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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended February 29, 2024

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: **1-6263**

AAR CORP.
(Exact name of registrant as specified in its charter)

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** (Address of principal executive offices)	**60191** (Zip Code)

(630) 227-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	*Trading Symbol(s)*	*Name of Each Exchange on Which Registered*
Common Stock, $1.00 par value	**AIR**	**New York Stock Exchange** **Chicago Stock Exchange**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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 emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

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 Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☒

As of February 29, 2024 there were 35,427,056 shares of the registrant's Common Stock, $1.00 par value per share, outstanding.

AAR CORP. and Subsidiaries
Quarterly Report on Form 10-Q
For the Quarter Ended February 29, 2024
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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of February 29, 2024 and May 31, 2023
(In millions, except share data)

ASSETS

	February 29, 2024 (Unaudited)	May 31, 2023
Current assets:		
Cash and cash equivalents	$ 69.2	$ 68.4
Restricted cash	14.4	13.4
Accounts receivable, less allowances of $13.9 and $13.4, respectively	257.1	241.3
Contract assets	86.5	86.9
Inventories	671.5	574.1
Rotable assets and equipment on or available for short-term lease	74.5	50.6
Assets of discontinued operations	10.8	13.5
Prepaid expenses and other current assets	56.7	49.7
Total current assets	1,240.7	1,097.9
Property, plant, and equipment, net of accumulated depreciation of $ 278.2 and $268.8, respectively	134.1	126.1
Other assets:		
Goodwill	179.4	175.8
Intangible assets, net of accumulated amortization of $ 9.3 and $6.0, respectively	60.4	63.7
Operating lease right-of-use assets, net	89.5	63.7
Rotable assets supporting long-term programs	177.9	178.1
Other non-current assets	139.8	127.8
	647.0	609.1
	$ 2,021.8	$ 1,833.1

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Balance Sheets
As of February 29, 2024 and May 31, 2023
(In millions, except share data)

LIABILITIES AND EQUITY

	February 29, 2024 (Unaudited)	May 31, 2023
Current liabilities:		
Accounts payable	$ 230.3	$ 158.5
Accrued liabilities	187.4	179.6
Liabilities of discontinued operations	10.5	13.4
Total current liabilities	428.2	351.5
Long-term debt	274.7	269.7
Operating lease liabilities	73.0	48.2
Deferred tax liabilities	37.0	33.6
Other liabilities	40.9	31.0
	425.6	382.5
Equity:		
Preferred stock, $1.00 par value, authorized 250,000 shares; none issued	—	—
Common stock, $1.00 par value, authorized 100,000,000 shares; issued 45,300,786 shares at cost	45.3	45.3
Capital surplus	489.3	484.5
Retained earnings	947.8	910.6
Treasury stock, 9,873,730 and 10,385,237 shares at cost, respectively	(305.7)	(317.8)
Accumulated other comprehensive loss	(8.7)	(23.5)
Total equity	1,168.0	1,099.1
	$ 2,021.8	$ 1,833.1

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Income
For the Three and Nine Months Ended February 29/28, 2024 and 2023
(Unaudited)
(In millions, except share data)

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	2023	2024	2023
Sales:				
Sales from products	$ 329.9	$ 327.6	$ 987.6	$ 891.4
Sales from services	237.4	193.5	674.8	545.8
	567.3	521.1	1,662.4	1,437.2
Cost and operating expenses:				
Cost of products	257.5	260.5	788.8	709.3
Cost of services	199.5	166.3	558.6	465.9
	457.0	426.8	1,347.4	1,175.2
Gross profit	110.3	94.3	315.0	262.0
Provision for credit losses	0.1	1.9	0.5	1.8
Selling, general and administrative	77.0	56.7	217.4	159.6
Loss from joint ventures	(0.2)	(1.7)	(0.5)	(3.0)
Operating income	33.0	34.0	96.6	97.6
Pension settlement charge	—	—	(26.7)	—
Losses related to sale and exit of business	(1.0)	(0.4)	(2.6)	(0.5)
Other income (expense), net	(0.2)	(0.3)	(0.3)	0.4
Interest expense	(11.9)	(3.8)	(23.9)	(7.0)
Interest income	0.6	0.3	1.6	0.5
Income from continuing operations before income taxes	20.5	29.8	44.7	91.0
Income tax expense	6.5	8.0	7.5	24.4
Income from continuing operations	14.0	21.8	37.2	66.6
Income from discontinued operations, net of tax	—	—	—	0.4
Net income	$ 14.0	$ 21.8	$ 37.2	$ 67.0
Earnings per share – basic:				
Earnings from continuing operations	$ 0.40	$ 0.63	$ 1.05	$ 1.90
Earnings from discontinued operations	—	—	—	0.01
Earnings per share – basic	$ 0.40	$ 0.63	$ 1.05	$ 1.91
Earnings per share – diluted:				
Earnings from continuing operations	$ 0.39	$ 0.62	$ 1.04	$ 1.87
Earnings from discontinued operations	—	—	—	0.01
Earnings per share – diluted	$ 0.39	$ 0.62	$ 1.04	$ 1.88

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the Three and Nine Months Ended February 29/28, 2024 and 2023
(Unaudited)
(In millions)

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	2023	2024	2023
Net income	$ 14.0	$ 21.8	$ 37.2	$ 67.0
Other comprehensive loss, net of tax:				
Currency translation adjustments	(0.2)	0.7	(0.1)	(2.9)
Pension and other post-retirement plans, net of tax	—	0.1	14.9	0.5
Other comprehensive income (loss), net of tax	(0.2)	0.8	14.8	(2.4)
Comprehensive income	$ 13.8	$ 22.6	$ 52.0	$ 64.6

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended February 29/28, 2024 and 2023
(Unaudited)
(In millions)

	Nine Months Ended February 29/28,	
	2024	2023
Cash flows provided by (used in) operating activities:		
Net income	$ 37.2	$ 67.0
Less: Income from discontinued operations	—	(0.4)
Income from continuing operations	37.2	66.6
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	25.9	20.2
Stock-based compensation	11.5	10.4
Pension settlement charge	26.7	—
Loss from joint ventures	0.5	3.0
Provision for credit losses	0.5	1.8
Deferred taxes	(4.8)	(5.8)
Changes in certain assets and liabilities:		
Accounts receivable	(17.3)	(26.4)
Contract assets	0.5	(18.5)
Inventories	(97.3)	(20.2)
Rotable assets and equipment on or available for short-term lease	(23.8)	1.9
Prepaid expenses and other current assets	(11.3)	(8.8)
Rotable assets supporting long-term programs	(6.9)	(13.2)
Accounts payable	73.7	2.8
Accrued and other liabilities	19.8	(15.9)
Deferred revenue on long-term programs	(13.6)	2.2
Other	(2.0)	(21.6)
Net cash provided by (used in) operating activities - continuing operations	19.3	(21.5)
Net cash used in operating activities - discontinued operations	(0.2)	(0.4)
Net cash provided by (used in) operating activities	19.1	(21.9)
Cash flows used in investing activities:		
Property, plant, and equipment expenditures	(22.2)	(22.5)
Other	(4.6)	(4.8)
Net cash used in investing activities – continuing operations	(26.8)	(27.3)
Cash flows provided by financing activities:		
Short-term borrowings on Revolving Credit Facility, net	5.0	88.0
Purchase of treasury stock	(5.1)	(50.1)
Financing costs	(0.8)	(1.9)
Stock compensation activity	10.4	8.5
Net cash provided by financing activities – continuing operations	9.5	44.5
Effect of exchange rate changes on cash	—	(0.1)
Increase (Decrease) in cash, cash equivalents, and restricted cash	1.8	(4.8)
Cash, cash equivalents, and restricted cash at beginning of period	81.8	58.9
Cash, cash equivalents, and restricted cash at end of period	$ 83.6	$ 54.1

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity
For the Three and Nine Months Ended February 29/28, 2024 and 2023
(Unaudited)
(In millions)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Equity
Balance, May 31, 2023	$ 45.3	$ 484.5	$ 910.6	$ (317.8)	$ (23.5)	$ 1,099.1
Net loss	—	—	(0.6)	—	—	(0.6)
Stock option activity	—	(0.3)	—	7.0	—	6.7
Restricted stock activity	—	(2.4)	—	3.7	—	1.3
Other comprehensive income, net of tax	—	—	—	—	15.4	15.4
Balance, August 31, 2023	$ 45.3	$ 481.8	$ 910.0	$ (307.1)	$ (8.1)	$ 1,121.9
Net income	—	—	23.8	—	—	23.8
Stock option activity	—	0.9	—	6.3	—	7.2
Restricted stock activity	—	3.0	—	—	—	3.0
Other comprehensive loss, net of tax	—	—	—	—	(0.4)	(0.4)
Balance, November 30, 2023	$ 45.3	$ 485.7	$ 933.8	$ (300.8)	$ (8.5)	$ 1,155.5
Net income	—	—	14.0	—	—	14.0
Stock option activity	—	0.7	—	0.2	—	0.9
Restricted stock activity	—	2.9	—	—	—	2.9
Repurchase of shares	—	—	—	(5.1)	—	(5.1)
Other comprehensive loss, net of tax	—	—	—	—	(0.2)	(0.2)
Balance, February 29, 2024	$ 45.3	$ 489.3	$ 947.8	$ (305.7)	$ (8.7)	$ 1,168.0

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance, May 31, 2022	$ 45.3	$ 477.5	$ 820.4	$ (289.1)	$ (19.6)	$ 1,034.5
Net income	—	—	22.7	—	—	22.7
Stock option activity	—	1.0	—	1.5	—	2.5
Restricted stock activity	—	(1.7)	—	3.5	—	1.8
Repurchase of shares	—	—	—	(21.9)	—	(21.9)
Other comprehensive loss, net of tax	—	—	—	—	(3.1)	(3.1)
Balance, August 31, 2022	$ 45.3	$ 476.8	$ 843.1	$ (306.0)	$ (22.7)	$ 1,036.5
Net income	—	—	22.5	—	—	22.5
Stock option activity	—	0.2	—	2.4	—	2.6
Restricted stock activity	—	2.0	—	—	—	2.0
Repurchase of shares	—	—	—	(28.2)	—	(28.2)
Other comprehensive loss, net of tax	—	—	—	—	(0.1)	(0.1)
Balance, November 30, 2022	$ 45.3	$ 479.0	$ 865.6	$ (331.8)	$ (22.8)	$ 1,035.3
Net income	—	—	21.8	—	—	21.8
Stock option activity	—	(0.5)	—	7.7	—	7.2
Restricted stock activity	—	2.7	—	(0.1)	—	2.6
Other comprehensive loss, net of tax	—	—	—	—	0.8	0.8
Balance, February 28, 2023	$ 45.3	$ 481.2	$ 887.4	$ (324.2)	$ (22.0)	$ 1,067.7

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these statements.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2024
(Unaudited)
(Dollars in millions, except per share amounts)

Note 1 – Basis of Presentation

AAR CORP. and its subsidiaries are referred to herein collectively as "AAR," "Company," "we," "us," or "our," unless the context indicates otherwise. The accompanying Condensed Consolidated Financial Statements include the accounts of AAR and its subsidiaries after elimination of intercompany accounts and transactions.

We have prepared these statements without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). The Condensed Consolidated Balance Sheet as of May 31, 2023 has been derived from audited financial statements. To prepare the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Certain information and note disclosures, normally included in comprehensive financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such rules and regulations of the SEC. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023.

In the opinion of management, the Condensed Consolidated Financial Statements reflect all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the Condensed Consolidated Balance Sheet of AAR CORP. and its subsidiaries as of February 29, 2024, the Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income for the three- and nine-month periods ended February 29/28, 2024 and 2023, the Condensed Consolidated Statements of Cash Flows for the nine-month periods ended February 29/28, 2024 and 2023, and the Condensed Consolidated Statement of Changes in Equity for the three- and nine-month periods ended February 29/28, 2024 and 2023. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

Note 2 – Acquisitions

Acquisition of Triumph Group's Product Support Business

On March 1, 2024, we completed the acquisition of Triumph Group, Inc.'s Product Support Business (the "Product Support Business") for a purchase price of $725.0 million subject to customary post-closing adjustments for cash, working capital and indebtedness. The Product Support Business is a leading global provider of specialized maintenance, repair, and overhaul ("MRO") capabilities for critical aircraft components in the commercial and defense markets, providing MRO services for structural components, engine and airframe accessories, interior refurbishment and wheels and brakes. The Product Support Business also designs proprietary designated engineering representative repairs and parts manufacturer approval parts.

The Product Support Business will be reported within our Repair & Engineering segment. The purchase price was paid at closing and was funded with debt financing. In connection with the acquisition, we secured commitments for a bridge financing facility (the "Bridge Facility"). No amounts were drawn under the Bridge Facility, which was terminated on March 1, 2024 upon securing permanent debt financing and closing the acquisition. We expensed $6.1 million within Interest expense for the fees associated with the Bridge Facility. Transaction costs associated with the acquisition of $9.4 million were expensed as incurred within Selling, general and administrative expenses in the three-month period ended February 29, 2024.

Acquisition of Trax USA Corp.

On March 20, 2023, we acquired the outstanding shares of Trax USA Corp. ("Trax") for a purchase price of $ 120.0 million plus contingent consideration of up to $20.0 million based on Trax's adjusted revenue in calendar years 2023 and 2024. Trax is a leading provider of aircraft MRO and fleet management software supporting a broad spectrum of maintenance activities for a diverse global customer base of airlines and MROs.

(Dollars in millions, except per share amounts)

The purchase price was paid at closing except for $12.0 million which was placed on deposit with an escrow agent to secure potential indemnification obligations and fund post-closing adjustments for working capital and indebtedness. The post-closing adjustments for working capital and indebtedness were finalized in the three-month period ended November 30, 2023 resulting in a purchase price reduction of $1.8 million.

The contingent consideration is based on an adjusted revenue target and requires certain of the former owners' continued employment through December 31, 2024, and is treated as compensation expense within Selling, general and administrative expenses. The adjusted revenue target is based on revenue recognized under U.S. GAAP adjusted for certain events related to deferred revenue, customer commitments, and other adjustments. We recognized compensation expense of $1.4 million and $4.2 million in the three- and nine-month periods ended February 29, 2024, respectively.

We accounted for the acquisition using the acquisition method and included the results of Trax's operations in our consolidated financial statements from the effective date of the acquisition. Trax's results are reported within our Integrated Solutions segment. The acquisition was funded using a combination of proceeds from our Revolving Credit Facility and cash on hand. Transaction costs associated with the acquisition of $5.1 million were expensed as incurred.

The final fair value of assets acquired and liabilities assumed is as follows:

Accounts receivable	$ 8.8
Other assets	3.0
Intangible assets	61.7
Deferred revenue	(4.1)
Deferred tax liabilities	(15.1)
Other liabilities	(4.6)
Net assets acquired	49.7
Goodwill	63.8
Purchase price, net of cash acquired	$ 113.5

Acquired amortizable intangible assets include customer relationships of $33.6 million and developed technology of $22.0 million which are being amortized over 12 years and 20 years, respectively. Intangible assets also include tradenames of $6.1 million which are indefinite-lived. The goodwill associated with the Trax acquisition is not deductible for tax purposes and is primarily attributable to the benefits we expect to derive from expected synergies including complimentary products and services, cross-selling opportunities and intangible assets that do not qualify for separate recognition, such as their assembled workforce.

Note 3 – Discontinued Operations

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. Unless otherwise noted, amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to our continuing operations.

Following the sale of the last operating contract of the COCO business in 2020, our continuing involvement in the COCO business is limited to the lease of certain aircraft which is an obligation of the acquirer of the COCO business. The assets and liabilities of our discontinued operations are primarily comprised of right-of-use ("ROU") assets and lease-related liabilities.

Note 4 – Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer.

Our unit of accounting for revenue recognition is a performance obligation included in our customer contracts. A performance obligation reflects the distinct good or service that we must transfer to a customer. At contract inception, we evaluate if the contract should be accounted for as a single performance obligation or if the contract contains multiple performance obligations. In some cases, our contract with the customer is considered one performance obligation as it includes factors such as whether the good or service being provided is significantly integrated with other promises in the contract, whether the service provided significantly modifies or customizes another good or service or whether the good or service is highly interdependent or interrelated. If the contract has more than one performance obligation, we determine the standalone price of each distinct good or service underlying each performance obligation and allocate the transaction price based on their relative standalone selling prices.

The transaction price of a contract, which can include both fixed and variable amounts, is allocated to each performance obligation identified. Some contracts contain variable consideration, which could include incremental fees or penalty provisions related to performance. Variable consideration that can be reasonably estimated based on current assumptions and historical information is included in the transaction price at the inception of the contract but limited to the amount that is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Variable consideration that cannot be reasonably estimated is recorded when known.

Our performance obligations are satisfied over time as work progresses or at a point in time based on transfer of control of products and services to our customers. The majority of our sales from products typically represent distinct performance obligations and are recognized at a point in time upon transfer of control to the customer, which generally occurs upon shipment. In connection with certain sales of products, we also provide logistics services, which include inventory management, replenishment, and other related services. The price of such services is generally included in the price of the products delivered to the customer, and revenues are recognized upon delivery of the product, at which point the customer has obtained control of the product. We do not account for these services separate from the related product sales as the services are inputs required to fulfill part orders received from customers.

For our performance obligations that are satisfied over time, we measure progress in a manner that depicts the performance of transferring control to the customer. As such, we utilize the input method of cost-to-cost to recognize revenue over time as this depicts when control of the promised goods or services are transferred to the customer. Revenue is recognized based on the relationship of actual costs incurred to date to the estimated total cost at completion of the performance obligation.

We are required to make certain judgments and estimates, including estimated revenues and costs, as well as inflation and the overall profitability of the arrangement. Key assumptions involved can include customer volume, future labor costs and efficiencies, repair or overhaul costs, overhead costs, and ultimate timing of product delivery. Differences may occur between the judgments and estimates made by management and actual program results. For contracts that are deemed to be loss contracts, we establish forward loss reserves for total estimated costs that are in excess of total estimated consideration in the period in which they become known.

We utilize the portfolio approach to estimate the amount of revenue to recognize for certain contracts which require over-time revenue recognition. Such contracts are grouped together either by revenue stream, customer or product line with each portfolio of contracts grouped together based on having similar characteristics. The portfolio approach is utilized only when the result of the accounting is not expected to be materially different than if applied to individual contracts.

We also may enter into offset agreements or conditions as part of obtaining orders for our products and services from certain government customers in foreign countries. These agreements are designed to enhance the social and economic environment of the foreign country by requiring the contractor to promote investment in the country. These agreements also may be satisfied through our use of cash or other means of providing financial support for in-country projects with local companies. The amounts ultimately applied against our offset agreements are based on negotiations with the customer and satisfaction of our offset obligations are included in the estimates of our total costs to complete the contract.

When contracts are modified, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original goods or services provided, are accounted for as if they were part of that existing contract with the effect of the contract modification recognized as an adjustment to revenue on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

Certain contracts with customers have options for the customer to acquire additional goods or services. In most cases, the pricing of these options are reflective of the standalone selling price of the good or service. These options do not provide the customer with a material right and are accounted for only when the customer exercises the option to purchase the additional goods or services. If the option on the customer contract was not indicative of the standalone selling price of the good or service, the material right would be accounted for as a separate performance obligation.

Under most of our U.S. government contracts, if the contract is terminated for convenience, we are entitled to payment for items delivered and fair compensation for work performed, the costs of settling and paying other claims, and a reasonable profit on the costs incurred or committed.

In the ordinary course of business, agencies of the U.S. and other governments audit our claimed indirect costs and conduct inquiries and investigations of our business practices with respect to government contracts to determine whether our operations are conducted in accordance with these requirements and the terms of the relevant contracts. U.S. government agencies, including the Defense Contract Audit Agency ("DCAA"), routinely audit our claimed indirect costs, for compliance with the Cost Accounting Standards and the Federal Acquisition Regulations. These agencies also conduct reviews and investigations and make inquiries regarding our accounting and other systems in connection with our performance and business practices with respect to our government contracts and subcontracts.

Costs to fulfill and obtain a contract are considered for capitalization based on contract specific facts and circumstances. The incremental costs to fulfill a contract, including setup and implementation costs prior to beginning the period of performance, may be capitalized when expenses are incurred prior to the start of satisfying a performance obligation. The capitalized costs are subsequently expensed over the contract's period of performance.

We have elected to use certain practical expedients permitted under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*. Shipping and handling fees and costs incurred associated with outbound freight after control over a product has transferred to a customer are accounted for as a fulfillment cost and are included in Cost of sales on our Condensed Consolidated Statements of Income and are not considered a performance obligation to our customers. Our reported sales on our Condensed Consolidated Statements of Income are net of any sales or related non-income taxes. We also utilize the "as invoiced" practical expedient in certain cases where performance obligations are satisfied over time and the invoiced amount corresponds directly with the value we are providing to the customer.

Cumulative Catch-up Adjustments

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. These changes are primarily adjustments to the estimated profitability for our long-term programs where we provide component inventory management, supply chain logistics programs, and/or repair services.

For the three-month period ended February 29, 2024, we recognized favorable cumulative catch-up adjustments of $ 2.5 million. For the three-month period ended February 28, 2023, we recognized no cumulative catch-up adjustments.

(Dollars in millions, except per share amounts)

For the nine-month period ended February 29, 2024, we recognized favorable and (unfavorable) cumulative catch-up adjustments of $9.5 million and $(6.8) million, respectively. For the nine-month period ended February 28, 2023, we recognized cumulative catch-up adjustments of $7.6 million and $(1.8) million, respectively. When considering these adjustments on a net basis, we recognized adjustments of $2.7 million and $5.8 million for the nine-month periods ended February 29/28, 2024 and 2023, respectively.

Contract Assets and Liabilities

The timing of revenue recognition, customer billings, and cash collections results in a contract asset or contract liability at the end of each reporting period. For instances where we recognize revenue prior to having an unconditional right to payment, we record a contract asset or liability. When an unconditional right to consideration exists, we reduce our contract asset or liability and recognize an unbilled or trade receivable. When amounts are dependent on factors other than the passage of time in order for payment from a customer to be due, we record a contract asset which consists of costs incurred where revenue recognized over time using the cost-to-cost model exceeds the amounts billed to customers. Contract liabilities include advance payments and billings in excess of revenue recognized. Certain customers make advance payments prior to the satisfaction of our performance obligations on the contract. These amounts are recorded as contract liabilities until such performance obligations are satisfied, either over time as costs are incurred or at a point in time when deliveries are made. Contract assets and contract liabilities are determined on a contract-by-contract basis.

Net contract assets and liabilities are as follows:

	February 29, 2024	May 31, 2023	Change
Contract assets – current	$ 86.5	$ 86.9	$ (0.4)
Contract assets – non-current	33.5	27.5	6.0
Contract liabilities:			
Deferred revenue – current	(16.2)	(19.7)	3.5
Deferred revenue on long-term contracts	(6.1)	(12.7)	6.6
Net contract assets	$ 97.7	$ 82.0	$ 15.7

Contract assets – non-current is reported within Other non-current assets, contract liabilities – current is reported within Accrued liabilities, and deferred revenue on long-term contracts is reported within Other liabilities on our Condensed Consolidated Balance Sheets. Changes in contract assets and contract liabilities primarily result from the timing difference between our performance of services and our invoicing to customers.

To support our power - by - the - hour customer contracts, we previously entered into an agreement with a component repair facility to outsource a portion of the component repair and overhaul services. The agreement includes certain minimum repair volume guarantees, which, subject to the amendment noted below, we have historically not met. During the three-month period ended November 30, 2023, we amended the agreement to eliminate certain minimum repair volume guarantees, including all future guarantees, resulting in the de-recognition of $2.0 million from our remaining loss reserves.

Changes in our deferred revenue were as follows for the three- and nine-month periods ended February 29/28, 2024 and 2023:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	2023	2024	2023
Deferred revenue at beginning of period	$ (26.4)	$ (28.8)	$ (32.4)	$ (30.6)
Revenue deferred	(86.4)	(81.0)	(222.6)	(208.1)
Revenue recognized	85.6	73.9	228.0	194.0
Other[1]	4.9	1.7	4.7	10.5
Deferred revenue at end of period	$ (22.3)	$ (34.2)	$ (22.3)	$ (34.2)

[1] Other includes cumulative catch-up adjustments, foreign currency translation, and other adjustments.

(Dollars in millions, except per share amounts)

Remaining Performance Obligations

As of February 29, 2024, we had approximately $ 825 million of remaining performance obligations, also referred to as firm backlog, which excludes unexercised contract options and potential orders under our indefinite-delivery, indefinite-quantity contracts. We expect that approximately 45% of this backlog will be recognized as revenue over the next 12 months with approximately 55% of the remainder recognized over the next three years. The amount of remaining performance obligations that are expected to be recognized as revenue beyond 12 months, primarily relates to our long-term programs where we provide component inventory management, supply chain logistics programs and/or repair services.

Disaggregation of Revenue

Third - party sales across the major customer markets for each of our operating segments for the three- and nine-month periods ended February 29/28, 2024 and 2023 were as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	**2023**	**2024**	**2023**
Parts Supply:				
Commercial	$ 200.2	$ 179.7	$ 595.6	$ 451.0
Government and defense	42.1	47.9	111.1	128.8
	$ 242.3	$ 227.6	$ 706.7	$ 579.8
Repair & Engineering:				
Commercial	$ 128.2	$ 114.0	$ 380.7	$ 348.8
Government and defense	12.6	14.0	43.0	41.6
	$ 140.8	$ 128.0	$ 423.7	$ 390.4
Integrated Solutions:				
Commercial	$ 69.1	$ 44.7	$ 195.3	$ 140.6
Government and defense	96.4	98.8	283.1	258.0
	$ 165.5	$ 143.5	$ 478.4	$ 398.6
Expeditionary Services:				
Commercial	$ 1.7	$ 1.1	$ 5.3	$ 4.5
Government and defense	17.0	20.9	48.3	63.9
	$ 18.7	$ 22.0	$ 53.6	$ 68.4

Consolidated sales by geographic region for the three- and nine-month periods ended February 29/28, 2024 and 2023 were as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	**2023**	**2024**	**2023**
U.S./Canada	$ 422.2	$ 385.8	$ 1,236.5	$ 1,108.2
Europe/Africa	90.4	71.0	263.6	186.3
Asia/South Pacific	47.5	34.8	133.6	98.2
Other	7.2	29.5	28.7	44.5
	$ 567.3	$ 521.1	$ 1,662.4	$ 1,437.2

(Dollars in millions, except per share amounts)

Note 5 – Accounts Receivable

Financial instruments that potentially subject us to concentrations of market or credit risk consist principally of trade receivables. While our trade 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. The composition of our accounts receivable is as follows:

	February 29, 2024	May 31, 2023
U.S. Government contracts:		
Trade receivables	$ 13.5	$ 13.1
Unbilled receivables	12.5	18.9
	26.0	32.0
All other customers:		
Trade receivables	206.5	179.7
Unbilled receivables	24.6	29.6
	231.1	209.3
	$ 257.1	$ 241.3

Note 6 – Accounting for Stock-Based Compensation

Restricted Stock

In the three-month period ended August 31, 2023, as part of our annual long-term stock incentive compensation, we granted 81,100 shares of performance-based restricted stock and 87,130 shares of time-based restricted stock to eligible employees. The grant date fair value per share for these shares was $58.27 (the closing price per share of our common stock on the grant date). We also granted 21,834 shares of time-based restricted stock to members of the Board of Directors with a grant date fair value per share of $51.51 (the closing price per share of our common stock on the grant date).

Expenses charged to operations for restricted stock during the three-month periods ended February 29/28, 2024 and 2023 was $2.9 million and $2.6 million, respectively, and during the nine-month periods ended February 29/28, 2024 and 2023 was $ 9.2 million and $7.5 million, respectively.

Stock Options

In July 2023, as part of our annual long-term stock incentive compensation, we granted 141,545 stock options to eligible employees at an exercise price per share of $58.27 and grant date fair value per share of $ 25.31. The fair value of stock options was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free interest rate	4.1 %
Expected volatility of common stock	42.3 %
Dividend yield	0.0 %
Expected option term in years	5.1

The total intrinsic value of stock options exercised during the nine-month periods ended February 29/28, 2024 and 2023 was $13.9 million and $8.6 million, respectively. Expenses charged to operations for stock options during the three-month periods ended February 29/28, 2024 and 2023 was $0.7 million and $0.9 million, respectively, and during the nine-month periods ended February 29/28, 2024 and 2023 was $2.3 million and $2.9 million, respectively.

(Dollars in millions, except per share amounts)

Note 7 – Inventories

The summary of inventories is as follows:

	February 29, 2024	May 31, 2023
Aircraft and engine parts, components and finished goods	$ 590.2	$ 488.9
Raw materials and parts	56.7	59.6
Work-in-process	24.6	25.6
	$ 671.5	$ 574.1

Note 8 – Supplemental Cash Flow Information

	Nine Months Ended February 29, 2024	Nine Months Ended February 29, 2023
Interest paid	$ 17.2	$ 6.3
Income taxes paid	33.6	27.5
Income tax refunds received	0.7	1.1
Operating lease liabilities arising from obtaining or re-measuring ROU assets	34.1	4.4

Note 9 – Sale of Receivables

On February 23, 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 $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement runs through February 22, 2025, but, 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 ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Condensed Consolidated Balance Sheets. At February 29, 2024, we have utilized $8.7 million which reduced the availability under the Purchase Agreement to $ 141.3 million.

During the nine-month periods ended February 29/28, 2024 and 2023, we sold $ 109.7 million and $132.8 million, respectively, of receivables under the Purchase Agreement and remitted $108.8 million and $131.5 million, respectively, to the Purchaser on their behalf. As of February 29, 2024 and May 31, 2023, we had collected cash of $5.0 million and $1.3 million, respectively, which was not yet remitted to the Purchaser as of those dates and was classified as Restricted cash on our Condensed Consolidated Balance Sheets.

Note 10 – Financing Arrangements

A summary of the carrying amount of our debt is as follows:

	February 29, 2024	May 31, 2023
Revolving Credit Facility with interest payable monthly	$ 277.0	$ 272.0
Debt issuance costs, net	(2.3)	(2.3)
Long-term debt	$ 274.7	$ 269.7

At February 29, 2024, our debt had a fair value that approximates its carrying value and is classified as Level 2 in the fair value hierarchy. At February 29, 2024, we were in compliance with the financial and other covenants in our financing agreements.

Credit Agreement

On December 14, 2022, we entered into a new credit agreement with various financial institutions as lenders and Wells Fargo Bank, N.A. as administrative agent for the lenders (the “Credit Agreement”) that included an unsecured revolving credit facility (the “Revolving Credit Facility”) that we can draw upon for working capital and general corporate purposes. In conjunction with the Credit Agreement, we terminated our revolving credit facility under the credit agreement dated April 12, 2011, as amended, (the “2011 Credit Agreement”) with the outstanding borrowings under the 2011 Credit Agreement at the date of its termination rolled over to the Credit Agreement.

On March 1, 2024, we entered into an amendment (the “Revolver Amendment”) to our Credit Agreement, which governs the Company’s existing revolving credit facility (the revolving credit facility as amended by the Revolver Amendment, the “Amended Revolving Credit Facility”). Among other things, the Revolver Amendment (i) increased the aggregate commitments under the Amended Revolving Credit Facility to $825.0 million from $620 million under the Revolving Credit Facility, (ii) increased the maximum leverage ratio permitted under the financial covenants applicable to the Amended Revolving Credit Facility and (iii) included an additional pricing level that will increase the applicable interest rate margins on the Amended Revolving Credit Facility to 250 basis points (in the case of secured overnight financing rate (“SOFR”)) and 150 basis points (in the case of Base Rate loans) if our adjusted total debt to EBITDA ratio exceeds 3.75:1.00.

In connection with the Revolver Amendment, we borrowed $ 186.2 million on March 1, 2024 under the Amended Revolving Credit Facility to fund a portion of the purchase price for the acquisition and transaction expenses of the Product Support Business.

Under certain circumstances, we may request an increase to the lending commitments under the Credit Agreement by an aggregate amount of up to $300 million, not to exceed $1,125 million in total. The Credit Agreement expires on December 14, 2027. Borrowings under the Credit Agreement bear interest at an applicable variable rate based on SOFR plus 112.5 to 250 basis points based on certain financial measurements plus 10 basis points if a SOFR loan, or at the offered fluctuating Base Rate plus 12.5 to 150 basis points based on certain financial measurements if a Base Rate loan.

Borrowings outstanding under the Revolving Credit Facility at February 29, 2024 were $ 277.0 million and there were approximately $11.0 million of outstanding letters of credit, which reduced the availability of this facility to $ 332.0 million.

Our Credit Agreement 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, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. Our Credit Agreement also requires our significant domestic subsidiaries to provide a guarantee of payment under the Credit Agreement.

Senior Notes

On March 1, 2024, we issued $550.0 million aggregate principal amount of 6.75% Senior Notes due 2029 (the “Notes”) to fund a portion of the purchase price for the acquisition of the Product Support Business. The Notes were issued pursuant to an indenture (the “Base Indenture”), dated as of March 1, 2024, between us and Wilmington Trust, National Association (the “Trustee”), as trustee, and a First Supplemental Indenture, dated as of March 1, 2024 (the “Supplemental Indenture” and, together with the Base Indenture, the “Indenture”), among us, the Note Guarantors (as defined below) and the Trustee.

Our domestic subsidiaries that guarantee the Amended Revolving Credit Facility (collectively, the “Note Guarantors”) guaranteed (the “Note Guarantees”) all of the Company’s obligations under the Notes and the Indenture. The Notes and the Note Guarantees have not been, and will not be, registered under the Securities Act of 1933, as amended (the “Securities Act”).

(Dollars in millions, except per share amounts)

The Notes bear interest at a rate of 6.75% per year, payable semiannually in cash in arrears on March 15 and September 15 of each year, commencing September 15, 2024. The Notes will mature on March 15, 2029. At any time prior to March 15, 2026, the Company may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium. At any time prior to March 15, 2026, the Company may also redeem up to 40% of the Notes with net cash proceeds of certain equity offerings at a redemption price equal to 106.75% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. On or after March 15, 2026, the Company may redeem the Notes, in whole or in part, at specified redemption prices if redeemed during the twelve-month period beginning on March 15 of the years indicated below:

2026	103.375 %
2027	101.688 %
2028 and thereafter	100.000 %

The Notes are jointly and severally guaranteed by each of the Note Guarantors. The Notes and the Note Guarantees are the general unsecured obligations of us or each of the Note Guarantors and, as applicable, (i) rank equal in right of payment to all of our or such Note Guarantor’s existing and future senior indebtedness, (ii) rank senior in right of payment to all of our or such Note Guarantor’s obligations that are, by their terms expressly subordinated in right of payment to the Notes or the Note Guarantees, (iii) are effectively subordinated to all of our or such Note Guarantor’s secured indebtedness, to the extent of the value of the assets securing such indebtedness and (iv) in the case of the Note Guarantees, are structurally subordinated to indebtedness and other liabilities of our subsidiaries that are not Note Guarantors.

The Indenture contains customary covenants, including limitations on the ability of us and our restricted subsidiaries to (i) incur debt, certain disqualified stock and preferred stock, (ii) create liens, (iii) pay dividends or distributions or redeem or repurchase equity, (iv) prepay subordinated debt or make certain investments, (v) transfer and sell assets, (vi) engage in consolidations, mergers or dispositions of all or substantially all of our or their assets, (vii) enter into agreements that restrict dividends, loans and other distributions from subsidiaries and (viii) enter into transactions with affiliates. These covenants are subject to a number of important exceptions and qualifications described in the Indenture. In addition, the Indenture contains a number of customary events of default, including, among other things, payment default, failure to comply with covenants or agreements contained in the Indenture or the Notes and certain provisions related to bankruptcy events.

Note 11 – Joint Ventures

Investment in Indian Joint Venture

Our investments in joint ventures include $9.8 million for our 40% ownership interest in a joint venture in India to operate an airframe maintenance facility. The facility received certain regulatory approvals and commenced airframe maintenance operations in the second quarter of fiscal 2022.

We guarantee 40% of the Indian joint venture’s debt and have recognized a guarantee liability of $ 9.4 million as of February 29, 2024. Each of the partners in the Indian joint venture also has a loan to the joint venture proportionate to its equity ownership. In addition to the net equity investment of $6.3 million, our investment in the Indian joint venture includes $ 3.5 million for our loan to the joint venture as of February 29, 2024.

We account for our share of the earnings or losses of the Indian joint venture using the equity method with a reporting lag of two months, as the financial statements of the Indian joint venture are not completed on a timely basis that is sufficient for us to apply the equity method on a current basis. Our share of the Indian joint venture’s losses for the three-month periods ended February 29/28, 2024 and 2023 were $0.1 million and $1.2 million, respectively. There were no shared earnings or losses for the nine-month period ended February 29, 2024 and our share of the losses for the nine-month period ended February 28, 2023 was $2.0 million. We are currently evaluating a potential exit from our investment in the Indian joint venture.

Investment in AAR Sumisho Aviation Services (ASAS)

Our investments in joint ventures include a 50% ownership interest in a joint venture to provide aviation aftermarket supply chain solutions to Japanese defense and global commercial markets. Each of the partners in the ASAS joint venture have provided financial guarantees to third-parties to guarantee the payments for ASAS's financing arrangements, including inventory purchases. No liabilities have been recognized on the outstanding guarantees. We are unable to estimate our maximum exposure under these guarantees as they are largely dependent on the volume of inventory purchase orders outstanding.

Our sales to the ASAS JV, including service fees earned by us on providing support to the ASAS JV, were $3.5 million and $4.1 million during the three- and nine-month periods ended February 29, 2024, respectively, and $0.2 million and $0.7 million during the three- and nine-month periods ended February 28, 2023, respectively.

Investments in Aircraft Joint Ventures

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. Our sales to joint ventures for these services were $0.3 million and $1.1 million during the three- and nine-month periods ended February 29, 2024, respectively, and $0.3 million and $0.6 million during the three- and nine-month periods ended February 28, 2023, respectively.

Note 12 – Earnings per Share

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 and shares issuable upon vesting of restricted stock awards.

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.

AAR CORP. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
February 29, 2024
(Unaudited)
(Dollars in millions, except per share amounts)

A reconciliation of the computations of basic and diluted earnings per share information for the three- and nine-month periods ended February 29/28, 2024 and 2023 is as follows:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	2023	2024	2023
Basic and Diluted Earnings Per Share:				
Income from continuing operations	$ 14.0	$ 21.8	$ 37.2	$ 66.6
Less income attributable to participating shares	(0.2)	(0.3)	(0.4)	(0.9)
Income from continuing operations attributable to common shareholders	13.8	21.5	36.8	65.7
Income from discontinued operations attributable to common shareholders	—	—	—	0.4
Net income attributable to common shareholders for earnings per share	$ 13.8	$ 21.5	$ 36.8	$ 66.1
Weighted Average Shares:				
Weighted average common shares outstanding – basic	34.8	34.1	34.9	34.6
Additional shares from the assumed exercise of stock options	0.4	0.5	0.4	0.4
Weighted average common shares outstanding – diluted	35.2	34.6	35.3	35.0
Earnings per share – basic:				
Earnings from continuing operations	$ 0.40	$ 0.63	$ 1.05	$ 1.90
Income from discontinued operations	—	—	—	0.01
Earnings per share – basic	$ 0.40	$ 0.63	$ 1.05	$ 1.91
Earnings per share – diluted:				
Earnings from continuing operations	$ 0.39	$ 0.62	$ 1.04	$ 1.87
Income from discontinued operations	—	—	—	0.01
Earnings per share – diluted	$ 0.39	$ 0.62	$ 1.04	$ 1.88

No stock options were determined to be anti-dilutive for the three- and nine-month periods ended February 29, 2024. The potential dilutive effect of 1,000 and 215,000 shares relating to stock options was excluded from the computation of weighted average common shares outstanding – diluted for the three- and nine-month periods ended February 28, 2023, respectively, as the shares would have been anti-dilutive.

Note 13 – Defined Benefit Pension Settlement

During the three-month period ended August 31, 2023, we settled all future obligations under our frozen U.S. defined benefit retirement plan (the “U.S. Retirement Plan”). The settlement included a combination of lump-sum payments to participants who elected to receive them and the transfer of the remaining benefit obligations to a third-party insurance company under group annuity contracts. The purchase of the group annuity contracts was funded directly by assets of the U.S. Retirement Plan and required no additional cash or asset contributions from us. As a result of the settlements, we recognized a non-cash, pre-tax pension settlement charge of $26.7 million ($16.1 million after-tax) related to the accelerated recognition of all unamortized net actuarial losses in Accumulated other comprehensive loss.

The remaining surplus plan assets are expected to be utilized to fund remaining U.S. Retirement Plan expenses as well as certain contributions associated with one of our qualified 401(k) plans. Surplus plan assets not used for these expenses or 401(k) contributions would be subject to a 20% excise tax upon withdrawal from the plan. As of February 29, 2004, our Condensed Consolidated Balance Sheet included $5.7 million of surplus plan assets reported in Other non-current assets.

(Dollars in millions, except per share amounts)

Note 14 – Accumulated Other Comprehensive Loss

Changes in our accumulated other comprehensive loss ("AOCL") by component for the three- and nine-month periods ended February 29/28, 2024 and 2023 were as follows:

	Currency Translation Adjustments	Pension Plans	Total
Balance at December 1, 2023	$ (5.6)	$ (2.9)	$ (8.5)
Other comprehensive income before reclassifications	(0.2)	—	(0.2)
Total other comprehensive loss	(0.2)	—	(0.2)
Balance at February 29, 2024	$ (5.8)	$ (2.9)	$ (8.7)
Balance at December 1, 2022	$ (6.4)	$ (16.4)	$ (22.8)
Other comprehensive loss before reclassifications	0.7	—	0.7
Amounts reclassified from AOCL	—	0.1	0.1
Total other comprehensive income (loss)	0.7	0.1	0.8
Balance at February 28, 2023	$ (5.7)	$ (16.3)	$ (22.0)

	Currency Translation Adjustments	Pension Plans	Total
Balance at June 1, 2023	$ (5.7)	$ (17.8)	$ (23.5)
Other comprehensive income before reclassifications	(0.1)	—	(0.1)
Amounts reclassified from AOCL	—	14.9	14.9
Total other comprehensive income	(0.1)	14.9	14.8
Balance at February 29, 2024	$ (5.8)	$ (2.9)	$ (8.7)
Balance at June 1, 2022	$ (2.8)	$ (16.8)	$ (19.6)
Other comprehensive loss before reclassifications	(2.9)	—	(2.9)
Amounts reclassified from AOCL	—	0.5	0.5
Total other comprehensive income (loss)	(2.9)	0.5	(2.4)
Balance at February 28, 2023	$ (5.7)	$ (16.3)	$ (22.0)

Note 15 – Business Segment Information

During the first quarter of fiscal 2024, our chief operating decision maker ("CODM") implemented changes in how he organizes the business, allocates resources, and assesses performance. Specifically, this new structure resulted in the separation of our former Aviation Services segment into three new operating segments: Parts Supply, Repair & Engineering, and Integrated Solutions.

In conjunction with the re-alignment, our CODM now evaluates each segment's performance based on operating income instead of gross profit as our CODM believes operating income is a more comprehensive profitability measure for each operating segment.

Our previously reported segment financial information has been recast to conform to our new segment structure. The change in our operating segments had no impact on our previously reported consolidated results of operations, financial condition, or cash flows.

(Dollars in millions, except per share amounts)

Our operating segments are comprised of:

- Parts Supply, primarily consisting of our sales of used serviceable engine and airframe parts and components and distribution of new parts;
- Repair & Engineering, primarily consisting of our maintenance, repair, and overhaul services across airframes and components, including landing gear;
- Integrated Solutions, primarily consisting of our fleet management and operations of customer-owned aircraft, customized performance-based supply chain logistics programs in support of the U.S. Department of Defense, U.S. Department of State, and foreign governments, flight hour component inventory and repair programs for commercial airlines, and integrated software solutions, including Trax; and
- Expeditionary Services, primarily consisting of products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and non-governmental organizations with sales derived from the engineering, design, integration, and manufacture of pallets, shelters, and containers.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2023. Cost of sales consists principally of the cost of products, including material used in manufacturing operations, direct labor, and overhead.

The Company has not aggregated operating segments for purposes of identifying reportable segments. Inter-segment sales are recorded at fair value, which results in intercompany profit on inter-segment sales that is eliminated in consolidation. Corporate selling, general and administrative expenses include centralized functions such as legal, finance, treasury and human resources with a portion of the costs allocated to our operating segments.

Selected financial information for each segment is as follows:

	Three Months Ended February 29, 2024		
	Third-Party Sales	Inter-segment Sales	Total Sales
Parts Supply	$ 242.3	$ 2.3	$ 244.6
Repair & Engineering	140.8	23.6	164.4
Integrated Solutions	165.5	0.2	165.7
Expeditionary Services	18.7	—	18.7
	$ 567.3	$ 26.1	$ 593.4

	Three Months Ended February 28, 2023		
	Third-Party Sales	Inter-segment Sales	Total Sales
Parts Supply	$ 227.6	$ 14.0	$ 241.6
Repair & Engineering	128.0	19.8	147.8
Integrated Solutions	143.5	0.1	143.6
Expeditionary Services	22.0	—	22.0
	$ 521.1	$ 33.9	$ 555.0

	Nine Months Ended February 29, 2024		
	Third-Party Sales	Inter-segment Sales	Total Sales
Parts Supply	$ 706.7	$ 4.9	$ 711.6
Repair & Engineering	423.7	65.2	488.9
Integrated Solutions	478.4	0.6	479.0
Expeditionary Services	53.6	—	53.6
	$ 1,662.4	$ 70.7	$ 1,733.1

(Dollars in millions, except per share amounts)

	Nine Months Ended February 28, 2023		
	Third-Party Sales	Inter-segment Sales	Total Sales
Parts Supply	$ 579.8	$ 17.8	$ 597.6
Repair & Engineering	390.4	58.4	448.8
Integrated Solutions	398.6	0.1	398.7
Expeditionary Services	68.4	—	68.4
	$ 1,437.2	$ 76.3	$ 1,513.5

The following table reconciles segment operating income to income from continuing operations before income taxes:

	Three Months Ended February 29/28,		Nine Months Ended February 29/28,	
	2024	2023	2024	2023
Segment operating income:				
Parts Supply	$ 31.1	$ 25.1	$ 74.6	$ 64.7
Repair & Engineering	11.5	9.8	31.9	25.8
Integrated Solutions	8.6	7.0	22.7	22.4
Expeditionary Services	0.9	1.9	3.1	6.2
	52.1	43.8	132.3	119.1
Corporate and other	(19.1)	(9.8)	(35.7)	(21.5)
Operating income	33.0	34.0	96.6	97.6
Pension settlement charge	—	—	(26.7)	—
Losses related to sale and exit of business	(1.0)	(0.4)	(2.6)	(0.5)
Other income (expense), net	(0.2)	(0.3)	(0.3)	0.4
Interest expense	(11.9)	(3.8)	(23.9)	(7.0)
Interest income	0.6	0.3	1.6	0.5
Income from continuing operations before income taxes	$ 20.5	$ 29.8	$ 44.7	$ 91.0

Note 16 – Legal Proceedings

We are involved in various claims and legal actions, including environmental matters, arising in the ordinary course of business. 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:

Self-Reporting of Potential Foreign Corrupt Practices Act Violations

The Company retained outside counsel to investigate possible violations of the Company's Code of Conduct, the U.S. Foreign Corrupt Practices Act, and other applicable laws, relating to the Company's activities in Nepal and South Africa. Based on these investigations, in fiscal 2019, we self-reported these matters to the U.S. Department of Justice, the SEC and the UK Serious Fraud Office. The Company is fully cooperating with the reviews by these agencies, although we are unable at this time to predict what action, if any, they may take.

Russian Bankruptcy Litigation

During calendar years 2016 and 2017, certain of the subsidiaries of the Company purchased four engines from VIM-AVIA Airlines, LLC ("VIM-AVIA"), a company organized in Russia. Subsequent to the purchase of the engines, VIM-AVIA declared bankruptcy in Russian courts, and shortly thereafter the receiver of the VIM-AVIA bankruptcy estate and one of the major creditors of VIM-AVIA filed a claw-back action in the Arbitration Court of the Russian Republic of Tartarstan (the "Russian Trial Court") against our subsidiaries alleging that the contracts entered into with VIM-AVIA in the 2016-2017 timeframe are invalid. The clawback action alleged that our subsidiaries owe the VIM-AVIA bankruptcy estate approximately $13 million, the alleged fair market value of the four engines at the time of sale. In March 2023, the Russian Trial Court awarded a $1.8 million judgment against the Company relating to one engine, and dismissed all the other claims against the Company relating to the three remaining engines. The Company recognized a corresponding charge of $1.8 million in the third quarter of fiscal 2023. The Company thereafter appealed the $ 1.8 million judgment entered against it by the Russian Trial Court. The receiver and the creditor thereafter appealed to the Russian Trial Court's judgment dismissing their claims relating to the remaining three engines.

On September 26, 2023, the Russian Eleventh Arbitration Court of Appeal (the "Russian Appellate Court") issued an order (i) affirming the Russian Trial Court's adverse judgment against the Company relating to one of the four engines; (ii) reversing the Russian Trial Court's dismissal of the claims relating to the remaining three engines; and (iii) awarding a judgment against the Company in the total amount of $13.0 million. During the first quarter of fiscal 2024, the Company recognized a charge for $ 11.2 million representing the judgment against the Company for the remaining three engines.

On October 25, 2023, the Company petitioned the Russian Court of Cassation for leave to obtain the Russian Court of Cassation's appellate review of the Russian Appellate Court's order of September 26, 2023. On November 13, 2023, the Russian Court of Cassation granted the Company's petition. On January 31, 2024, the Russian Court of Cassation announced its decision reversing the Russian Appellate Court's order of September 26, 2023, vacating in its entirety the judgment that had been entered by the Russian Appellate Court, and remanding the clawback action to the Russian Appellate Court for further proceedings. Because the Russian Court of Cassation has yet to issue its written resolution specifying the basis for its decision, the particular nature and scope of further proceedings on remand before the Russian Appellate Court are not presently known.

The Company has strongly disputed and will continue to strongly dispute all claims asserted in the clawback action. The Company believes that the judgment announced on September 26, 2023 by the Russian Appellate Court - which was reversed and vacated by the Russian Court of Cassation on January 31, 2024 - was a result of, among other things, a hostile business and legal environment for foreign companies in Russia, which has been caused by developments in the Russia/Ukraine conflict, including the imposition of a range of sanctions and export controls on Russian entities and individuals by the U.S. and its North Atlantic Treaty Organization allies. An adverse judgment may be entered against the Company in further proceedings before the Russian courts, and the Company's ability to satisfy such judgment, in whole or in part, or to otherwise settle the receiver's claims may be restricted by the Company's obligation to comply with U.S. trade restrictions likely applicable to undisclosed creditors of the VIM-AVIA bankruptcy estate. Although there can be no assurances, the Company also believes it would have strong defenses to any attempt that may be made to recognize and enforce outside of Russia any adverse judgment that may be entered against it in further proceedings before the Russian courts. As of February 29, 2024, our Condensed Consolidated Balance Sheet included a total liability for the matter of $13.0 million classified as long-term in Other liabilities.

Performance Guarantee

In conjunction with the fiscal 2021 sale of our Composites business, we retained a performance guarantee to a customer of the Composites business (the "Customer") under an existing contract providing flap track fairings on the A220 aircraft ("A220 Contract"). The term of the A220 Contract and our performance guarantee extend for the duration that A220 aircraft are in service and the customer continues to maintain support for the A220 aircraft. The performance guarantee does not contain a financial cap.

In March 2022, the buyer of the Composites business (the “Buyer”) filed for bankruptcy and moved to have the bankruptcy court reject the A220 Contract. The Customer also notified us that it believes the Buyer has failed to timely deliver products in accordance with the terms of the A220 Contract and that the Customer has incurred losses related to the asserted non-compliance that the Customer believes is covered by our performance guarantee. To date, the Customer has provided us with limited details in support of the extent of the Customer’s claimed losses with respect to the A220 Contract and its contention that we may be responsible under our performance guarantee to reimburse the Customer for any portion of its claimed losses. The Customer filed suit against us during the fourth quarter of fiscal 2023 claiming damages of at least $32 million.

In this regard, while we are continuing to seek additional detail around the facts and legal basis underlying the claim for losses the Customer attributed to the A220 Contract and the Customer’s corresponding claim under the performance guarantee, we strongly disagree with the premise of the Customer’s claim based on the information available and known to us at this time, and we believe that we have numerous defenses available against this claim that we will vigorously pursue. While it is reasonably possible that we will incur a loss from the claim under the performance guarantee, we are unable to estimate the range of loss on this claim. There can be no assurance that the Customer’s claim under the performance guarantee will not have a material adverse effect on our operations, financial position and cash flows.

Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)

General Overview and Outlook

During the first quarter of fiscal 2024, our chief operating decision maker ("CODM") implemented changes in how he organizes the business, allocates resources, and assesses performance. Specifically, this new structure resulted in the separation of our former Aviation Services segment into three new operating segments: Parts Supply, Repair & Engineering, and Integrated Solutions.

In conjunction with the re-alignment, our CODM now evaluates each segment's performance based on operating income instead of gross profit as our CODM believes operating income is a more comprehensive profitability measure for each operating segment.

All of our previously reported segment financial information has been recast to conform to our new segment structure. The change in our operating segments had no impact on our previously reported consolidated results of operations, financial condition, or cash flows.

Our operating segments are comprised of:

- Parts Supply, primarily consisting of our sales of used serviceable engine and airframe parts and components and distribution of new parts;
- Repair & Engineering, primarily consisting of our maintenance, repair, and overhaul services across airframes and components, including landing gear;
- Integrated Solutions, primarily consisting of our fleet management and operations of customer-owned aircraft, customized performance-based supply chain logistics programs in support of the U.S. Department of Defense, U.S. Department of State, and foreign governments, flight hour component inventory and repair programs for commercial airlines, and integrated software solutions, including Trax; and
- Expeditionary Services, primarily consisting of products and services supporting the movement of equipment and personnel by the U.S. and foreign governments and non-governmental organizations with sales derived from the engineering, design, integration, and manufacture of pallets, shelters, and containers.

The accounting policies for the segments are the same as those described in Note 1 of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended May 31, 2023. Cost of sales consists principally of the cost of products, including material used in manufacturing operations, direct labor, and overhead.

The Company has not aggregated operating segments for purposes of identifying reportable segments. Inter-segment sales are recorded at fair value which results in intercompany profit on inter-segment sales that is eliminated in consolidation. Corporate selling, general and administrative expenses include centralized functions such as legal, finance, treasury and human resources with a portion of the costs allocated to our operating segments.

On March 1, 2024, we completed the acquisition of Triumph Group, Inc.'s Product Support Business (the "Product Support Business") for a purchase price of $725.0 million subject to customary post-closing adjustments for cash, working capital and indebtedness. The Product Support Business is a leading global provider of specialized maintenance, repair, and overhaul ("MRO") capabilities for critical aircraft components in the commercial and defense markets, providing MRO services for structural components, engine and airframe accessories, interior refurbishment and wheels and brakes. The Product Support Business also designs proprietary designated engineering representative repairs and parts manufacturer approval parts. The Product Support Business will be reported within our Repair & Engineering segment. The purchase price was paid at closing and was funded with proceeds from the issuance of $550 million of aggregate principal amount of 6.75% Senior Notes due 2029 and borrowings from our Amended Revolving Credit Facility (as defined below).

Over the long-term, we expect to see strength in our aviation products and services given our offerings of value-added solutions to both commercial and government and defense customers. We believe long-term commercial aftermarket growth trends are favorable. As we continue to invest in the pipeline of opportunities in the government market, our long-term strategy continues to emphasize investing in the business and capitalizing on opportunities in both the commercial and government markets.

Discussion of Results of Operations

Three- and Nine- Month Periods Ended February 29, 2024

	Three Months Ended February 29/28,			Nine Months Ended February 29/28,		
	2024	2023	% Change	2024	2023	% Change
Sales:						
Commercial	$ 399.2	$ 339.5	17.6 %	$ 1,176.9	$ 944.9	24.6 %
Government and defense	168.1	181.6	(7.4)%	485.5	492.3	(1.4)%
	$ 567.3	$ 521.1	8.9 %	$ 1,662.4	$ 1,437.2	15.7 %
Gross Profit:						
Commercial	$ 79.1	$ 61.6	28.4 %	$ 233.4	$ 172.4	35.4 %
Government and defense	31.2	32.7	(4.6)%	81.6	89.6	(8.9)%
	$ 110.3	$ 94.3	17.0 %	$ 315.0	$ 262.0	20.2 %
Gross Profit Margin:						
Commercial	19.8 %	18.1 %		19.8 %	18.2 %	
Government and defense	18.6 %	18.0 %		16.8 %	18.2 %	
Consolidated	19.4 %	18.1 %		18.9 %	18.2 %	

Three-Month Period Ended February 29, 2024

Consolidated sales for the third quarter of fiscal 2024 increased $46.2 million, or 8.9%, over the prior year quarter primarily due to an increase in sales to commercial customers. Consolidated sales to commercial customers increased $59.7 million, or 17.6%, over the prior year quarter primarily due to strong demand and volume growth in our new parts distribution activities and increased sales in our airframe maintenance facilities. Our consolidated sales to government customers decreased $13.5 million, or 7.4%, primarily due to lower sales volumes in both our new parts distribution activities and for our mobility products.

Consolidated cost of sales increased $30.2 million, or 7.1%, over the prior year quarter primarily due to the overall higher sales volumes over the prior year period.

Consolidated gross profit for the third quarter of fiscal 2024 increased $16.0 million, or 17.0%, over the prior year quarter. Gross profit on sales to commercial customers increased $17.5 million, or 28.4%, over the prior year quarter due to volume growth and favorable product mix for both new parts and used serviceable material. Gross profit margin on sales to commercial customers increased to 19.8% from 18.1% in the prior year quarter primarily due to the acquisition of Trax in the fourth quarter of fiscal 2023 and its higher margin digital services.

Gross profit on sales to government customers decreased $1.5 million, or 4.6%, from the prior year quarter due to the completion of certain government programs in our Integrated Solutions segment. Gross profit margin on sales to government customers increased to 18.6% from 18.0% primarily due to changes in the mix of products sold in our Parts Supply segment.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $20.3 million, or 35.8%, over the prior year quarter primarily due to $9.4 million of costs incurred related to our acquisition of the Product Support Business and investments to support the sales growth across our commercial activities. These investments include $2.6 million of amortization and acquisition-related expenses for Trax. As a percent of sales, selling, general and administrative expenses increased to 13.6% from 10.9% in the prior year quarter primarily due to these costs.

Operating Income

Operating income decreased $1.0 million, or 2.9%, from the prior year quarter primarily due to increased selling, general and administrative expenses discussed above.

Interest Expense

Interest expense increased $8.1 million in the third quarter of fiscal 2024 which included $6.1 million of bridge financing facility expenses related to our acquisition of the Product Support Business. In addition, interest expense in the third quarter of fiscal 2024 reflects the impact of both higher interest rates and higher average borrowings used to fund investments in the business, including our acquisition of Trax. Our average borrowing rate was 6.82% in the third quarter of fiscal 2024 compared to 5.65% in the prior year quarter.

Income Taxes

Our effective income tax rate for continuing operations was 31.7% for the third quarter of fiscal 2024 compared to 26.8% in the prior year quarter. The increase in the effective tax rate was primarily attributable to higher non-deductible acquisition expenses in the third quarter of fiscal 2024 which increased the effective income tax rate. In addition, the prior year quarter included higher tax benefits from stock option exercises which decreased the effective income tax rate.

Nine-Month Period Ended February 29, 2024

Consolidated sales for the nine-month period ended February 29, 2024 increased $225.2 million, or 15.7%, over the prior year period primarily due to an increase in sales to commercial customers. Consolidated sales to commercial customers increased $232.0 million, or 24.6%, over the prior year period primarily due to strong demand and volume growth in our Parts Supply segment across both new parts distribution and used serviceable material. Our consolidated sales to government customers decreased $6.8 million, or 1.4%, primarily due to lower sales volume for both our mobility products and for new parts to government customers in our Parts Supply segment.

Consolidated cost of sales increased $172.2 million, or 14.7%, over the prior year period which was largely in line with the consolidated sales increase of 15.7% discussed above.

Consolidated gross profit for the nine-month period ended February 29, 2024 increased $53.0 million, or 20.2%, over the prior year period. Gross profit on sales to commercial customers increased $61.0 million, or 35.4%, over the prior year period due to strong demand and volume growth for both new parts and used serviceable material. Gross profit margin on sales to commercial customers increased to 19.8% from 18.2% in the prior year period primarily due to the acquisition of Trax and its higher margin services.

Gross profit on sales to government customers decreased $8.0 million, or 8.9%, from the prior year period with the gross profit margin on sales to government customers decreasing to 16.8% from 18.2%. These decreases are primarily due to the completion of certain government programs in our Integrated Solutions segment.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased $57.8 million, or 36.2%, over the prior year period primarily due to the recognition of a charge for $11.2 million in the first quarter of fiscal 2024 related to an unfavorable Russian court judgment. In addition, we recognized expenses of $9.4 million related to our acquisition of the Product Support Business. The remaining increase in selling, general and administrative expenses was largely attributable to investments to support the sales growth as our commercial activities continue to recover from the impact of COVID-19. These investments include $7.9 million of amortization and acquisition-related expenses for Trax. As a percent of sales, selling, general and administrative expenses increased to 13.1% from 11.1% in the prior year quarter primarily due to these costs.

Operating Income

Operating income for the nine-month period ended February 29, 2024 decreased $1.0 million, or 1.0%, from the prior year quarter primarily due to increased selling, general and administrative expenses discussed above.

Pension Settlement Charge

During the first quarter of fiscal 2024, we settled all future obligations under our frozen U.S. defined benefit retirement plan. The settlement included a combination of lump-sum payments to participants who elected to receive them and the transfer of the remaining benefit obligations to a third-party insurance company under a group annuity contract. As a result of the settlement, in the nine-month period ended February 29, 2024, we recognized a non-cash, pre-tax pension settlement charge of $26.7 million ($16.1 million after-tax) related to the accelerated recognition of all unamortized net actuarial losses in Accumulated other comprehensive loss.

Interest Expense

Interest expense for the nine-month period ended February 29, 2024 increased $16.9 million which included $6.1 million of bridge financing facility expenses related to our acquisition of the Product Support Business. In addition, interest expense for the nine-month period ended February 29, 2024 reflects the impact of both higher interest rates and higher average borrowings used to fund investments in the business, including our acquisition of Trax. Our average borrowing rate was 6.67% for the nine-month period ended February 29, 2024 compared to 4.14% in the prior year period.

Income Taxes

Our effective income tax rate for continuing operations for the nine-month period ended February 29, 2024 was 16.8% compared to 26.8% in the prior year period. The decrease in the effective tax rate was primarily attributable to the deferred tax benefit recognized in conjunction with the pension settlement in the first quarter of fiscal 2024.

Operating Segment Results of Operations

Three-Month Period Ended February 29, 2024

Parts Supply Segment

	Three Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 242.3	$ 227.6	6.5 %
Operating income	31.1	25.1	23.9 %
Operating margin	12.8 %	11.0 %	

Sales in the Parts Supply segment increased $14.7 million, or 6.5%, over the prior year quarter primarily due to a $14.0 million increase in demand and sales volume for our new parts distribution activities.

Operating income in the Parts Supply segment increased $6.0 million, or 23.9%, over the prior year period, primarily due to sales volume growth and the mix of products sold across both our new parts distribution and aftermarket parts trading activities. Operating margin increased to 12.8% from 11.0% in the prior year quarter, primarily due to the mix of products sold.

Repair & Engineering Segment

	Three Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 140.8	$ 128.0	10.0 %
Operating income	11.5	9.8	17.3 %
Operating margin	8.2 %	7.7 %	

Sales in the Repair & Engineering segment increased $12.8 million, or 10.0%, over the prior year quarter primarily due to a $16.4 million sales increase at our airframe maintenance facilities. This increase was partially offset by lower sales volume of $3.0 million at our landing gear facility.

Operating income in the Repair & Engineering segment increased $1.7 million, or 17.3%, over the prior year quarter primarily due to the sales volume increase in our airframe maintenance facilities. Operating margin increased to 8.2% from 7.7% in the prior year quarter, primarily due to improved profitability in our airframe maintenance facilities.

Integrated Solutions Segment

	Three Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 165.5	$ 143.5	15.3 %
Operating income	8.6	7.0	22.9 %
Operating margin	5.2 %	4.9 %	

Sales in the Integrated Solutions segment increased $22.0 million, or 15.3%, over the prior year quarter primarily due to higher commercial program activity and the Trax acquisition in the fourth quarter of fiscal 2023 which contributed sales of $9.9 million in the current year quarter.

Changes in estimates and assumptions related to our arrangements accounted for using the cost-to-cost method are recorded using the cumulative catch-up method of accounting. In the third quarter of fiscal 2024, we recognized favorable cumulative catch-up adjustments of $2.5 million. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs. For the three-month period ended February 28, 2023, we recognized no cumulative catch-up adjustments.

Operating income in the Integrated Solutions segment increased $1.6 million, or 22.9%, over the prior year quarter with operating margin increasing to 5.2% from 4.9%. These increases are primarily attributable to the favorable cumulative catch-up adjustments discussed above.

Expeditionary Services Segment

	Three Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 18.7	$ 22.0	(15.0)%
Operating income	0.9	1.9	(52.6)%
Operating margin	4.8 %	8.6 %	

Sales in the Expeditionary Services segment decreased $3.3 million, or 15.0%, from the prior year period primarily due to lower sales volumes for pallets partially offset by higher sales volumes for shelters.

Operating income in the Expeditionary Services segment decreased $1.0 million, or 52.6%, from the prior year quarter primarily due to the lower sales volumes. Operating margin decreased to 4.8% from 8.6% in the prior year quarter, primarily due to increased selling, general and administrative expenses over the prior year quarter.

Nine-Month Period Ended February 29, 2024

Parts Supply Segment

	Nine Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 706.7	$ 579.8	21.9 %
Operating income	74.6	64.7	15.3 %
Operating margin	10.6 %	11.2 %	

Sales in the Parts Supply segment for the nine-month period ended February 29, 2024 increased $126.9 million, or 21.9%, over the prior year period primarily due to a $69.0 million increase in sales in our aftermarket parts trading activities as a result of increased demand for used serviceable material. Whole asset sales in our aftermarket parts trading activities increased $20.8 million over the prior year period.

Operating income in the Parts Supply segment increased $9.9 million, or 15.3%, over the prior year period, primarily due to increased sales volumes across both new parts distribution and used serviceable material partially offset by the recognition of the $11.2 million charge in the first quarter of fiscal 2024 related to the unfavorable Russian court judgment.

Repair & Engineering Segment

	Nine Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 423.7	$ 390.4	8.5 %
Operating income	31.9	25.8	23.6 %
Operating margin	7.5 %	6.6 %	

Sales in the Repair & Engineering segment for the nine-month period ended February 29, 2024 increased $33.3 million, or 8.5%, over the prior year period primarily due to a $46.4 million sales increase at our airframe maintenance facilities. This increase was partially offset by lower sales volume of $18.7 million at our landing gear facility.

Operating income in the Repair & Engineering segment increased $6.1 million, or 23.6%, over the prior year period primarily due to the sales volume increase in our airframe maintenance facilities. Operating margin increased to 7.5% from 6.6% in the prior year period, primarily due to improved profitability in our airframe maintenance facilities.

Integrated Solutions Segment

	Nine Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 478.4	$ 398.6	20.0 %
Operating income	22.7	22.4	1.3 %
Operating margin	4.7 %	5.6 %	

Sales in the Integrated Solutions segment for the nine-month period ended February 29, 2024 increased $79.8 million, or 20.0%, over the prior year period primarily due to higher commercial program activity and the Trax acquisition in the fourth quarter of fiscal 2023 which contributed sales of $26.9 million in the current year period.

In the nine-month period ended February 29, 2024, we recognized net favorable cumulative catch-up adjustments of $2.7 million compared to net favorable cumulative catch-up adjustments of $5.8 million in the prior year period. These adjustments primarily relate to our long-term, power-by-the-hour programs where we provide component inventory management and repair services as well as certain long-term government programs.

Operating income in the Integrated Solutions segment increased $0.3 million, or 1.3%, over the prior year period primarily due to the higher commercial government program activity largely offset by $7.9 million of amortization and acquisition-related expenses for Trax. Operating margin decreased to 4.7% from 5.6% primarily due to the completion of certain government programs.

Expeditionary Services Segment

	Nine Months Ended February 29/28,		
	2024	2023	% Change
Third-party sales	$ 53.6	$ 68.4	(21.6)%
Operating income	3.1	6.2	(50.0)%
Operating margin	5.8 %	9.1 %	

Sales in the Expeditionary Services segment for the nine-month period ended February 29, 2024 decreased $14.8 million, or 21.6%, from the prior year period primarily due to lower sales volumes for pallets partially offset by higher sales volumes for shelters.

Operating income in the Expeditionary Services segment decreased $3.1 million, or 50.0%, from the prior year period primarily due to lower sales volumes. Operating margin decreased to 5.8% from 9.1% in the prior year period, primarily due to increased selling, general and administrative expenses over the prior year period.

Liquidity, Capital Resources and Financial Position

Our operating activities are funded and commitments met through the generation of cash from operations. Our ability to generate cash from operations is influenced primarily by our operating performance and changes in working capital. In addition to operations, our current capital resources include an unsecured revolving credit facility under the Credit Agreement referred to below 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, our debt service obligations, and our operating performance.

At February 29, 2024, our liquidity and capital resources included working capital of $812.5 million inclusive of cash of $69.2 million.

On December 14, 2022, we entered into a new credit agreement with various financial institutions as lenders and Wells Fargo Bank, N.A. as administrative agent for the lenders (the “Credit Agreement”) that included an unsecured revolving credit facility (the “Revolving Credit Facility”) that we can draw upon for working capital and general corporate purposes. In conjunction with the Credit Agreement, we terminated our revolving credit facility under the credit agreement dated April 12, 2011, as amended, (the “2011 Credit Agreement”) with the outstanding borrowings under the 2011 Credit Agreement at the date of its termination rolled over to the Credit Agreement.

On March 1, 2024, we entered into an amendment (the “Revolver Amendment”) to our Credit Agreement, which governs the Company’s existing revolving credit facility (the revolving credit facility as amended by the Revolver Amendment, the “Amended Revolving Credit Facility”). Among other things, the Revolver Amendment (i) increased the aggregate commitments under the Amended Revolving Credit Facility to $825.0 million from $620 million under the Revolving Credit Facility, (ii) increased the maximum leverage ratio permitted under the financial covenants applicable to the Amended Revolving Credit Facility and (iii) included an additional pricing level that will increase the interest rate margins on the Amended Revolving Credit Facility to 250 basis points (in the case of SOFR loans) and 150 basis points (in the case of Base Rate loans) if our adjusted total debt to EBITDA ratio exceeds 3.75:1.00.

In connection with the Revolver Amendment, we borrowed $186.2 million under the Amended Revolving Credit Facility to fund a portion of the purchase price for the acquisition of the Product Support Business.

Under certain circumstances, we may request an increase to the lending commitments under the Credit Agreement by an aggregate amount of up to $300 million, not to exceed $1,125 million in total. The Credit Agreement expires on December 14, 2027. Borrowings under the Credit Agreement bear interest at a variable rate based on the secured overnight financing rate (“SOFR”) plus 112.5 to 250 basis points based on certain financial measurements if a SOFR loan, or at the offered fluctuating Base Rate plus 12.5 to 150 basis points based on certain financial measurements if a Base Rate loan.

At February 29, 2024, borrowings outstanding under the Revolving Credit Facility were $277.0 million and there were approximately $11.0 million of outstanding letters of credit, which reduced the availability under this facility to $332.0 million. There are no other terms or covenants limiting the availability of the Revolving Credit Facility.As of February 29, 2024, we also had other financing arrangements that did not limit availability on our Revolving Credit Facility, including outstanding letters of credit of $11.6 million and foreign lines of credit of $9.4 million.

On March 1, 2024, we issued $550.0 million aggregate principal amount of 6.75% Senior Notes due 2029 (the “Notes”) to fund a portion of the purchase price for the acquisition of the Product Support Business. The Notes bear interest at a rate of 6.75% per year, payable semiannually in cash in arrears on March 15 and September 15 of each year, commencing September 15, 2024. The Notes will mature on March 15, 2029.

At any time prior to March 15, 2026, the Company may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date plus an applicable “make-whole” premium. At any time prior to March 15, 2026, the Company may also redeem up to 40% of the Notes with net cash proceeds of certain equity offerings at a redemption price equal to 106.75% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date. On or after March 15, 2026, the Company may redeem the Notes, in whole or in part, at specified redemption prices ranging from 100.000% to 103.375% depending on the date of redemption.

We maintain 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 $150 million and Purchaser may, but is not required to, purchase the eligible receivables we offer to sell. The term of the Purchase Agreement expires after February 22, 2025, but, the Purchase Agreement may be terminated earlier under certain circumstances. The term of the Purchase Agreement is 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 ASC 860, *Transfers and Servicing*, and de-recognize the sold receivables from our Consolidated Balance Sheet. At February 29, 2024, we have utilized $8.7 million which reduced the availability under the Purchase Agreement to $141.3 million.

Our financing arrangements require 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, compliance with applicable laws, and limitations on additional liens, indebtedness, acquisitions, investments and disposition of assets. Our financing arrangements also generally require our significant domestic subsidiaries to provide a guarantee of payment. At February 29, 2024, we were in compliance with the financial and other covenants under each of our financing arrangements.

During fiscal 2024, we continued to experience delayed collections from one of our significant regional airline customers and issued the customer a Notice of Payment and Other Defaults during the second quarter of fiscal 2024 to request payment and reserve our rights under our agreements. Though we currently expect full payment from the customer of all amounts due and do not believe a reserve for credit loss is warranted, the customer’s financial condition may continue to deteriorate and we may in the future experience loss due to a default by the customer and the related nonpayment of account receivable balances. Our Condensed Consolidated Balance Sheet as of February 29, 2024 included accounts receivable of $8.5 million, including $2.2 million past due, and contract assets of $9.7 million related to this customer.

On December 16, 2021, our Board of Directors authorized a renewal of our stock repurchase program, under which we may repurchase up to $150 million of our common stock with no expiration date. During the third quarter of fiscal 2024, we repurchased 0.1 million shares for an aggregate purchase price of $5.1 million. During fiscal 2023, we repurchased 1.2 million shares for an aggregate purchase price of $50.1 million. Since inception of the renewal authorization, we have repurchased 2.2 million shares for an aggregate purchase price of $97.5 million. The timing and amount of repurchases are subject to prevailing market conditions and other considerations, including our liquidity and acquisition and other investment opportunities.

Cash Flows from Operating Activities

Net cash provided by operating activities–continuing operations was $19.3 million in the nine-month period ended February 29, 2024 compared to cash used of $21.5 million in the prior year period. The increase in cash provided over the prior year of $40.8 million was primarily attributable to working capital changes, including the timing of payments for inventory and rotable asset investments in both aircraft, new parts and used serviceable material in the current year period.

Cash Flows from Investing Activities

Net cash used in investing activities was $26.8 million in the nine-month period ended February 29, 2024 compared to $27.3 million in the prior year period. The decrease in cash used in investing activities from the prior year of $0.5 million was primarily related to decreased expenditures on capital projects in the current year period.

Cash Flows from Financing Activities

Net cash provided by financing activities was $9.5 million in the nine-month period ended February 29, 2024 compared to cash provided of $44.5 million in the prior year period. The decrease in cash provided by financing activities from the prior year period of $35.0 million was primarily related to lower borrowings on our Revolving Credit Facility in the current year period.

Critical Accounting Policies and Significant Estimates

We make a number of significant estimates, assumptions and judgments in the preparation of our financial statements. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* in our Annual Report on Form 10-K for the year ended May 31, 2023 for a discussion of our critical accounting policies. There have been no significant changes to the application of our critical accounting policies during fiscal 2024.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions, although not all forward-looking statements contain these words. All statements other than statements of historical fact contained in this report are forward-looking statements.

The forward-looking statements in this report are only predictions and are based largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this report and are subject to a number of known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from those projected in the forward-looking statements. These risks and uncertainties include, but are not limited to:

- the ability to realize the anticipated benefits of the Product Support Business as rapidly or to the extent anticipated;
- our ability to successfully integrate the Product Support Business into our operations;
- factors that adversely affect the commercial aviation industry;
- the impact of pandemics and other disease outbreaks, such as COVID-19, and similar public health threats on air travel, worldwide commercial activity and our and our customers' ability to source parts and components;
- a reduction in the level of sales to the branches, agencies and departments of the U.S. government and their contractors;
- cost overruns and losses on fixed-price contracts;
- nonperformance by subcontractors or suppliers;
- changes in or non-compliance with laws and regulations that may affect certain of our aviation and government and defense related activities that are subject to licensing, certification and other regulatory requirements imposed by the Federal Aviation Administration, the U.S. State Department and other regulatory agencies, both domestic and foreign;
- a reduction in outsourcing of maintenance activity by airlines;
- a shortage of the skilled personnel on whom we depend to operate our business, or work stoppages;
- competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we do;
- financial and operational risks arising as a result of operating internationally;
- inability to integrate acquisitions effectively and execute our operational and financial plan related to the acquisitions;
- inability to recover our costs due to fluctuations in market values for aviation products and equipment caused by various factors, including reductions in air travel, airline bankruptcies, consolidations and fleet reductions;
- asset impairment charges we may be required to recognize to reflect the non-recoverability of our assets or lowered expectations regarding businesses we have acquired;
- threats to our systems technology from equipment failures, cyber or other security threats or other disruptions;
- a need to make significant capital expenditures to keep pace with technological developments in our industry;
- a need to reduce the carrying value of our assets;
- inability to fully execute our stock repurchase program and return capital to our stockholders;
- restrictions on paying, or failure to maintain or pay dividends;
- limitations on our ability to access the debt and equity capital markets or to draw down funds under loan agreements;
- non-compliance with laws and regulations relating to the formation, administration and performance of our U.S. government contracts;

- exposure to product liability and property claims that may be in excess of our liability insurance coverage;
- the impact of adverse incidents involving, or adverse publicity concerning, our business or the aviation industry generally, which could harm our reputation and results of operations;
- decreased demand for our services due to mandatory groundings of aircraft;
- impacts from stakeholder and market focus on environmental, social and governance matters;
- the costs of compliance, and liability for non-compliance, with environmental regulations, including future requirements regarding climate change and environmental, social and governance matters; and
- other important risk factors that could affect the outcome of the events set forth in these statements and that could affect our operating results and financial condition, including those discussed in Part II – Item 1A, “Risk Factors,” in this report and in Part I – Item 1A, “Risk Factors,” in our Annual Report on Form 10-K for the year ended May 31, 2023, as well as those discussed in other documents we file from time to time with the Securities and Exchange Commission.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this report, whether as a result of any new information, future events, changed circumstances or otherwise.

Item 3 — Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk includes fluctuating interest rates under our credit agreements, changes in foreign exchange rates, and credit losses on accounts receivable. See Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended May 31, 2023 for a discussion of accounts receivable exposure.

Foreign Currency Risk. Revenues and expenses of our foreign operations are translated at average exchange rates during the period, and balance sheet accounts are translated at period-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 10 percent devaluation of the U.S. dollar against foreign currencies would not have had a material impact on our financial position or continuing operations for the quarter ended February 29, 2024.

Interest Rate Risk. Refer to the section Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended May 31, 2023. There were no significant changes during the quarter ended February 29, 2024.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rules 13a-15(e) and 15d-15(e) of the Exchange Act, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of February 29, 2024. This evaluation was carried out under the supervision and with participation of our Chief Executive Officer and our 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 were effective as of February 29, 2024 to provide reasonable assurance that information required to be disclosed in the reports that are filed under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported in a timely manner.

There were no changes in our internal control over financial reporting during the quarter ended February 29, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1 – Legal Proceedings

The information in Note 16 to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference. There are no matters which constitute material pending legal proceedings to which we are a party other than those incorporated into this item by reference from Note 16 to our Condensed Consolidated Financial Statements for the quarter ended February 29, 2024 contained in this Quarterly Report on Form 10-Q.

Item 1A — Risk Factors

There has been no material change in the information reported under Part I-Item 1A “Risk Factors” contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2023, as supplemented by the risk factors described in Exhibit 99.1 to the Current Report on Form 8-K we filed with the Securities and Exchange Commission on February 14, 2024, with the exception of the addition of the following risk factors (the risk factors included in Part II, Item 1A of our Quarterly Report for the quarter ended November 30, 2023 are deleted in their entirety):

We may not realize the anticipated benefits from our acquisition of the Product Support Business from Triumph Group.

Our acquisition of the Product Support Business from Triumph Group (the “Acquisition”) involves integrating the Product Support Business into our Company, both of which previously operated independent of each other. The success of the Product Support Business will depend, in part, on our ability to realize the anticipated benefits from successfully combining our business and the Product Support Business. We are devoting substantial management attention and resources to integrating our and the Product Support Business’s business practices so that we can fully realize the anticipated benefits of the Acquisition, all of which may divert attention of management from our existing business. Nonetheless, the business and assets acquired may not be successful or continue to grow at the same rate as when operated independently or may require greater resources and investments than originally anticipated. The Acquisition could also result in the assumption of unknown or contingent liabilities, and, because the Product Support Business operates in the same sector that we do, the Acquisition could also exacerbate a number of risks that currently apply to us by increasing our exposure to sector-specific trends.

Potential difficulties we may encounter include, but are not limited to, the following:

- the inability to successfully combine our business and the Product Support Business in a manner that permits us to realize the anticipated benefits, including any synergies, cross-selling opportunities, cost savings, financial or business growth opportunities, of the Acquisition in the time frame currently anticipated, or at all;
- the failure to integrate internal systems, programs and controls, or decisions by our management to apply different accounting policies, assumptions or judgments to the Product Support Business’s operational results than the Product Support Business applied in the past;
- loss of sales and other commercial relationships;
- the complexities associated with managing our company with the integration of the Triumph Group Product Support Business;
- the additional complexities of combining the Product Support Business with our company and its culture, strategies and customer base;
- the failure to retain key employees at either of the two companies that may be difficult to replace;
- the disruption of each company’s ongoing businesses or inconsistencies in services, standards, controls, procedures and policies;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the Acquisition;

- the increase in our indebtedness as a result of the incurrence of the Notes and borrowings under our Amended Revolving Credit Facility to finance the Acquisition; and

- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by integrating our and the Product Support Business's operations.

Based on our preliminary purchase accounting estimates, a significant portion of the purchase price for the Acquisition will be allocated to goodwill and intangible assets. We must test goodwill for possible impairment on at least an annual basis and must evaluate amortizable intangible assets for impairment if there are indicators of a possible impairment. If the Acquisition does not yield expected returns, we may be required to record impairment losses, which could materially adversely affect our reported results.

Any of these risks could adversely affect our ability to maintain relationships with customers, vendors, employees and other commercial relationships or adversely affect our or the Product Support Business's future operational results. As a result, the anticipated benefits of the Acquisition may not be realized at all or may take longer to realize or cost more than expected, which could adversely affect our business, financial condition, results of operations and growth prospects. The indebtedness incurred to finance the Acquisition may adversely affect our ability to operate our business, remain in compliance with debt covenants, or react to changes in our business or the industry in which we operate. In addition, changes in laws and regulations affecting the Triumph Group Product Support Business could adversely impact our business, financial condition, results of operations and growth prospects.

We expect to incur material expenses and have incurred additional indebtedness related to the Acquisition.

We expect to incur material expenses in connection with integrating the business and operations of the Product Support Business. While we have assumed that a certain level of transaction and integration expenses will be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. We also incurred additional indebtedness in order to fund the Acquisition, which increases our debt service obligations and the risk of a downgrade of our credit ratings by credit agencies. We cannot assure you that these additional expenses and indebtedness will not have an adverse effect on us or our results of operations.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

(c) The following table provides information about share repurchases we made during the three months ended February 29, 2024 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [1]
12/1/2023 – 12/31/2023	80,000	$ 63.39	80,000	$ 52,544,833
1/1/2024 – 1/31/2024	—	—	—	52,544,833
2/1/2024 – 2/29/2024	—	—	—	52,544,833
Total	80,000	$ 63.39	80,000	

[1] On December 21, 2021, our Board of Directors announced it had authorized a renewal of our stock repurchase program providing for the repurchase of up to $150 million of our common stock, with no expiration date.

Item 5 – Other Information

During the three months ended February 29, 2024, none of our directors or "officers" (as defined in Rule 16a-1(f) promulgated under the Exchange Act) adopted, modified or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" as such terms are defined under Item 408 of Regulation S-K.

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Item 6 — Exhibits

The exhibits to this report are listed on the following index:

Exhibit No.	Description		Exhibits
2.1+	Plan of Acquisition		Purchase Agreement by and among AAR CORP., Triumph Group, Inc., Triumph Aftermarket Services Group, LLC, Triumph Group Acquisition Corp., Triumph Group Acquisition Holdings, Inc., and Trident Group Operations, Inc., dated December 21, 2023 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed December 21, 2023).
4.1	Instruments defining the rights of security holders		Base Indenture, dated as of March 1, 2024, by and between the Escrow Issuer and the Trustee (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed March 1, 2024).
4.2			Form of 6.750% Senior Note due 2029 (included in Exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed March 1, 2024).
4.3			First Supplemental Indenture, dated as of March 1, 2024, by and among the Company, the Note Guarantors and the Trustee (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed March 1, 2024).
10.1*	Material contracts		First Amendment dated December 5, 2023 to AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated effective July 13, 2020.
10.2			Revolver Amendment, dated as of March 1, 2024, by and among the Company, as borrower, the lenders from time to time party thereto and Wells Fargo Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 1, 2024).
31.	Rule 13a-14(a)/15(d)-14(a) Certifications	31.1	Section 302 Certification of Chief Executive Officer of Registrant (filed herewith).
		31.2	Section 302 Certification of Chief Financial Officer of Registrant (filed herewith).
32.	Section 1350 Certifications	32.1	Section 906 Certification of Chief Executive Officer of Registrant (filed herewith).
		32.2	Section 906 Certification of Chief Financial Officer of Registrant (filed herewith).
101.	Interactive Data File	101	The following materials from the Registrant's Quarterly Report on Form 10-Q for the quarter ended February 29, 2024, formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at February 29, 2024 and May 31, 2023, (ii) Condensed Consolidated Statements of Income for the three- and nine-months ended February 29/28, 2024 and 2023, (iii) Condensed Consolidated Statements of Comprehensive Income for the three- and nine-months ended February 29/28, 2024 and 2023, (iv) Condensed Consolidated Statements of Cash Flows for the nine-months ended February 29/28, 2024 and 2023, (v) Condensed Consolidated Statement of Changes in Equity for the three- and nine-months ended February 29/28, 2024 and 2023, and (vi) Notes to Condensed Consolidated Financial Statements.**
104.	Cover Page Interactive Data File	104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101).

+ Excludes certain portions of the exhibit pursuant to Item 601(b)(10)(iv) of Regulation S-K. A copy of the omitted portions will be furnished to the Securities and Exchange Commission upon request.

* Management contracts and compensatory arrangements.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AAR CORP.
(Registrant)

Date: March 21, 2024

/s/ SEAN M. GILLEN
Sean M. Gillen
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

**FIRST AMENDMENT
TO THE
AAR CORP. SUPPLEMENTAL KEY EMPLOYEE RETIREMENT PLAN**

(As Amended and Restated Effective July 13, 2020)

WHEREAS, AAR CORP., a Delaware corporation (the "Company"), maintains the AAR CORP. Supplemental Key Employee Retirement Plan, as Amended and Restated Effective July 13, 2020 (the "Plan");

WHEREAS, pursuant to Section 6.1 of the Plan, the Company has reserved the right to amend the Plan and now deems it appropriate to do so to revise the vesting schedule for the Additional Supplemental Company Accounts held under the Plan; and

WHEREAS, the Human Capital and Compensation Committee has approved the amendment described below.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 3.8(b)(i) of the Plan is amended, effective as of January 1, 2024, to read as follows:

(b) A Participant shall vest in his Additional Supplemental Company Account as follows:

(i) Subject to (b)(ii) below, a Participant shall vest in his Additional Supplemental Company Account according to the vesting schedule described in (A) – (D) below that results in the greatest amount of vested Account balance:

(A) The Participant shall vest in 25% of the balance of his Additional Supplemental Company Account upon the earlier of (I) the date the Participant has 10 Years of Vested Service or (II) the date the Participant's age (measured in full years) plus Years of Vested Service equals 60.

(B) The Participant shall vest in 50% of the balance of his Additional Supplemental Company Account upon the earlier of (I) the date the Participant has 20 Years of Vested Service or (II) the date the Participant's age (measured in full years) plus Years of Vested Service equals 65.

(C) The Participant shall vest in 75% of the balance of his Additional Supplemental Company Account upon the date the Participant's age (measured in full years) plus Years of Vested Service equals 70.

(D) The Participant shall vest in 100% of the balance of his Additional Supplemental Company Account on the earlier of (I) the date the Participant attains age 65 or (II) the date the Participant's age (measured in full years) plus Years of Vested Service equals 75.

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed on its behalf, by its officers, duly authorized, on this 5th day of December, 2023.

AAR CORP.

By: ***/s/*** John M. Holmes
John M. Holmes
Chairman, President and Chief Executive Officer

Exhibit 31.1

SECTION 302
CERTIFICATION

I, John M. Holmes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AAR CORP. (the "Registrant") for the quarterly period ended February 29, 2024;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: March 21, 2024

/s/ JOHN M. HOLMES
John M. Holmes
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

SECTION 302
CERTIFICATION

I, Sean M. Gillen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AAR CORP. (the "Registrant") for the quarterly period ended February 29, 2024;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

DATE: March 21, 2024

/s/ SEAN M. GILLEN
Sean M. Gillen
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the AAR CORP. (the “Company") quarterly report on Form 10-Q for the period ended February 29, 2024 as filed with the Securities and Exchange Commission on the date hereof (the “Report"), I, John M. Holmes, Chairman, President, and Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2024

/s/ JOHN M. HOLMES
John M. Holmes
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the AAR CORP. (the "Company") quarterly report on Form 10-Q for the period ended February 29, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean M. Gillen, Senior Vice President and Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 21, 2024

/s/ SEAN M. GILLEN
Sean M. Gillen
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)