

AAR CORP
Form DEF 14A
August 29, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

AAR CORP.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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 - (4) Date Filed:
-

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

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON WEDNESDAY, OCTOBER 8, 2008**

The Annual Meeting of Stockholders of AAR CORP. for the year 2008 will be held at AAR CORP.'s headquarters, One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois, on Wednesday, October 8, 2008, at 9:00 A.M. (Chicago time). At the meeting, stockholders will be asked to:

Elect four Class III directors to serve until the 2011 Annual Meeting of Stockholders;

Ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending May 31, 2009; and

Transact any other business that may properly come before the 2008 Annual Meeting or any adjournment or postponement of the meeting.

By Order of the Board of Directors

Howard A. Pulsifer
Secretary

August 29, 2008

Your vote is important. We hope that you will attend the Annual Meeting in person, but even if you plan to attend, we strongly encourage you to vote your shares as soon as possible, by completing and returning the enclosed proxy card in the postage-paid envelope provided. You also may vote your shares by telephone or through the Internet, or by attending the Annual Meeting and voting in person.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on October 8, 2008: Copies of this Notice and Proxy Statement and the Company's 2008 Annual Report to Stockholders (including the Annual Report on Form 10-K for the fiscal year ended May 31, 2008) are available free of charge at www.edocumentview.com/AIR.

2008 Annual Meeting of Stockholders

PROXY STATEMENT

TABLE OF CONTENTS

	Page
I. VOTING INFORMATION	1
Who is entitled to vote?	1
How do stockholders vote by proxy or in person?	1
How do stockholders vote by telephone or through the Internet?	1
How does a stockholder revoke a proxy?	2
How will proxy holders vote shares?	2
How will votes be counted?	2
Who is the Company's proxy solicitor?	2
II. PROPOSAL 1 ELECTION OF DIRECTORS	3
III. INFORMATION ABOUT THE NOMINEES AND CONTINUING DIRECTORS	4
IV. CORPORATE GOVERNANCE	6
General	6
Director Independence	6
Executive Sessions	7
Communications with the Board of Directors	7
Corporate Governance Guidelines	7
Code of Business Ethics and Conduct	7
Related Person Transaction Policy	7
Board Committees	9
Board Meetings and Attendance	12
Director Compensation	12
Compensation Committee Interlocks and Insider Participation	15
V. SECURITY OWNERSHIP OF MANAGEMENT AND OTHERS	15
Security Ownership of Management	15
Security Ownership of Certain Beneficial Owners	16

	Page
VI. EXECUTIVE COMPENSATION	17
Compensation Committee's Report on Executive Compensation	17
Compensation Discussion and Analysis	17
Summary Compensation Table	27
Grants of Plan-Based Awards Table	30
Outstanding Equity Awards at Fiscal Year-End Table	31
Option Exercises and Stock Vested Table	32
Pension Benefits Table	33
Non-Qualified Deferred Compensation Table	35
Potential Payments Upon Termination of Employment or Change in Control of the Company	38
VII. REPORT OF AUDIT COMMITTEE	43
VIII. PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	45
Independent Registered Public Accounting Firm Fees and Services	45
Vote Required	45
IX. OTHER BUSINESS	46
X. STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING	46
APPENDIX 1 AAR CORP. CATEGORICAL STANDARDS AND POLICY FOR DETERMINING DIRECTOR INDEPENDENCE	A-1

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

2008 Annual Meeting of Stockholders

PROXY STATEMENT

I. VOTING INFORMATION

This Proxy Statement and the enclosed proxy card were mailed to stockholders beginning on or about August 29, 2008, in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 2008 Annual Meeting.

Who is entitled to vote?

If you were a stockholder of record (i.e., you held your shares in your own name rather than through a broker, bank or other nominee) on August 18, 2008, the Company's record date, you may vote your shares at the Annual Meeting. If you were a street-name stockholder (i.e., you held your shares through a broker, bank or other nominee) on that date, you are considered a "beneficial owner" of the stock. To vote those shares at the Annual Meeting, you must give voting instructions to your broker, bank or other intermediary who is the "nominee holder" of your shares. The Company has directed brokers, banks and other nominee holders to obtain voting instructions from their beneficial owners. Proxies submitted by nominee holders on behalf of beneficial owners will count toward a quorum and will be voted as instructed by the nominee holder. You will receive additional instructions from your broker, bank or other nominee explaining how you may vote your shares held in street name. A list of registered stockholders entitled to vote will be available at the Company's offices, 1100 N. Wood Dale Road, Wood Dale, Illinois, for 10 days prior to the meeting and at the meeting location during the meeting.

On the record date, 38,687,696 shares of common stock of the Company ("Common Stock") were outstanding. You will have one vote on each matter to be voted on for each share of Common Stock you owned on the record date.

How do stockholders vote by proxy or in person?

If you owned Common Stock of the Company at the close of business on the record date, August 18, 2008, you may vote at the Annual Meeting by completing, signing, dating and returning your proxy card in the postage-paid, addressed envelope provided, by submitting your proxy by telephone or through the Internet or by voting in person at the Annual Meeting.

How do stockholders vote by telephone or through the Internet?

You are encouraged to vote either by telephone or through the Internet. This will eliminate the need to sign, date and return your proxy card. You can vote by telephone or through the Internet 24 hours a day, seven days a week, until 1:00 a.m. (central time) on the day prior to the Annual Meeting. Specific instructions for using the telephone and Internet voting methods are set forth on the proxy card. If you vote by telephone or through the Internet, please do not return your proxy card.

How does a stockholder revoke a proxy?

You may revoke your proxy at any time before it is exercised, but only by:

sending a written notice of revocation to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement,

voting in person at the Annual Meeting,

submitting another proxy by telephone or through the Internet, or

delivering a later dated, signed proxy.

How will proxy holders vote shares?

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

How will votes be counted?

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

Who is the Company's proxy solicitor?

The Company has engaged D. F. King & Co., 48 Wall Street, New York, New York, to assist the Company in soliciting proxies at a total estimated cost of \$10,500, plus reasonable out-of-pocket expenses. The cost of soliciting proxies will be paid by the Company. D. F. King & Co. may solicit proxies by mail, telephone, facsimile, e-mail, or in person. Certain officers, directors and employees of the Company may also solicit proxies for no additional compensation.

II. PROPOSAL 1 ELECTION OF DIRECTORS

The Restated Certificate of Incorporation and By-Laws of the Company provide that the Board of Directors shall consist of between three and 15 directors, with the exact number of directors to be set from time to time by the Board. The number of directors is presently set at 11. The members of the Board are divided into three classes, each having three-year terms that expire in successive years: Class I (three directors), Class II (four directors), and Class III (four directors).

The Board of Directors has nominated four directors to be elected in Class III at the Annual Meeting, each to serve a three-year term expiring at the 2011 Annual Meeting or until the individual is succeeded by another qualified director who has been duly elected.

The nominees for director in Class III this year are Ronald R. Fogleman, Patrick J. Kelly, Timothy J. Romenesko, and Ronald B. Woodard.

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

Each nominee is currently serving as a director of the Company and each nominee has been determined by the Board to be "independent" within the meaning of the New York Stock Exchange ("NYSE") rules, except Mr. Romenesko. Under Delaware law and the Company's By-Laws, the four nominees for director who individually receive the greatest number of votes shall be elected directors of the Company.

***THE BOARD OF DIRECTORS RECOMMENDS THAT
STOCKHOLDERS VOTE FOR ALL NOMINEES.***

III. INFORMATION ABOUT THE NOMINEES AND CONTINUING DIRECTORS

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

	Director Since
NOMINEES FOR TERMS EXPIRING IN 2011	
<i>Class III Directors whose terms expire at the 2008 Annual Meeting:</i>	
RONALD R. FOGLEMAN, 66: Since 1997, President and Chief Operating Officer of B Bar J Cattle Company (a consulting company) and Chairman of the Durango Group, LLC (a consulting and business development company). From 1994 to 1997, General, Chief of Staff, Headquarters United States Air Force, Washington, D.C.	2001
Other directorships: Alliant Techsystems, Inc. and Alpha Security Group Corp.	
PATRICK J. KELLY, 53: Since 1980, Chief Executive Officer of Resource One (a provider of computer programming services). Since 1986, Managing Director of KMK & Associates, LLC (a private equity firm with interests in companies operating in the distribution, technology, food, real estate and financial services industries).	2006
TIMOTHY J. ROMENESKO, 51: Since June 2007, President and Chief Operating Officer of AAR. From 1994 to 2007, Vice President, Chief Financial Officer and Treasurer of AAR. From 1991 to 1994, Corporate Controller of AAR.	2007
RONALD B. WOODARD, 65: Since 2003, Chairman of MagnaDrive, Inc. (an industrial torque transfer equipment company, which he co-founded following his retirement from The Boeing Company after 32 years). From 1995 to 1998, President of the Boeing Commercial Airplane Group. From 1991 to 1994, Vice President and General Manager of the Renton Division of Boeing Commercial Aircraft. From 1987 to 1991, President of deHavilland Aircraft. Prior to that, Vice President and General Manager of the Materiel Division of Boeing Commercial Aircraft, and various other management positions.	2004
Other directorships: Coinstar Inc. and Continental Airlines, Inc.	
CONTINUING DIRECTORS:	
<i>Class I Directors whose terms expire at the 2009 Annual Meeting:</i>	
MICHAEL R. BOYCE, 60: Since 2005, Chairman and Chief Executive Officer of PQ Corporation (an industrial chemicals company). Since 1998, Chairman and Chief Executive Officer of Peak Investments (an operating and acquisition company). From 1990 to 1998, President and Chief Operating Officer of Harris Chemical Group, Inc.	2005
JAMES G. BROCKSMITH, JR., 67: Since 1996, an independent business consultant. From 1990 to 1996, Deputy Chairman, and Chief Operating Officer of KPMG Peat Marwick, where he retired after 31 years.	2001
Other directorships: Alberto-Culver Company, Nationwide Financial Services, Inc., and Sempra Energy.	
DAVID P. STORCH, 55: Since June 2007, Chairman of the Board and Chief Executive Officer of AAR. From October 2005 until June 2007, Chairman of the Board, President and Chief Executive Officer of AAR. From 1996 to October 2005, President and Chief Executive Officer of AAR. From 1989 to 1996, President and Chief Operating Officer of AAR. From 1988 to 1989, Vice President of AAR.	1989

**Director
Since**

CONTINUING DIRECTORS:

Class II Directors whose terms expire at the 2010 Annual Meeting:

NORMAN R. BOBINS, 65: Since July 2008, Chairman of The PrivateBank Chicago (a financial services company). From May 2007 until October 2007, Chairman of the Board of LaSalle Bank Corporation (a financial institution). From 2002 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2001 to 2007, President and Chief Executive Officer of LaSalle Bank Corporation. From 2006 to 2007, President and Chief Executive Officer of ABN AMRO North America. From 2002 to 2007, Senior Executive Vice President at ABN AMRO Bank N.V., the Dutch parent of LaSalle Bank Corporation. 2007

Other directorships: PrivateBancorp, Inc., Sims Group Limited, and NICOR, Inc.

GERALD F. FITZGERALD, JR., 58: Since 2000, Chairman and President, Cornerstone Bancorp, Inc. Since 1997, Chairman and President of LaSalle Bancorp, Inc. (LaSalle, IL). From 1990 to 1994, President and Chief Executive Officer of Suburban Bancorp, Inc. 2006

JAMES E. GOODWIN, 64: Since December 2007, Interim President and Chief Executive Officer of Federal Signal Corporation (a safety and security products manufacturer). From 2001 to December 2007, an independent business consultant. From 1999 to 2001, Chairman and Chief Executive Officer of UAL, Inc. and United Airlines, Inc., where he retired after 34 years. From 1998 to 1999, President and Chief Operating Officer of United Airlines, Inc. From 1992 to 1998, Senior Vice President of United Airlines, Inc. 2002

Other directorships: First Chicago Bancorp and Federal Signal Corporation.

MARC J. WALFISH, 56: Founding Partner of Merit Capital Partners (a mezzanine investor company) in 2003. From 1991 to 2003, William Blair Mezzanine Capital Partners. From 1978 to 1991, Prudential Capital Corporation, most recently as Senior Vice President. 2003

IV. CORPORATE GOVERNANCE

General

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

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

Corporate Governance Guidelines

Categorical Standards and Policy for Determining Director Independence

Director Nominating Process and Selection Guidelines

Code of Business Ethics and Conduct

Audit Committee Charter

Compensation Committee Charter

Nominating and Governance Committee Charter

Executive Committee Charter

All of these corporate governance documents are also available in print to any stockholder upon written request to the Secretary of the Company at the Company's address listed on the first page of this Proxy Statement.

The Company maintains an Ethics Assist Line through a third-party provider to receive confidential complaints, information, suggestions or recommendations, anonymously or otherwise, concerning the Company, its officers, directors and employees, policies, procedures, employment and business practices, accounting or audit matters, financial reporting or compliance with other Company policies or applicable regulatory or legal requirements. The Ethics Assist Line is toll-free and permits callers, at their election, to identify themselves or remain anonymous.

Director Independence

A majority of the members of the Board of Directors must be independent directors under the criteria established by the Board and under applicable NYSE rules. The Nominating and Governance Committee and the Board of Directors review each director annually and make a determination concerning independence after consideration of all known facts and circumstances. The Board has established categorical standards to assist it in determining director independence. The Company's "Categorical Standards and Policy for Determining Director Independence" include all of the elements of the applicable SEC and NYSE rules with respect to director independence, as well as those of the Company, and are attached as Appendix 1 to this Proxy Statement. Based on these categorical standards, its review of all relevant facts and information available, and the recommendations of the Nominating and Governance Committee, the Board, at its meeting in July 2008, affirmatively determined that no director has a material relationship with the Company that would impair the director's ability to exercise independent judgment and, accordingly, each director is an independent director, except for David P. Storch, due to his status as Chairman of the Board and Chief Executive Officer of the Company, and Timothy J. Romenesko, due to his status as President and Chief Operating Officer of the Company. Under the NYSE rules, a director employed by the Company is not an independent director by definition.

Executive Sessions

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

Communications with the Board of Directors

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

Corporate Governance Guidelines

The Company adopted Corporate Governance Guidelines to codify long-standing policies and procedures and to demonstrate its commitment to corporate governance best practices. These Guidelines, under the administration of the Nominating and Governance Committee of the Board of Directors, address director qualification standards, director responsibilities, director access to management and independent advisors, director compensation, management evaluation and succession, and the annual performance evaluation of the Board of Directors. These Guidelines are reviewed annually and were last revised in July 2006.

Code of Business Ethics and Conduct

The Company's Code of Business Ethics and Conduct adopted by the Board of Directors applies to all directors, officers, and employees, including the Chairman and Chief Executive Officer, the President and Chief Operating Officer, the Chief Financial Officer, and the Chief Accounting Officer and Controller. The purpose of the Code of Business Conduct and Ethics is to promote the highest ethical standards in the Company's business practices and procedures, including the ethical handling of actual or apparent conflicts of interest; full, fair and timely disclosure; and compliance with applicable law and governmental rules and regulations. Employees are encouraged to report to the Company any conduct that they believe in good faith to be in violation of the Code of Business Ethics and Conduct. We will post any amendments to the Code of Business Ethics and Conduct and any waivers from the Code granted by the Board to directors or executive officers on the Company's website as required under SEC rules.

Related Person Transaction Policy

The Board of Directors, upon the recommendation of the Nominating and Governance Committee, adopted a written Related Person Transaction Policy in July 2008. The purpose of the Policy is to provide for the identification, review, and consideration of transactions between the Company or its subsidiaries and any related persons. "Related persons" means the Company's directors, director nominees, executive officers, greater than five percent beneficial owners of the Company's voting securities, members of their immediate families, and any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership interest.

Under the Policy, any related person transaction involving amounts in excess of \$120,000, subject to certain exceptions, must be reviewed, considered, and approved by the Board of Directors directly or through the Nominating and Governance Committee. Review of a proposed related person transaction takes into consideration, among other factors deemed appropriate, the purpose

of, and the potential benefits to the Company of, the related person transaction, and the impact of the related person transaction on a director's independence in the event that the related person is a director or an immediate family member of a director. No member of the Board or the Nominating and Governance Committee may participate in any review, consideration, or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the related person.

The Policy provides that the Company may undertake certain pre-approved related person transactions without further specific review, consideration, and approval, including the following:

transactions in which the related person's interest derives solely from his or her service as a director of another corporation or entity that is a party to the transaction;

transactions in which the related person's interest derives solely from his or her ownership (together with that of any other related persons) of less than 10% of the equity interest in another person (other than a general partnership interest) that is a party to the transaction;

transactions in which the related person's interest derives solely from his or her ownership of a class of equity securities of the Company and all holders of that class of equity securities receive the same benefits on a pro rata basis;

transactions involving the purchase or sale of products in the ordinary course of business, not exceeding \$120,000 on an annual basis; and

compensation paid to executive officers and directors of the Company that is reported in the Company's proxy statement or otherwise approved by the Compensation Committee;

Mr. Ira A. Eichner, a former director and Founder and Chairman of the Board of the Company, who retired from the Board on October 19, 2005, provides consulting services to the Company pursuant to a consulting agreement that expires on October 18, 2010, under which he receives a quarterly consulting fee in the amount of \$37,500. During the fiscal year ended May 31, 2008 ("Fiscal 2008"), Mr. Eichner received \$150,000 in consulting fees. Mr. Eichner is Founder and Chairman of the Board Emeritus, an honorary position, and Mr. Storch's father-in-law.

Until October 2007, Director Norman R. Bobins was the Chairman of the Board, President and Chief Executive Officer of LaSalle Bank Corporation ("LaSalle Bank"). Since August 2006, the Company has been party to a \$ 250,000,000 unsecured revolving credit facility with LaSalle Bank National Association, an affiliate of LaSalle Bank, and various other lenders. Under certain circumstances, the revolving credit commitment can be increased up to a maximum of \$325,000,000. LaSalle Bank's participation under the facility is \$55,000,000. The credit facility expires on August 31, 2011 and borrowings bear interest at LIBOR plus 100 to 237.5 basis points depending on specified financial measurements. The credit facility also includes a non-use fee which is currently 25 basis points on the unused portion of the facility. The facility was made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans. During Fiscal 2008, the maximum amount of borrowings outstanding under this facility was \$173,000,000, and the Company paid an aggregate of \$2,184,044 in interest and approximately \$1,065,359 in fees and non-use charges under the facility. As of May 31, 2008, the Company had no outstanding borrowings under this facility and approximately \$18,000,000 of letters of credit issued against this facility.

Board Committees

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

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