfunded projected benefit obligation for this plan was $0.7million and $0.9million as of May31, 2017 and 2016, respectively. We have omitted substantially all of the required disclosures related to this plan because the plan is not material to our consolidated financial position or results of operations. Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 8. Employee Benefit Plans (Continued)\n Defined Contribution Plan The defined contribution plan is a profit sharing plan that is intended to qualify as a 401(k) plan under the Internal Revenue Code. Under the\nplan, employees may contribute up to 75% of their pretax compensation, subject to applicable regulatory limits. We may make matching contributions up to 5% of compensation as well as discretionary profit sharing contributions. Our contributions vest on a pro-rata basis during the first three years of employment. We also provide profit sharing benefits for certain executives and key employees to supplement the benefits provided by the defined contribution plan. Expense charged to the Consolidated Statements of Income for our matching contributions, including profit sharing contributions, was $12.7million in fiscal 2017, $11.2million in fiscal 2016 and $12.1million in fiscal 2015 for these plans. 9. Accumulated Other Comprehensive Loss\n Changes in our accumulated other comprehensive loss ("AOCL") by component for each of the years in the three-year period ended May31, 2017 were as follows: Currency Translation Adjustments Pension Plans Derivative Instruments Total Balance as of June1, 2014\n $ 8.7 $ (35.4 ) $ (2.6 ) $ (29.3 ) Other comprehensive income (loss) before reclassifications\n (56.9 ) (7.9 ) 0.6 (64.2 ) Sale of Telair Cargo Group\n 49.1 0.6 49.7 Amounts reclassified from AOCL\n 1.4 2.0 3.4 Total other comprehensive income (loss)\n (7.8 ) (5.9 ) 2.6 (11.1 ) Balance as of May31, 2015\n 0.9 (41.3 ) (40.4 ) Reclassifications within AOCL\n (2.0 ) 2.0 Other comprehensive income (loss) before reclassifications\n (5.6 ) (5.6 ) Amounts reclassified from AOCL\n 1.6 1.6 Total other comprehensive loss\n (4.0 ) (4.0 ) Balance as of May31, 2016\n (1.1 ) (43.3 ) (44.4 ) Other comprehensive loss before reclassifications\n (0.6 ) 3.5 2.9 Amounts reclassified from AOCL\n 1.6 1.6 Total other comprehensive income (loss)\n (0.6 ) 5.1 4.5 Balance as of May31, 2017\n $ (1.7 ) $ (38.2 ) $ $ (39.9 ) 10. Aircraft Portfolio\n Aircraft Owned with Joint Venture Partners\nWe have ownership interests in two aircraft with joint venture partners at May31, 2017 which are available for lease or sale to\ncommercial air carriers. Our equity investment was approximately $10.7million and $15.0million as of May31, 2017 and 2016, respectively, and is included in Other noncurrent assets on the Consolidated Balance Sheet. Our aircraft joint ventures primarily include Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 10. Aircraft Portfolio (Continued)\ninvestments in limited liability companies that are accounted for under the equity method of accounting. For our aircraft joint ventures accounted for under the equity method of accounting, our membership interest is 50%, and the primary business of these joint ventures is the acquisition, ownership, lease and disposition of certain commercial aircraft. Aircraft were purchased with cash contributions by the members of the joint ventures and debt financing provided on a limited recourse basis. Under the terms of servicing agreements with certain of the joint ventures, we provide administrative services and technical advisory services, including aircraft evaluations, oversight and logistical support of the maintenance process and records management. We also provide evaluation and inspection services prior to the purchase of an aircraft and remarketing services with respect to the divestiture of aircraft by the joint ventures. During fiscal 2017, 2016 and 2015, we were paid $1.2million, $0.9million and $0.1million, respectively, for such services. The income tax benefit or expense related to the operations of the joint ventures is recorded by the member companies. Distributions from joint ventures are classified as operating or investing activities in the Consolidated Statements of Cash Flows based upon an evaluation of the specific facts and circumstances of each distribution. Wholly-Owned Aircraft\nIn addition to the commercial aircraft owned with joint venture partners, we also previously owned 100% of two aircraft which we sold in the\nfourth quarter of fiscal 2015 for $11.0million. The carrying value of these two aircraft was $25.8million which resulted in the recognition of a loss on sale of $14.8million. 11. Commitments and Contingencies\n On October3, 2003, we entered into a sale-leaseback transaction whereby we sold and leased back a facility located in Garden City, New York. The lease is classified as an operating lease. Net proceeds from the sale of the facility were $14.0million and the cost and related accumulated depreciation of the facility of $9.5million and $4.6million, respectively, were removed from the Consolidated Balance Sheet at the time of sale. The gain realized on the sale of $9.1million has been deferred and is being amortized over the 20-year lease term. As of May31, 2017 and 2016, the unamortized balance of the deferred gain was approximately $2.9million and $3.4million, respectively, and is included in Other liabilities and deferred income on the Consolidated Balance Sheet. During the fourth quarter of fiscal 2015, we entered into a sale-leaseback transaction for our two S-92 rotary-wing aircraft resulting in the recognition of a loss of $1.1million. We received sales proceeds of $40.3million in fiscal 2015 which were deferred as a sale-leaseback advance pending completion of the sale transactions. Both of the S-92 aircraft sales were completed in fiscal 2016 and the related leases ended in fiscal 2017. During fiscal 2016, we received proceeds of $38.5million from sale-leaseback transactions for two AW-189 rotary-wing aircraft which are supporting search and rescue operations in the Falkland Islands. The $1.7million gain realized on the sale was deferred and is being amortized over the lease term of ten years. Table of Contents AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 11. Commitments and Contingencies (Continued)\nIn addition to the leases described above, we lease other facilities and equipment under agreements that are classified as operating leases that expire at various dates through 2034. Future minimum payments under all operating leases at May31, 2017 are as follows: $ 24.0 18.1 16.5 14.4 13.5 2023 and thereafter\n 40.0 Rental expense for facilities and equipment during fiscal years 2017, 2016, and 2015 was $31.9million, $33.5million, and $33.7million, respectively. We enter into purchase obligations which arise in the ordinary course of business and represent a binding commitment to acquire inventory, including raw materials, parts and components, as well as equipment to support the operations of our business. The aggregate amount of purchase obligations due in each of the next five fiscal years is $231.2million in 2018, $37.7million in 2019, $1.4million in 2020, $2.7million in 2021 and none in 2022. We routinely issue letters of credit and performance bonds in the ordinary course of our business. These instruments are typically issued in conjunction with insurance contracts or other business requirements. The total of these instruments outstanding at May31, 2017 was approximately $13.6million. We are involved in various claims and legal actions, including environmental matters, arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial condition or results of operations. 12. Other Noncurrent Assets\n At May31, 2017 and 2016, other noncurrent assets consisted of the following: May31, Assets under deferred compensation plan\n $ 32.1 $ 28.8 Costs in excess of billings\n 19.1 14.9 Cash surrender value of life insurance\n 17.8 17.7 Investments in joint ventures\n 15.0 17.6 License fees\n 14.4 15.5 Other 7.5 7.5 $ 105.9 $ 102.0 License Fees\nIn June 2011, we entered into a ten-year agreement with Unison Industries to be the exclusive worldwide aftermarket distributor for Unison\'s\nelectrical components, sensors, switches and other systems Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 12. Other Noncurrent Assets (Continued)\nfor aircraft and industrial uses. In connection with the agreement, we agreed to pay Unison Industries $20.0million for the exclusive distribution rights with $7.0million paid in June 2011 and $1.3million payable by January31 of each calendar year beginning in January 2012 through 2021. As of May31, 2017 and 2016, the unamortized balance of the license is $7.2million and $8.8million, respectively, and is being amortized over a ten-year period. The current portion of the deferred payments of $1.3million is recorded in Accrued liabilities and the long-term portion of $3.2million is included in Other liabilities and deferred income on the Consolidated Balance Sheet. 13. Acquisitions\n On April10, 2017, we acquired the trading business of ACLAS Global Limited ("ACLAS"). In conjunction with the acquisition, we entered into a multi-year component support and repair contract covering approximately 100 of ACLAS\' aircraft. The purchase price of the acquisition was $12.0million paid at closing with $3.0million in deferred consideration payable over the next three years. This business operates as part of our Aviation Services segment. The amounts recorded for certain assets are preliminary in nature and are subject to adjustment as additional information is obtained about their acquisition date fair value. The final determination of the fair values will be completed within the one year measurement period. The preliminary fair value of assets acquired is as follows: Inventory $ 5.0 Equipment on or available for long-term lease\n 7.0 Intangible assets\n 3.0 Assets acquired\n $ 15.0 On December4, 2015, we acquired certain assets of Vantem ModularLLC, which designs, manufactures, and distributes modular shelters. The purchase price of the acquisition was $4.8million paid at closing with future royalties of up to $5.0million. This business operates as part of our Expeditionary Services segment. The fair value of net assets acquired is as follows: Current assets\n $ 1.5 Equipment 0.5 Intangible assets\n 3.5 Contingent consideration\n (2.0 ) Net assets acquired\n 3.5 Goodwill 1.3 Purchase price\n $ 4.8 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 14. Business Segment Information\n Segment Reporting\nConsistent with how our chief operating decision making officer (Chief Executive Officer) evaluates performance and the way we are organized\ninternally, we report our activities in two segments: Aviation Services comprised of supply chain and MRO activities and Expeditionary Services comprised of airlift and mobility activities. The Aviation Services segment consists of aftermarket support and services businesses that provide spares and maintenance support for aircraft operated by our commercial and government/defense customers. Sales in the Aviation Services segment are derived from the sale and lease of a wide variety of new, overhauled and repaired engine and airframe parts and components to the commercial aviation and government and defense markets. We provide customized inventory supply chain management, performance based logistics programs, aircraft component repair management services, and aircraft modifications. The segment also includes repair, maintenance and overhaul of aircraft, landing gear and components. Cost of sales consists principally of the cost of product, direct labor, and overhead. The Expeditionary Services segment consists of businesses that provide products and services supporting the movement of equipment and personnel by the U.S. DoD, foreign governments and non-governmental organizations. Sales in the Expeditionary Services segment are derived from the delivery of airlift services to mostly government and defense customers and the design and manufacture of pallets, shelters, and containers used to support the U.S. military\'s requirements for a mobile and agile force. We also provide engineering, design, and system integration services for specialized command and control systems and design and manufacture advanced composite materials for commercial, business and military aircraft. Cost of sales consists principally of aircraft maintenance costs, depreciation, the cost of material to manufacture products, direct labor and overhead. The accounting policies for the segments are the same as those described in Note1. Our chief operating decision making officer (Chief Executive Officer) evaluates performance based on the reportable segments and utilizes gross profit as a primary profitability measure. Gross profit is calculated by subtracting cost of sales from sales. The assets and certain expenses related to corporate activities are not allocated to the segments. Our reportable segments are aligned principally around differences in products and services. Selected financial information for each segment is as follows: For the Year Ended May31, Net sales:\n Aviation Services\n $ 1,485.4 $ 1,425.0 $ 1,316.1 Expeditionary Services\n 282.2 273.9 305.3 $ 1,767.6 $ 1,698.9 $ 1,621.4 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 14. Business Segment Information (Continued) For the Year Ended May31, Gross profit (loss):\n Aviation Services\n $ 246.2 $ 229.8 $ 143.8 Expeditionary Services\n 30.3 8.1 (13.0 ) $ 276.5 $ 237.9 $ 130.8 May31, Total assets:\n Aviation Services\n $ 1,057.0 $ 944.8 $ 919.0 Expeditionary Services\n 338.8 384.8 406.0 Corporate and discontinued operations\n 108.3 126.4 129.1 $ 1,504.1 $ 1,456.0 $ 1,454.1 For the Year Ended May31, Capital expenditures:\n Aviation Services\n $ 15.0 $ 16.4 $ 8.7 Expeditionary Services\n 10.4 50.4 20.3 Corporate 8.2 22.1 13.1 Total continuing operations\n 33.6 88.9 42.1 Discontinued operations\n 0.1 4.2 $ 33.6 $ 89.0 $ 46.3 For the Year Ended May31, Depreciation and amortization:1\n Aviation Services\n $ 30.8 $ 26.2 $ 28.9 Expeditionary Services\n 22.2 24.9 26.9 Corporate 10.9 6.7 9.6 Total continuing operations\n 63.9 57.8 65.4 Discontinued operations\n 11.5 $ 63.9 $ 57.8 $ 76.9 1Includes depreciation and amortization of stock-based compensation. 72 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 14. Business Segment Information (Continued) The following table reconciles segment gross profit to income (loss) from continuing operations before provision for income taxes. For the Year Ended May31, Segment gross profit\n $ 276.5 $ 237.9 $ 130.8 Selling, general and administrative\n (196.7 ) (173.2 ) (172.4 ) Earnings (Loss) from joint ventures\n (0.2 ) (0.3 ) 0.2 Loss on extinguishment of debt\n (0.4 ) (44.9 ) Interest expense\n (5.5 ) (6.4 ) (27.2 ) Interest income\n 0.2 0.3 0.3 Income (Loss) from continuing operations before provision for income taxes\n $ 74.3 $ 57.9 $ (113.2 ) The U.S. Department of Defense, other U.S. government agencies and their contractors are our only customers representing 10% or more of total sales in any of the last three fiscal years. Sales by segment for these customers are as follows: For the Year Ended May31, Aviation Services\n $ 260.2 $ 301.1 $ 237.3 Expeditionary Services\n 194.6 222.5 258.3 $ 454.8 $ 523.6 $ 495.6 Percentage of total sales\n 25.7 % 30.8 % 30.6 % Sales by type of product/service was as follows: For the Year Ended May31, Aviation supply chain\n $ 998.7 $ 903.2 $ 847.6 Maintenance, repair and overhaul services\n 486.7 521.8 468.5 Expeditionary airlift services\n 176.8 173.4 173.3 Mobility products\n 105.4 100.5 132.0 $ 1,767.6 $ 1,698.9 $ 1,621.4 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 14. Business Segment Information (Continued) Geographic Data\n May31, Long-lived assets:\n United States\n $ 452.8 $ 489.9 Europe 122.5 73.1 Other 40.3 11.3 $ 615.6 $ 574.3 Sales to unaffiliated customers in foreign countries (including sales through foreign sales offices of domestic subsidiaries) were approximately $618.8million (35.0% of total sales), $494.6million (29.1% of total sales) and $538.9million (33.2% of total sales) in fiscal 2017, 2016 and 2015, respectively. 15. Legal Proceedings\n We are not a party to any material pending legal proceeding (including any governmental or environmental proceeding) other than routine litigation incidental to our business except for the following: DynCorp InternationalLLC v. AAR Airlift Group,Inc.\nOn September5, 2015, DynCorp InternationalLLC ("DynCorp") filed a complaint in the United States District Court for the Middle\nDistrict of Florida, Orlando Division (the "District Court"), accusing AAR Airlift Group,Inc. ("AAR Airlift"), a wholly-owned subsidiary of AAR CORP., of misappropriation of DynCorp information, including trade secrets, and other related allegations. DynCorp\'s complaint, which sought damages in an unspecified amount and a preliminary injunction, alleged that AAR Airlift engaged in this conduct in connection with the submission of proposals in response to the solicitation issued by the U.S. Department of State ("DOS") Bureau of International Narcotics and Law Enforcement Affairs, Office of Aviation ("INL/A") in support of the Global Aviation Support Services program. The INL/A contract was subsequently awarded to AAR Airlift on September1, 2016 as described below under "Court of Federal Claims INL/A Proceeding". The District Court denied DynCorp\'s preliminary injunction motion, and on October19, 2015, DynCorp filed an amended complaint with the District Court. On January14, 2016, the District Court granted AAR Airlift\'s motion to dismiss DynCorp\'s amended complaint. On February2, 2016, DynCorp appealed the District Court\'s order to the United States Court of Appeals for the Eleventh Circuit (the "Eleventh Circuit"). On November21, 2016, the Eleventh Circuit reversed in part the District Court\'s dismissal of the amended complaint and remanded the case to the District Court for further proceedings. The District Court set a discovery schedule that ends September1, 2017 and a trial date of April2, 2018. On June16, 2017, the District Court granted AAR Airlift\'s motion to stay the legal proceeding against AAR Airlift. The stay will remain in effect until the earlier of (a)November1, 2017 or (b)the entry of a decision of the United Stated Court of Federal Claims ("COFC"), on DynCorp\'s protest of the award of Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 15. Legal Proceedings (Continued)\nthe INL/A contract to AAR Airlift. The District Court\'s stay immediately halted all discovery and other activity in the DynCorp lawsuit. AAR Airlift will continue to defend itself vigorously against DynCorp\'s lawsuit, which it believes is entirely without merit. 16. Selected Quarterly Data (Unaudited)\n The unaudited selected quarterly data for fiscal years ended May31, 2017 and 2016 is as follows: Fiscal 2017\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year Sales $ 404.8 $ 423.8 $ 446.7 $ 492.3 $ 1,767.6 Gross profit\n 61.5 66.2 69.0 79.8 276.5 Income from continuing operations\n 9.9 12.1 13.1 15.1 50.2 Income (Loss) from discontinued operations\n (0.4 ) 0.6 6.1 6.3 Net income\n 9.5 12.1 13.7 21.2 56.5 Earnings (Loss) per sharebasic:(1)\n Continuing operations\n 0.29 0.35 0.39 0.44 1.47 Discontinued operations\n (0.01 ) 0.02 0.18 0.19 Earnings per sharebasic\n 0.28 0.35 0.41 0.62 1.66 Earnings (Loss) per sharediluted:(1)\n Continuing operations\n 0.29 0.35 0.38 0.44 1.45 Discontinued operations\n (0.01 ) 0.02 0.18 0.19 Earnings per sharediluted\n 0.28 0.35 0.40 0.62 1.64 Table of Contents\n AAR CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)\n(Dollars in millions, except per share amounts)\n 16. Selected Quarterly Data (Unaudited) (Continued) Fiscal 2016\n First Quarter Second Quarter Third Quarter Fourth Quarter Full Year Sales $ 386.7 $ 431.5 $ 412.1 $ 468.6 $ 1,698.9 Gross profit\n 53.9 59.1 59.3 65.6 237.9 Income from continuing operations\n 7.4 9.2 9.9 11.8 38.3 Income (Loss) from discontinued operations(2)\n 15.5 (1.2 ) (5.1 ) 0.2 9.4 Net income\n 22.9 8.0 4.8 12.0 47.7 Earnings (Loss) per sharebasic:(1)\n Continuing operations\n 0.21 0.26 0.29 0.35 1.10 Discontinued operations\n 0.44 (0.03 ) (0.15 ) 0.27 Earnings per sharebasic\n 0.65 0.23 0.14 0.35 1.37 Earnings (Loss) per sharediluted:(1)\n Continuing operations\n 0.21 0.26 0.29 0.34 1.10 Discontinued operations\n 0.44 (0.03 ) (0.15 ) 0.27 Earnings per sharediluted\n 0.65 0.23 0.14 0.34 1.37 1The earnings-per-share computation for the year is a separate, annual calculation. Accordingly, the sum of the quarterly earnings-per-share amounts does not necessarily equal the earnings per share for the year. 2First quarter income from discontinued operations in fiscal 2016 reflects a pre-tax gain of $27.7million for the receipt of contingent consideration from the sale of Telair Cargo Group in fiscal 2015. 17. Allowance for Doubtful Accounts\n May31, Balance, beginning of year\n $ 4.0 $ 5.8 $ 6.2 Provision charged to operations\n 2.4 0.3 1.7 Deductions for accounts written off, net of recoveries\n (0.6 ) (2.1 ) (1.6 ) Sale of Telair Cargo Group\n (0.4 ) Reclassification to assets of discontinued operations\n (0.1 ) Balance, end of year\n $ 5.8 $ 4.0 $ 5.8 Table of Contents\n ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE\nNot Applicable.\n ITEM 9A.CONTROLS AND PROCEDURES\n As required by Rules13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of May31, 2017. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Therefore, effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of May31, 2017, ensuring that information required to be disclosed in the reports that are filed under the Act is recorded, processed, summarized and reported in a timely manner. There were no changes in our internal control over financial reporting during the three-month period ended May31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING\nManagement of AAR CORP. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is\ndefined in Rules13a-15(f) and 15d-15(f) of the Act. The Company\'s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems which are determined to be effective provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of its internal control over financial reporting based on criteria for effective internal control over financial reporting described in the Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, management concluded that the Company maintained effective internal control over financial reporting as of May31, 2017. KPMGLLP, our independent registered public accounting firm, has issued a report on the effectiveness of our internal control over financial reporting. That report appears below. Table of Contents\n Report of Independent Registered Public Accounting Firm\nThe Board of Directors and Stockholders AAR CORP.: We have audited AAR CORP.\'s internal control over financial reporting as of May31, 2017, based on criteria established in Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AAR CORP.\'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company\'s internal control over financial reporting based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. A company\'s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company\'s internal control over financial reporting includes those policies and procedures that (1)pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2)provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3)provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company\'s assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, AAR CORP. maintained, in all material respects, effective internal control over financial reporting as of May31, 2017, based on criteria established in Internal ControlIntegrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AAR CORP. and subsidiaries as of May31, 2017 and 2016, and the related consolidated statements of income, comprehensive income (loss), changes in equity, and cash flows for each of the years in the three-year period ended May31, 2017, and our report dated July12, 2017 expressed an unqualified opinion on those consolidated financial statements. /s/ KPMGLLP\n Chicago, Illinois July12, 2017 Table of Contents ITEM 9B.OTHER INFORMATION\nNot applicable.\n PART III\n ITEM 10.DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE\n The information required by this item regarding the Directors of the Company and nominees for election of the Board is incorporated by reference to the information contained under the caption "Information about Our Director Nominees and Our Continuing Directors" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. The information required by this item regarding the Executive Officers of the Company appears under the caption "Supplemental Item: Executive Officers of the Registrant" following PartI, Item4 above. The information required by this item regarding the compliance with Section16(a) of the Securities Exchange Act of 1934 is incorporated by reference to the information contained under the caption "Section16(a) Beneficial Ownership Reporting Compliance" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. The information required by this item regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and the status of one or more members of the Audit Committee being an "audit committee financial expert" is incorporated by reference to the information contained under the caption "Corporate GovernanceBoard Committees" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. The information required by this item regarding our Code of Business Ethics and Conduct applicable to our directors, officers and employees is incorporated by reference to the information contained under the caption "Corporate GovernanceCode of Business Ethics and Conduct" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. There have been no material changes to the procedures by which stockholders may recommend nominees to the Company\'s board of directors. The information regarding these procedures is incorporated by reference to the information contained under the caption "Corporate GovernanceDirector Nominations and Qualifications" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. ITEM 11.EXECUTIVE COMPENSATION\nThe information required by this item is incorporated by reference to the information contained under the following captions:\n(a)"Executive CompensationCompensation Committee\'s Report on Executive Compensation for Fiscal 2017," (b)"Executive CompensationSummary Compensation Table," (c)"Executive CompensationFiscal 2017 Grants of Plan-Based Awards," (d)"Executive CompensationOutstanding Equity Awards at Fiscal Year End Table," (e)"Executive CompensationFiscal 2017 Option Exercises and Stock Vested," (f)"Executive CompensationFiscal 2017 Pension Benefits," (g)"Executive CompensationFiscal 2017 Non-Qualified Deferred Compensation," (h)"Executive CompensationPotential Payments Upon Termination of Employment or Change in Control of the Company," (i)"Corporate GovernanceDirector Compensation," and (j)"Corporate GovernanceCompensation Committee Interlocks and Insider Participation" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. Table of Contents\n ITEM 12.SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS\nThe information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to\nthe information contained under the caption "Security Ownership of Management and Others" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. The information required by this item regarding equity compensation plan information is incorporated by reference to the information contained under the caption "Equity Compensation Plan Information" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. ITEM 13.CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE\nThe information required by this item is incorporated by reference to the information contained under the captions "Corporate\nGovernanceDirector Independence" and "Corporate GovernanceRelated Person Transaction Policy" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. ITEM 14.PRINCIPAL ACCOUNTING FEES AND SERVICES\nThe information required by this item is incorporated by reference to the information contained under the caption "Independent Registered Public\nAccounting Firm Fees and Services" in our definitive proxy statement for the 2017 Annual Meeting of Stockholders. Table of Contents\n PART IV\nITEM 15.EXHIBITS AND FINANCIAL STATEMENT SCHEDULES\n (a)(1) and (2)Financial Statements and Financial Statement Disclosures The following financial statements are filed as a part of this report under "Item8Financial Statements and Supplementary Data".\n Page Report of Independent Registered Public Accounting Firm\n Financial StatementsAAR CORP. and Subsidiaries:\n Consolidated Statements of Income for the three years ended May31, 2017\n Consolidated Statements of Comprehensive Income (Loss) for the three years ended May31, 2017\n Consolidated Balance Sheets as of May31, 2017 and 2016\n 37-38 Consolidated Statements of Changes in Equity for the three years ended May31, 2017\n Consolidated Statements of Cash Flows for the three years ended May31, 2017\n Notes to Consolidated Financial Statements\n 41-76 Selected quarterly data (unaudited) for the years ended May31, 2017 and 2016 (Note16 of Notes to Consolidated Financial\nStatements) (a)(3)Exhibits The Exhibits filed as part of this report are set forth in the Exhibit Index contained elsewhere herein. Management contracts and compensatory arrangements have\nbeen marked with an asterisk (\*) on the Exhibit Index. ITEM 16.FORM 10-K SUMMARY\nNot applicable.\n Table of Contents\n Pursuant to the requirements of Section13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual\nreport on Form10-K to be signed on its behalf by the undersigned, thereunto duly authorized. AAR CORP. (Registrant) Date: July12, 2017\nBY: /s/DAVID P. STORCH\n David P. Storch Chairman and Chief Executive Officer\n Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report on Form10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Signature Title Date /s/DAVID P. STORCH\n David P. Storch\nChairman and Chief Executive Officer;\nDirector (Principal Executive Officer) /s/TIMOTHY J. ROMENESKO\n Timothy J. Romenesko\nVice Chairman and Chief Financial Officer; Director (Principal Financial Officer)\n /s/JOHN M. HOLMES\n John M. Holmes\nPresident and Chief Operating Officer; Director\n /s/ERIC S. PACHAPA\n Eric S. Pachapa\nVice President, Controller and Chief Accounting Officer (Principal Accounting Officer)\n /s/ANTHONY K. ANDERSON\n Anthony K. Anderson\nDirector /s/NORMAN R. BOBINS\n Norman R. Bobins\nDirector /s/MICHAEL R. BOYCE\n Michael R. Boyce\nDirector /s/RONALD R. FOGLEMAN\n Ronald R. Fogleman\nDirector July12, 2017\n /s/JAMES E. GOODWIN\n James E. Goodwin\nDirector /s/PATRICK J. KELLY\n Patrick J. Kelly\nDirector /s/DUNCAN J. MCNABB\n Duncan J. McNabb\nDirector /s/PETER PACE\n Peter Pace\nDirector /s/JENNIFER L. VOGEL\n Jennifer L. Vogel\nDirector /s/MARC J. WALFISH\n Marc J. Walfish\nDirector /s/RONALD B. WOODARD\n Ronald B. Woodard\nDirector Table of Contents\n Index Exhibits 3. Articles of Incorporation and By-Laws\n3.1 Restated Certificate of Incorporation.7\n 3.2 By-Laws, as amended and restated through July9, 2008.17\n 4. Instruments defining the rights of security holders\n4.1 Restated Certificate of Incorporation (see Exhibit3.1).\n 4.2 By-Laws, as amended and restated through July9, 2008 (See Exhibit3.2).\n 4.3 Rights Agreement between the Registrant and Computershare Trust Company dated July11, 2007.13\n 4.4 Form of 2.25% Convertible Senior Note due 2016.15\n 4.5 Indenture for 2.25% Convertible Senior Notes due 2016 between AAR CORP. and U.S. Bank National Association, as trustee, dated as of February11, 2008.15\n 4.6 Indenture providing for Issuance of Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December1, 2010.23\n 4.7 Indenture providing for Issuance of Subordinated Debt Securities between AAR CORP. as Issuer and U.S. Bank National Association, as Trustee dated as of December1, 2010.23\n 4.8 Credit Agreement dated April12, 2011 among AAR CORP., Bank of America National Association, as administrative agent, and the various financial institutions party thereto,24 as amended August26, 2011 and October13, 2011,\n26 and as further amended on April8, 2013 and April24, 201328 and as further amended on March24, 201534 and as further amended on November1, 2016.38\n 4.9 Loan Agreement dated as of March9, 2012 between AAR Corp. and Development Bank of Japan,Inc.27\n 4.10 Indenture dated as of February14, 2014 governing $30,000,000 of 1.75% Convertible Senior Notes due 2016, by and between AAR CORP., as Issuer, and U.S. National Bank National Association, as Trustee.29\n 4.11 Form of 1.75% Convertible Senior Notes due 2016.32\n Table of Contents\n Index Exhibits Pursuant to Item601(b)(4)(iii)(A) of RegulationS-K, the Registrant is not filing certain documents. The Registrant agrees to furnish a copy of each such document upon the request of the Commission.\n 10. Material Contracts\n10.1\* Amended and Restated AAR CORP. Stock Benefit Plan effective October1, 2001,4 as amended June27, 2003,5 May5, 2005,8 July12, 2005,9 June23, 2006,12 January23,\n2007,12 January27, 2007,16 and July11, 2011.25\n 10.2\* AAR CORP. Directors\' Retirement Plan, dated April14, 1992,1 amended May26, 20002 and April10, 2001.3\n 10.3\* AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated effective January1, 2005,10 as amended July11, 2007,12 October17, 2007,16 June11, 2010,22 and further\namended April26, 2013 and November18, 2014.36\n 10.4\* Amended and Restated Severance and Change in Control Agreement dated August1, 2000 between the Registrant and Michael J. Sharp.3\n 10.5\* Amended and Restated Severance and Change in Control Agreement dated April11, 2000 between the Registrant and Timothy J. Romenesko2, as amended June14, 2010.21 and as further amended September22,\n2016.40 10.6\* AAR CORP. Nonemployee Directors\' Deferred Compensation Plan, as Amended and Restated effective January1, 2005.11\n 10.7 Indenture dated October3, 2003 between AAR Distribution,Inc. and iStar Garden CityLLC.6\n 10.8 Lease Agreement dated October3, 2003 between AAR Allen Services,Inc., as tenant and iStar Garden CityLLC, as Landlord, and related Guaranty dated October3, 2003 from Registrant to iStar Garden\nCityLLC.6 10.9 Lease Agreement by and between Indianapolis Airport Authority and AAR Aircraft Services,Inc. dated as of December19, 2015.36\n 10.10\* Form of Non-Employee Director Non-Qualified Stock Option Agreement.31\n Table of Contents\n Index Exhibits 10.11\* Form of Fiscal 2018 Director Restricted Stock Agreement (filed herewith).\n 10.12\* Form of Split Dollar Insurance Agreement.11\n 10.13 Confirmation of OTC Convertible Note Hedge Transaction for 2016 Notes, dated February5, 2008, by and between AAR CORP., and Merrill Lynch Financial Markets,Inc.14\n 10.14 Confirmation of OTC Warrant Transaction for 2016 Notes, dated February5, 2008, by and between AAR CORP., and Merrill Lynch Financial Markets,Inc.14\n 10.15\* Form of Severance and Change in Control Agreement effective from and after July9, 2008 (entered into between the Registrant and Robert J. Regan).17\n 10.16\* Form of Directors\' and Officers\' Indemnification Agreement.18\n 10.17\* Employment Agreement dated as of April18, 2017 between Registrant and David P. Storch.20\n 10.18\* Form of Amendment to the Severance and Change in Control Agreement (applicable to Mr.Romenesko).19\n 10.19\* Form of Amendment to the Severance and Change in Control Agreement (applicable to Mr.Regan).19\n 10.20\* Form of Policy for Recoupment of Incentive Compensation.30\n 10.21\* Section162(m) Annual Cash Incentive Plan.36\n 10.22\* AAR CORP. 2013 Stock Plan.36 and as amended July11, 2016.39\n 10.23\* AAR CORP. Fiscal 2016 Short-Term Incentive Plan.35\n 10.24\* Form of Second Amendment to the Severance and Change in Control Agreement (applicable to Messrs.Romenesko and Regan).37\n 10.25\* Amended and Restated Employment Agreement dated as of April18, 2017 between Registrant and John M. Holmes.20\n Table of Contents\n Index Exhibits 10.26\* Retirement and Consulting Agreement dated as of April18, 2017 between Registrant and Timothy J. Romenesko.20\n 10.27\* Agreement and Release dated as of July27, 2016 between Registrant and Michael J. Sharp.41\n 21. Subsidiaries of the Registrant\n21.1 Subsidiaries of AAR CORP. (filed herewith).\n 23. Consents of experts and counsel\n23.1 Consent of Independent Registered Public Accounting Firm (filed herewith).\n 31. Rule13a-14(a)/15(d)-14(a) Certifications\n31.1 Section302 Certification dated July12, 2017 of David P. Storch, Chairman and Chief Executive Officer of Registrant (filed herewith).\n 31.2 Section302 Certification dated July12, 2017 of Timothy J. Romenesko, Vice Chairman and Chief Financial Officer of Registrant (filed herewith).\n 32. Rule13a-14(b)/15d-14(b) Certifications\n32.1 Section906 Certification dated July12, 2017 of David P. Storch, Chairman and Chief Executive Officer of Registrant (filed herewith).\n 32.2 Section906 Certification dated July12, 2017 of Timothy J. Romenesko, Vice Chairman and Chief Financial Officer of Registrant (filed herewith).\n 101. Interactive Data File\n The following materials from the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i)Consolidated Balance Sheets at May31, 2017 and 2016,\n(ii)Consolidated Statements of Income for the fiscal years ended May31, 2017, 2016 and 2015 , (iii)Consolidated Statements of Comprehensive Income for fiscal years ended May31, 2017, 2016 and 2015 (iv)Consolidated\nStatements of Cash Flows for the fiscal years ended May31, 2017, 2016 and 2015 , (v)Consolidated Statement of Changes in Equity for the three years ended May31, 2017 and (vi)Notes to Consolidated Financial\nStatements.\*\* Notes: \*\*Pursuant to Rule406T of RegulationS-T, the Interactive Data Files on Exhibit101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections11 or 12 of the Table of Contents\n Securities Act of 1933, as amended, are deemed not filed for purposes of Section18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections. 1Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 1992. 2Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2000. 3Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2001. 4Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended November30, 2001. 5Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2003. 6Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended November30, 2003. 7Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2004. 8Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2005. 9Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended February28, 2006. 10Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated June9, 2006. 11Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2006. 12Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2007. 13Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated July12, 2007. 14Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated February11, 2008. 15Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated February14, 2008. 16Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended February29, 2008. 17Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated July11, 2008. 18Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended August31, 2008. 19Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended February28, 2009. 20Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated April18, 2017. Table of Contents 21Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated June18, 2010. 22Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2010. 23Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended November30, 2010. 24Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated April14, 2011. 25Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarter ended August31, 2011. 26Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October11, 2011. 27Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated March9, 2012. 28Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated April24, 2013. 29Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form10-Q for the quarterly period ended February28, 2014. 30Incorporated by reference to the Registrant\'s Quarterly Report on Form10-Q for the quarterly period ended August31, 2012. 31Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2012. 32Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2014. 33Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarterly period ended August31, 2014. 34Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated March24, 2015. 35Incorporated by reference to Exhibits to the Registrant\'s Quarterly Report on Form10-Q for the quarterly period ended August31, 2015. 36Incorporated by reference to Exhibits to the Registrant\'s Annual Report on Form10-K for the fiscal year ended May31, 2015. 37Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October6, 2015. 38Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated November1, 2016. 39Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated October11, 2016. 40Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated September22, 2016. 41Incorporated by reference to Exhibits to the Registrant\'s Current Report on Form8-K dated July27, 2016.