AAR CORP
Form S-3
April 26, 2004

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As filed with the Securities and Exchange Commission on April 26, 2004

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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 Number)

One AAR Place
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
630-227-2000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Howard A. Pulsifer, Esq.
Vice President, General Counsel & Secretary
AAR CORP.
One AAR Place
1100 N. Wood Dale Road
Wood Dale, Illinois 60191
(630) 227-2000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:
Robert J. Regan, Esq.
Schiff Hardin LLP
6600 Sears Tower
Chicago, Illinois 60606
(312) 258-5500

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, as amended, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, as amended, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
2.875% Convertible Notes due February 1, 2024	$75,000,000	100%	$75,000,000	$9,502.50
Common Stock, $1.00 par value per share	4,034,430(2)			(3)

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) under the Securities Act.

(2) Consists of 4,034,430 shares of common stock of AAR CORP. initially issuable upon conversion of the notes at a rate of 53.7924 shares of common stock per $1,000 original principal amount of the notes, plus an indeterminate number of additional shares of common stock that may be issued from time to time upon conversion of the notes as a result of conversion rate adjustments, in circumstances described in the prospectus that is part of this registration statement. Pursuant to Rule 416 under the Securities Act of 1933, this registration statement also covers such additional shares of common stock of AAR Corp. as may be issued as a result of stock splits, dividends and combinations.

(3) Pursuant to Rule 457(i) under the Securities Act, there is no filing fee with respect to the shares of common stock issuable upon conversion of the notes because no additional consideration is payable upon such conversion.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities or accept any offer to buy these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

SUBJECT TO COMPLETION, DATED APRIL 26, 2004

$75,000,000

AAR CORP.

2.875% Convertible Senior Notes due February 1, 2024

This prospectus relates to resales of our 2.875% Convertible Senior Notes due February 1, 2024, or notes, issued in a private offering in February 2004 and 4,034,430 shares of our common stock issuable upon conversion of the notes, plus an indeterminate number of additional shares of common stock that may be issued from time to time upon conversion of the notes as a result of conversion rate adjustments, in circumstances described in this prospectus.

The notes and the shares of common stock may be sold from time to time by and for the account of the selling securityholders named in this prospectus or in supplements to this prospectus. The selling securityholders may sell all or a portion of the notes or the shares of common stock from time to time in market transactions, in negotiated transactions or otherwise, and at prices and on terms which will be determined by the then prevailing market price for the notes or at negotiated prices directly or through a broker or brokers, who may act as agent or as principal or by a combination of such methods of sale. See "Plan of Distribution" on page 46 for additional information on the methods of sale.

We will not receive any of the proceeds from the sale of the notes or the sale of the shares of common stock offered by the selling securityholders. The selling securityholders will receive all proceeds from the sale of the notes or the sale of the shares of common stock being registered in this registration statement.

The notes will mature on February 1, 2024. You may convert your notes into shares of our common stock initially at a conversion rate of 53.7924 shares of common stock per $1,000 principal amount of notes, which is equivalent to an initial conversion price of approximately $18.59 per share (subject to adjustment in certain events), under the following circumstances: (1) during specified periods, if the closing sale price of our common stock reaches, or the trading price of the notes falls below, specified levels described in this prospectus; (2) if we call the notes for redemption; (3) during any period in which the credit rating assigned to our long-term senior debt by both Moody's and S&P is below specified levels or is suspended or withdrawn by both rating agencies; or (4) if specified corporate transactions occur. Upon conversion, we may at our option choose to deliver, in lieu of our common stock, cash or a combination of cash and common stock as described in this prospectus. On April 23, 2004, the last reported sale price for the common stock on the New York Stock Exchange was $11.64 per share. The common stock is listed on the New York Stock Exchange under the symbol "AIR."

AAR will pay interest on the notes on February 1 and August 1 of each year. The first interest payment will be made on August 1, 2004. The notes will be issued only in denominations of $1,000 and integral multiples of $1,000.

On or after February 1, 2008, we have the option to redeem all or a portion of the notes at redemption prices described in this prospectus, plus accrued and unpaid interest and liquidated damages, if any, to, but not including, the date of redemption. On February 1, 2010, 2014 and 2019, or upon a designated event as described in this prospectus, you may require us to repurchase all or a portion of your notes at 100% of the principal amount, plus accrued and unpaid interest and liquidated damages, if any, to, but not including, the date of repurchase. We will pay cash for any notes so repurchased on February 1, 2010, 2014 or 2019, and for repurchases made upon a designated event.

The notes are evidenced by a global note deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company. Except as described in this prospectus, beneficial interests in the global note are shown on, and transfers thereon will be effected only through, records maintained by The Depository Trust Company and its direct and indirect participants.

We do not intend to apply for listing of the notes on any securities exchange or for inclusion of the notes in any automated quotation system.

See "Risk Factors" beginning on page 6 to read about important factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

, 2004

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a Registration Statement on Form S-3 that we filed with the Securities and Exchange Commission, or SEC. We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public through the Internet at the SEC's website at *www.sec.gov*. You may also read and copy any document in our files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information concerning the public reference rooms. Our SEC filings are also available to the public through our website at *www.aarcorp.com*. We have not incorporated by reference into this prospectus the information included on or linked from our website, and you should not consider it to be part of this prospectus.

We have filed the following documents with the SEC, and these documents are incorporated in this prospectus by reference:

- Annual Report on Form 10-K for the year ended May 31, 2003;
- Quarterly Reports on Form 10-Q for the quarters ended August 31, 2003, November 30, 2003 and February 29, 2004; and
- Current Reports on Form 8-K filed on December 10, 2003, January 29, 2004 and February 5, 2004.

All documents that we file with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") after the date of this prospectus and prior to termination of the offering of the notes will be incorporated by reference and be a part of this prospectus from their respective filing dates (excluding any information furnished under either Item 9 or Item 12 of any Current Report on Form 8-K). Any statement contained in a document incorporated by reference in this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

You may request a copy of these filings at no cost, by writing or telephoning AAR CORP. at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois 60191, Attention: Corporate Secretary, (630) 227-2000.

You should rely only on the information provided in this prospectus and in our filings under the Exchange Act incorporated herein by reference. We have not authorized anyone to provide you with different information. You should not assume that the information in this document is accurate as of any date other than that on the front cover of this prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We and our representatives may from time to time make written or oral forward-looking statements with respect to our annual or long-term goals, including statements contained in this prospectus, the documents incorporated by reference in this prospectus, our filings with the SEC and our reports to stockholders.

The words or phrases "will likely result," "are expected to," "plan to," "will continue," "is anticipated," "estimate," "project," "intend" or similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results to differ materially from historical earnings and those currently anticipated or projected. We caution readers not to place undue reliance on any of our forward-looking statements, which speak only as of the date made.

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that could affect our financial performance and could cause our actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

Our future results could be adversely affected by a variety of factors, including:

- a decline in demand for our products and services or the ability of our customers to meet their financial obligations to us, particularly in light of the weakened financial condition of many of the world's commercial airlines;
- the ongoing war on terrorism and its potential negative effects on worldwide economic conditions, the aviation industry and our business;
- the potential risk for declining market values for aviation products and equipment caused by various factors, including airline bankruptcies and consolidations and other factors within the airline industry;
- difficulties in re-leasing or selling aircraft and engines that are currently being leased on a long- or short-term basis;
- lack of assurance that sales to the U.S. Government, its agencies and its contractors (which were 28.1% of total sales in fiscal 2003) will continue at levels previously experienced, since such sales are subject to competitive bidding and government funding;
- changes in or noncompliance with laws and regulations that may affect certain of our aviation related activities that are subject to licensing, certification and other regulatory requirements imposed by the Federal Aviation Administration, or FAA, and other regulatory agencies, both domestic and foreign;
- competition from other companies, including original equipment manufacturers, some of which have greater financial resources than we have;
- access to the debt and equity capital markets and the ability to draw down under financing agreements, which may be limited in light of industry conditions and our performance and credit ratings;
- exposure to product liability and property claims that may be in excess of our substantial liability insurance coverage; and
- the outcome of any pending or future material litigation or environmental proceedings.

You should keep in mind that any forward-looking statement made by us in this prospectus or elsewhere speaks only as of the date on which we make it. We have no duty to, and do not intend to, update or revise the forward-looking statements in this prospectus after the date of this prospectus, except as may be required by law. In addition, all forward-looking statements are qualified by and should be read in conjunction with the risks described or referred to under the heading "Risk Factors" beginning on page 6 of this prospectus.

SUMMARY

This summary contains a general summary of the information contained in this prospectus. The summary may not contain all of the information that is important to you, and it is qualified in its entirety by the more detailed information included or incorporated by reference in this prospectus. You should carefully consider the information contained in and incorporated by reference in the entire prospectus, including the information set forth under the heading "Risk Factors" in this prospectus.

In this prospectus, "AAR," "Company," "we," "us" and "our" refer to AAR CORP. and its subsidiaries on a consolidated basis, except as otherwise indicated.

Our Business

We were founded in 1951, and re-incorporated in Delaware in 1966. We are a leading independent provider of products and services to the worldwide aviation and aerospace aftermarket industry. Our customers include most of the world's largest commercial airlines and air cargo operators, original equipment manufacturers, aircraft leasing companies, maintenance service providers and agencies and branches of the U.S. and foreign governments.

We report our activities in four business segments:

- Inventory and Logistic Services (sales of $246 million in fiscal 2003): Activities include the purchase and sale of a wide variety of new, overhauled or repaired engine and airframe parts and components for our aviation and government customers. We also provide customized inventory supply and logistics support programs to these customers;

- Maintenance, Repair and Overhaul (sales of $206 million in fiscal 2003): Activities include the maintenance, overhaul, repair and exchange of a wide variety of airframe and engine parts and components for our aviation and government customers. Repair and overhaul capabilities include most commercial landing gear, a wide variety of avionics, instruments, electrical, fuel, hydraulic and pneumatic components and a broad range of internal airframe components. We also operate an aircraft maintenance facility providing airframe maintenance, modification, special equipment installation, painting services and aircraft terminal services for various models of commercial, regional and military aircraft;

- Manufacturing (sales of $120 million in fiscal 2003): Activities include the design and manufacture of a wide array of containers, pallets and shelters in support of military and humanitarian tactical deployment activities. We also design and manufacture in-plane cargo loading and handling systems for commercial and military aircraft and helicopters, and we design and manufacture advanced composite materials for commercial, business and military aircraft as well as for the transportation industry; and

- Aircraft and Engine Sales and Leasing (sales of $35 million in fiscal 2003): Activities include the sale or lease of used commercial jet aircraft and the sale or lease of a wide variety of new or overhauled commercial jet engines. We also provide technical advisory services, which consist of records management, storage maintenance and assistance with the remarketing of aircraft and engines.

Our principal executive offices are located at One AAR Place, 1100 North Wood Dale Road, Wood Dale, Illinois, 60191, and our telephone number is (630) 227-2000. Our website address is *www.aarcorp.com*. We have not incorporated by reference into this prospectus the information included on or linked from our website, and you should not consider it to be part of this prospectus.

The Notes

The following is a brief summary of certain terms of the notes. For a more complete description of the terms of the notes, see "Description of the Notes" beginning on page 15 of this prospectus.

Issuer	AAR CORP., a Delaware corporation.
Notes	$75 million aggregate principal amount of 2.875% Convertible Senior Notes due February 1, 2024.
Issue Price	100% of the principal amount of each note.
Maturity	February 1, 2024, unless earlier redeemed, repurchased or converted.
Ranking	The notes are our senior, unsecured obligations and rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. At February 29, 2004, our senior secured indebtedness totaled approximately $24 million (excluding approximately $32 million in non-recourse debt), all of which relates to mortgages and indebtedness for aviation equipment. Our senior unsecured indebtedness (including the notes) totaled approximately $209 million. We are a holding company with no significant assets other than the stock of our subsidiaries, through which we conduct substantially all of our operations. The notes will not be guaranteed by any subsidiaries and, accordingly, the notes are structurally subordinated to the existing and future indebtedness and other liabilities of our subsidiaries. At February 29, 2004, the total liabilities of our subsidiaries (including trade payables and other current and long-term liabilities, but excluding intercompany indebtedness) was approximately $128 million, which includes approximately $18 million of debt (of which approximately $13 million is included in the $24 million of our senior secured indebtedness listed above).
Interest	2.875% per year on the principal amount, payable semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2004.
Conversion Rights	You may surrender your notes for conversion into our common stock based on a conversion rate of 53.7924 shares of our common stock per note (which is equivalent to a conversion price of $18.59 per share) under any of the following circumstances:
	on any business day up to the maturity date, if the closing sale price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the eleventh trading day of any fiscal quarter is greater than 120% of the applicable conversion price on the eleventh trading day of that quarter;

	at any time after February 1, 2019, if the closing sale price of our common stock on any trading day after February of the then applicable conversion price;
	at any time until February 1, 2019, during the five consecutive business day period following any five consecutive trading day period in which the trading price for a note for each day of that trading period was less than 98% of the closing sale price of our common stock on such corresponding trading day multiplied by the applicable conversion rate;
	if we call your notes for redemption, provided that if we elect to redeem less than all the notes, only those notes called for redemption may be converted;
	during any period in which the credit rating assigned to our long-term senior debt by Moody's Investor Services ("Moody's") is below Caa1 and Standard & Poor's Rating Services ("Standard & Poor's") is below B, the credit rating assigned to our long-term senior debt is suspended or withdrawn by both such rating agencies, or neither rating agency is rating our long-term senior debt; or
	upon the occurrence of specified corporate transactions described under "Description of the Notes Conversion Rights."
	Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of common stock, at our option, in an amount per note equal to the applicable conversion rate multiplied by the applicable stock price, which is the average of the closing sale prices of our common stock for the five consecutive trading days beginning on the third trading day following the conversion date.
	Upon submission of your notes for conversion, the conversion agent may direct you to surrender your notes to a financial institution designated by us for exchange in lieu of conversion. In order to accept any notes surrendered for conversion, the designated institution must agree to deliver, in exchange for your notes, the full number of shares of our common stock into which your notes are convertible (plus cash for any fractional shares), or cash or a combination of cash and shares of our common stock in lieu thereof.
Redemption of Notes at Our Option	On or after February 1, 2008, we may redeem for cash all or a portion of the notes at any time, upon not less than 30 nor more than 60 days' prior notice, at redemption prices described in this prospectus, plus accrued but unpaid interest and liquidated damages, if any, to but not including, the redemption date. See "Description of the Notes Redemption Rights."

Purchase of Notes at Your Option	You have the right to require us to repurchase in cash all or any portion of your notes on February 1, 2010, 2014 and 2019, each of which we refer to as a "repurchase date." In each case, the repurchase price payable will be equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest and liquidated damages, if any, to, but not including, the repurchase date.
Designated Event	If a "designated event" occurs (as defined in "Description of the Notes Designated Event"), you will have the right to require us to repurchase in cash any or all of your notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest and liquidated damages, if any, to, but not including, the date of repurchase.
Events of Default	If there is an event of default with respect to the notes, an amount equal to 100% of the principal amount of the notes, plus accrued and unpaid interest and liquidated damages, if any, may be declared immediately due and payable. These amounts automatically become due and payable in some circumstances. The following are events of default with respect to the notes:
	default for 30 days in payment of any interest or liquidated damages due and payable on the notes;
	default in payment of principal of the notes at maturity, upon redemption or repurchase or following a designated event, when the same becomes due and payable;
	default by us or any of our significant subsidiaries in the payment of principal or premium at final maturity under any other instruments of indebtedness, which default is in an aggregate amount exceeding $10 million and continues in effect for more than 30 days after the expiration of any grace period or extension of time for payment applicable thereto;
	default in our obligations to satisfy our conversion obligation upon exercise of a holder's conversion right, unless such default is cured within five days after written notice of default is given to us by the trustee or the holder of such note;
	default in our obligations to give notice of the right to require us to repurchase notes following the occurrence of a designated event within the time required to give such notice;

	default by us or any of our significant subsidiaries under any instrument or instruments evidencing indebtedness (other than the notes) having an outstanding principal amount of $10 million (or its equivalent in any other currency or currencies) or more that has caused the acceleration of its stated maturity unless such declaration has been rescinded within 10 days after written notice as provided in the indenture;
	default in our performance of any other covenants or agreements in respect of the notes contained in the indenture or the notes for 60 days after written notice to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the notes then outstanding; and
	certain events of bankruptcy, insolvency and reorganization of us or our significant subsidiaries.
Use of Proceeds	We will not receive any proceeds from the sale of the notes or the sale of the shares of common stock offered by this prospectus. The selling securityholders will receive all proceeds from the sale of the notes or the sale of shares of common offered by this prospectus.
Book Entry Form	The notes are issued in book-entry form and are represented by permanent global certificates deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company, commonly known as DTC, in New York, New York. Beneficial interests in any of the notes are shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants and any such interest may not be exchanged for certificated notes, except in limited circumstances. See "Book-Entry System."
Trading	The notes are not listed on any securities exchange or included in any automated quotation system. Our common stock is traded on the New York Stock Exchange under the symbol "AIR."

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones related to our business, the notes, shares of our common stock, or the offering. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also materially and adversely affect our business operations, results of operations, financial condition or prospects.

If any of the following risks actually occurs, our business, results of operations, financial condition or prospects could be materially adversely affected. In that case, the trading price of the notes and our common stock could decline substantially.

This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described below and elsewhere in this prospectus. You should also review our disclosures set forth under the heading "Cautionary Statement Regarding Forward-Looking Statements" on page ii of this prospectus.

Risk Factors Related to the Notes

An active trading market for the notes may not develop and there are restrictions on resale of the notes.

We cannot assure you that an active trading market for the notes will develop or as to the liquidity or sustainability of any such market, the ability of the holders to sell their notes or the price at which holders of the notes will be able to sell their notes. Future trading prices of the notes will depend on many factors, including, among other things, prevailing interest rates, the market for similar securities, the price of our common stock, our performance and other factors.

We expect that the trading value of the notes will be significantly affected by the price of our common stock, which may be volatile.

Our common stock has experienced significant price and volume fluctuations. The market price of the notes is expected to be significantly affected by the market price of our common stock as well as the general level of interest rates and our credit quality. This may result in a significantly greater volatility in the trading value of the notes than would be expected for nonconvertible debt securities we issue. For a discussion of the factors that may result in volatility in the market price of our common stock, see " Risk Factors Related to Our Business" below. It is impossible to predict whether the price of our common stock or interest rates will rise or fall. Trading prices of our common stock will be influenced by our operating results and prospects and by economic, financial, regulatory and other factors. In addition, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, could affect the price of our common stock.

The price of our common stock also could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in our company and by hedging or arbitrage activity that we expect to develop involving our common stock as a result of the issuance of the notes. The hedging or arbitrage could, in turn, affect the trading prices of the notes.

The conditional conversion features of the notes could result in your receiving less than the value of the common stock into which a note would otherwise be convertible.

The notes are convertible into common stock only if specified conditions are met. If the specific conditions for conversion are not met, you will not be able to convert your notes and you may not be able to receive the value of the common stock into which the notes would otherwise be convertible.

Conversion of the notes will dilute the ownership interest of existing shareholders, including holders who have previously converted their notes.

The conversion of some or all of the notes will dilute the ownership interests of existing shareholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

If you hold the notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will only be entitled to rights on the common stock if and when we deliver shares of common stock to you upon conversion of your notes (or upon the repurchase of your notes if we are permitted under the indenture, and elect, to deliver shares of our common stock in payment of all or part of the purchase price). For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring shareholder approval and the record date for determining shareholders of record entitled to vote on the amendment occurs prior to your conversion of notes (or other receipt of shares of our common stock), you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock or other classes of capital stock.

We may issue additional shares of common stock and thereby materially and adversely affect the price of our common stock.

We are not restricted from issuing additional common stock during the life of the notes and have no obligation to consider your interests for any reason. If we issue additional shares of common stock, it may materially and adversely affect the price of our common stock and, in turn, the price of the notes.

We may not have the funds necessary to purchase the notes at the option of the holders or upon a designated event.

On February 1, 2010, 2014 and 2019, and upon the occurrence of a designated event as described herein, you may require us to repurchase your notes. In addition, the occurrence of a designated event could trigger an event of default under, or a requirement for us to make an offer to purchase, certain of our other outstanding indebtedness. We cannot assure you that we would have the financial resources, or would be able to arrange financing, to pay the purchase price in cash for all of the notes that might be delivered by holders of notes seeking to exercise their repurchase rights.

The notes will not be guaranteed by our subsidiaries.

AAR CORP. is a holding company with no significant assets other than the stock of its subsidiaries, through which AAR CORP. conducts substantially all its operations. Our cash flow and our ability to service our debt, including the notes, is dependent upon distributions of earnings, loans or other payments by our subsidiaries to us. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts due on the notes or to provide us with funds for our payment obligations, whether by dividends, distributions, loans or other payments. Payments to us by our subsidiaries are contingent upon our subsidiaries' revenue and earnings.

The notes will be structurally subordinated to the existing and future indebtedness and other liabilities of AAR CORP.'s subsidiaries. At February 29, 2004, our subsidiaries had approximately

$128 million of total liabilities outstanding (including trade payables and other current and long-term liabilities, but excluding intercompany liabilities) to which the notes would have been structurally subordinated.

The notes will effectively rank junior to any of our secured indebtedness.

The notes will be our general unsecured obligations. The notes will effectively rank junior to any of our secured indebtedness, including borrowings under our secured credit facility and the loans secured by mortgages on our properties. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure debt will be available to pay obligations on the notes only after all debt under such secured debt has been repaid in full from such assets. As a result, there may not be sufficient assets remaining to pay amounts due on any or all the notes then outstanding.

Changes in our credit rating or the credit and equity markets could adversely affect the price of the notes.

The market price for the notes will be based on a number of factors, including our rating with major credit rating agencies, the market for our common stock, the prevailing interest rates being paid by other companies similar to us and the overall conditions of the financial markets. The conditions of the credit and equity markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future. Fluctuations in these factors could have an adverse effect on the price of the notes.

In addition, credit rating agencies continually revised their ratings for the companies that they follow, including us. We cannot be sure that credit rating agencies will maintain their ratings on our long-term debt ratings. These ratings will affect our ability to raise debt and the cost of such debt to us. A negative change in our rating could have an adverse effect on the price of the notes.

Our stock price may be volatile and could experience substantial declines.

The market price of our common stock has historically experienced and may continue to experience volatility. The market price is likely to be affected by:

- fluctuations in the volume of trading;
- changes in general conditions in the economy or the financial markets;
- variations in our quarterly operating results;
- changes in financial estimates by management and securities analysts;
- other developments affecting us, our industry, customers or competitors; and
- the operating and stock price performance of companies that investors deem comparable to us.

The volatility of the stock market also has affected the market prices of securities issued by many companies and, at times, for reasons unrelated to their operating performance. Therefore, we cannot predict the market price for our common stock after this offering.

Delaware law and provisions in our charter and bylaws could make it difficult for stockholders to effect a change in control.

Provisions of Delaware law, our certificate of incorporation and our bylaws may affect significantly the ability of our stockholders to make changes to our board of directors or the ability of holders of a substantial amount of our common stock to acquire control of, or to remove, the incumbent board, and might discourage transactions that involve an actual or threatened change of control of AAR CORP. These provisions:

- provide for a classified board of directors of which approximately one third of the directors are elected each year;
- allow the authorized number of directors to be changed only by a resolution of the board of directors;
- prohibit stockholder action by written consent;
- limit who may call stockholder meetings;
- require the affirmative vote of at least 80% of voting shares not held by interested stockholders (that is, stockholders who own 10% or more of our common stock) for any merger, sale and certain other business transactions with an interested stockholder not approved by our board;
- provide that directors may be removed only for cause and only by the affirmative vote of holders of at least 80% of the total voting power of all shares entitled to vote in an election of directors;
- require the affirmative vote of at least 80% of the total voting power of all shares entitled to vote in an election of directors or a majority of our board to amend, alter or repeal our by-laws; and
- authorize the issuance of 250,000 shares of preferred stock with such designations, rights and preferences as may be determined by our board.

In addition, in July 1997, our board of directors declared a distribution of a common stock purchase right for each outstanding share of common stock. The rights are transferred only with our common stock and are not exercisable until a person acquires or announces an intention to acquire 15% or more of our outstanding common stock. The rights, which expire August 6, 2007, will, if exercised, cause substantial dilution to a person or a group that attempts to acquire control of AAR on terms not approved by our board of directors.

Risk Factors Related to Our Business

We may be further affected by continuing problems in the aviation industry.

As a provider of products and services to the aviation industry, we are greatly affected by the overall economic condition of that industry. The aviation industry is historically cyclical. Early in calendar year 2001, the commercial aviation industry began to experience the negative effects of a worldwide economic downturn. The September 11, 2001 terrorist attacks exacerbated that condition, resulting in a significant decline in air travel and reduced capacity by most of the major U.S.-based airlines. Since September 11, 2001, the aviation industry has also been negatively affected by the ongoing war on terrorism, as well as the outbreak of Severe Acute Respiratory Syndrome, or SARS. As a result of these and other events, some commercial airlines filed for bankruptcy, including United Airlines, U.S. Airways and Air Canada.

Any future acts of terrorism and any military response to such acts could result in further acts of terrorism and additional hostilities, including possible retaliatory attacks on sovereign nations, as well as financial, economic and political instability. While the precise effects of such instability on our industry and our business is difficult to determine, it could result in further reductions in the use of commercial aircraft. If demand for new aircraft and spare parts decreases, demand for certain of our products and services would also decrease.

The downturn in the aviation industry, particularly since September 11, 2001, has adversely affected our business and our operating results. For the years ended May 31, 2003 and 2002, we incurred a net loss of $12.4 million and $58.9 million, respectively. Our May 31, 2003 results included a $5.4 million pre-tax asset impairment charge related to the write-down of certain aircraft parts and engines, and our May 31, 2002 results included an $86.0 million pre-tax asset impairment and special charge, primarily related to a reduction in the carrying value of certain inventories and equipment leases, as well as an increase in our allowance for bad debts and severance. Our business, financial condition and results of operations may be adversely impacted by the following:

- future terrorist attacks and the ongoing war on terrorism;
- future outbreaks of SARS or similar communicable diseases;
- a deterioration in the financial condition of some of our existing and potential customers, as well as airlines currently in bankruptcy;
- reductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support;
- retirement of older generation aircraft, resulting in lower prices for spare parts and services for those aircraft; and
- reductions in demand for used aircraft and engines.

We cannot assure you that the economic and other factors currently affecting the aviation industry will not continue to have an adverse impact on our business, financial condition and results of operations and there can be no assurance that we will be profitable in the future.

Our customers may not be able to meet their financial obligations to us.

A number of our existing and prospective customers, including domestic and foreign commercial airlines, regional and commuter airlines, business aircraft operators, aviation original equipment manufacturers, aircraft leasing companies, and independent aviation support companies, continue to suffer from the problems affecting the aviation industry, and some have filed bankruptcy. As a result, certain of these customers continue to pose credit risks to us. Our inability to collect receivables from one or more important customers could adversely affect our business, financial condition and results of operations for a particular period.

We may be unable to re-lease or sell currently leased aircraft and engines.

As a result of the weakened aviation environment, demand for certain aircraft and engines has declined. Many airlines have canceled or deferred new aircraft deliveries, parked aircraft at temporary storage facilities or accelerated scheduled retirement plans for older-generation aircraft. Our inability to re-lease or sell aircraft and engines that are currently on lease could adversely affect our business, financial condition and results of operations.

Our government contracts may not continue at present sales levels.

Our sales to the U.S. Government, its agencies and its contractors were approximately $170 million (28.1% of total sales) in fiscal year 2003. The majority of our government contracts are for aviation products and services used for ongoing routine military logistic support activities and for products which support the U.S. Military's deployment strategy. Our contracts with the U.S. Government and its agencies and contractors are typically firm agreements to provide products and services at a fixed price and have a term of one year or less, frequently subject to extension for one or more additional periods of one year at the option of the U.S. Government. Because these sales are subject to competitive bidding and government funding, no assurance can be given that sales to our government customers will continue at levels previously experienced.

We are dependent upon financing to manage our business and to execute our business strategy.

Our ability to manage our business and to execute our business strategy is dependent, in part, on the continuing availability of debt and equity capital. Access to the debt and equity capital markets may be limited in light of general economic conditions, the state of the aviation industry, and our recent performance and current credit ratings. We cannot assure you that debt and equity capital will continue to be available to us on favorable terms, or at all. Our inability to obtain financing on favorable terms may adversely affect our business, financial condition and results of operations.

Our existing debt includes restrictive and financial covenants.

Certain of our loan agreements require us to comply with various restrictive covenants. These covenants include restrictions that limit our ability to incur additional debt, pay dividends, or redeem or repurchase our capital stock; create liens or negative pledges with respect to our assets; and to merge, consolidate or sell our assets. In addition, some of our loan agreements contain financial covenants which require us to comply with specified financial ratios and tests, relating to fixed charge coverage ratio and minimum working capital and tangible net worth levels. Our failure to meet these financial covenants could result in default under these loan agreements and would result in a cross default under other loan agreements. In the event of a default and our inability to obtain a waiver of the default, all amounts outstanding under loan agreements could be declared immediately due and payable. The effect of these covenants, or our failure to comply with them, could materially adversely affect our business, financial condition and results of operations.

We are subject to significant government regulation.

The aviation industry is highly regulated by the FAA in the United States and the equivalent regulatory agencies in other countries. Before we sell any of our products that are to be installed in an aircraft, such as engines, engine parts and components, airframe and accessory parts and components, they must meet certain standards of airworthiness established by the FAA or the equivalent regulatory agencies in other countries. We also operate repair stations that are licensed by the FAA and in some cases the equivalent regulatory agencies in other countries. Specific regulations vary from country to country, although regulatory requirements in other countries are generally satisfied by compliance with FAA requirements. Although we believe we comply with all applicable regulatory standards, these standards may change in the future, requiring our inventory to be modified or scrapped. There can be no assurance that new and more stringent government regulations will not be adopted in the future or that any such new regulations, if enacted, would not have an adverse impact on us. If material licenses, authorizations or approvals were revoked or suspended by the FAA and in some cases the equivalent regulatory agencies in other countries, our business, financial condition and results of operations would be adversely affected.

We operate in a highly competitive industry.

The aviation industry and the markets for our products and services are extremely competitive, and we face competition from a number of sources. Our competitors include aircraft manufacturers, aircraft parts manufacturers, airline and aircraft service companies, other companies providing maintenance, repair and overhaul services, and other aircraft spare parts distributors and redistributors. Some of our competitors have substantially greater financial and other resources than we have. We cannot assure you that competitive pressures will not materially and adversely affect our business, financial condition and results of operations.

Our industry is susceptible to product liability claims.

Our business exposes us to possible claims for property damage and personal injury or death which may result if an engine, engine part or component, airframe part or accessory or any other aviation product which we have sold, manufactured or repaired fails or if an aircraft in which our products are installed crashes and the cause cannot be determined. We carry substantial liability insurance in amounts that we believe are adequate for our risk exposure and commensurate with industry norms. However, we cannot assure you that claims will not arise in the future or that our insurance coverage will be adequate to protect us in all circumstances. Additionally, we cannot assure you that we will be able to maintain adequate insurance coverage in the future at an acceptable cost. Since the September 11, 2001 terrorist attacks, insurance premiums have risen significantly and may increase further. Any product liability claim not covered by adequate insurance could materially and adversely affect our business, financial condition and results of operations.

The market value for our aviation products fluctuates.

We have used a number of assumptions when determining the market value of inventories and the recoverability of aviation equipment leases. These assumptions include historical sales, current and expected usage trends, replacement values, current and expected lease rates, residual values and future demand. Principally as a result of the events of September 11, 2001 and its anticipated impact on the global airline industry's financial condition, fleet size and aircraft utilization, we recorded a significant charge for impaired inventories and equipment leases during the second quarter of fiscal 2002 utilizing those assumptions. During the fourth quarter of fiscal 2003, we recorded an additional charge as a result of a further decline in market value for certain of these inventories and equipment leases. Further reductions in demand for certain of our inventories or declining market values, as well as differences between actual results and the assumptions utilized by us when determining the market value of our inventories and equipment leases, could result in additional impairment charges in future periods. We can give no assurance that future write-down of our inventories and equipment leases will not occur.

We must comply with extensive environmental requirements.

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes, and other activities affecting the environment have had and may continue to have an impact on our manufacturing operations. Compliance with environmental requirements and resolution of environmental claims have been accomplished without material effect on our liquidity and capital resources, competitive position or financial condition. Management believes that our expenditures for environmental capital investment and any remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on our business, financial condition or results of operation. Management cannot assess the possible effect of compliance with future environmental requirements. Additional information on environmental matters, including an administrative proceeding against one of our subsidiaries by the Michigan Department of Environmental Quality, is contained in our Annual Report on Form 10-K for the fiscal year ended May 31, 2003 and our Quarterly Report on Form 10-Q for the quarter ended August 31, 2003.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the notes or the sale of the shares of common stock offered by this prospectus. The selling securityholders will receive all proceeds from the sale of the notes or the sale of the shares of common stock offered by this prospectus.

PRICE RANGE OF COMMON STOCK

Our common stock is listed on the New York Stock Exchange under the symbol "AIR." The following table presents, for the periods indicated, the high and low closing sales prices per share of our common stock as reported on the New York Stock Exchange.

	High	Low
Fiscal Year Ended May 31, 2001		
First Quarter	$ 15.19	$ 10.31
Second Quarter	13.56	10.00
Third Quarter	15.19	10.31
Fourth Quarter	15.25	10.95
Fiscal Year Ended May 31, 2002		
First Quarter	$ 17.25	$ 14.25
Second Quarter	17.25	7.15
Third Quarter	9.85	7.29
Fourth Quarter	13.65	7.44
Fiscal Year Ended May 31, 2003		
First Quarter	$ 11.15	$ 6.00
Second Quarter	6.11	3.20
Third Quarter	6.09	4.45
Fourth Quarter	4.50	3.70
Fiscal Year Ended May 31, 2004		
First Quarter	$ 8.34	$ 4.72
Second Quarter	11.38	7.30
Third Quarter	16.37	10.25
Fourth Quarter (through April 22, 2004)	13.09	11.25

On April 23, 2004, the last reported sale price for our common stock on the New York Stock Exchange was $11.64 per share.

DIVIDEND POLICY

We suspended payment of dividends on our common stock in October 2002. We are prohibited from declaring and paying dividends on our common stock under our secured revolving credit facility. In addition, we are subject to net worth and other financial covenants under other financing agreements that would materially limit our ability to declare and pay dividends on our common stock. The payment of future dividends is also subject to the discretion of our board of directors, which will consider, among other factors, our operating results, overall financial condition and capital requirements, restrictions imposed by financing arrangements, as well as general business conditions.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of earnings to fixed charges for the periods indicated:

For the Fiscal Year Ended May 31,					Nine Months Ended February 28/29,	
2003	2002	2001	2000	1999	2004	2003
					(unaudited)	
0.1	*	1.7	2.7	3.6	1.0	0.6

* Earnings were inadequate to cover fixed charges by $49.1 million for the fiscal year ended May 31, 2002.

For the purpose of calculating the ratio of earnings to fixed charges, earnings consist of income (loss) before provision (benefit) for income taxes, adjusted for fixed charges. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt expenses and one-third of rent expense under operating leases (estimated by management to be the interest factor of such rent expense).

DESCRIPTION OF THE NOTES

We issued the notes pursuant to an indenture between us and U.S. Bank National Association, as trustee.

The following description is a summary of selected portions of the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because it, and not this description, defines your rights as holders of these notes.

In this section, references to "AAR," "we," "our" or "us" refer solely to AAR CORP. and not to its subsidiaries.

General

The notes are limited to an aggregate principal amount of $75 million.

The notes are our senior, unsecured obligations and rank equal in right of payment with all of our existing and future unsecured and unsubordinated indebtedness. At February 29, 2004, our senior secured indebtedness totaled approximately $24 million (excluding approximately $32 million in non-recourse debt), all of which relates to mortgages and indebtedness for aviation equipment. Our senior unsecured indebtedness (including the notes) totaled approximately $209 million. The indenture pursuant to which the notes were issued does not limit our right to incur indebtedness in the future.

We are a holding company with no significant assets other than the stock of our subsidiaries and conduct substantially all our operations through our subsidiaries. None of our subsidiaries is guaranteeing the notes. Claims of creditors of our subsidiaries, including trade creditors and creditors holding indebtedness or guarantees issued by our subsidiaries, and claims of preferred stockholders of our subsidiaries, generally will have priority with respect to the assets and earnings of our subsidiaries over the claims of our creditors, including holders of the notes. Accordingly, the notes are structurally subordinated in right of payment to existing and future creditors (including trade creditors) and preferred stockholders, if any, of our subsidiaries. At February 29, 2004, the total liabilities of our subsidiaries (including trade payables and other current and long-term liabilities, but excluding intercompany indebtedness) was approximately $128 million to which the notes would have been structurally subordinated. The $128 million of total liabilities includes approximately $18 million of debt (of which approximately $13 million is included in the $24 million of our senior secured indebtedness listed above). In the event of a bankruptcy, liquidation or dissolution of a subsidiary, the creditors of such subsidiary will be paid first, after which the subsidiary may not have sufficient assets remaining to make any payments to us as a shareholder or otherwise so that we can meet our obligations under the notes.

The notes were issued only in registered form without coupons in denominations of $1,000 principal amount and any integral multiple of $1,000 above that amount. The notes will mature on February 1, 2024, unless earlier redeemed by us at our option or repurchased by us at a holder's option on certain dates as described under " Repurchase Rights," or converted at a holder's option into shares of our common stock as described under " Conversion Rights."

Interest

The notes bear interest at a rate of 2.875% per annum from February 3, 2004. We will pay interest semi-annually on February 1 and August 1 of each year beginning August 1, 2004, to the holders of record at the close of business on the preceding January 15 and July 15, respectively.

There are two exceptions to the preceding sentence:

- In general, we will not pay accrued interest on any notes that are converted into shares of our common stock. See " Conversion Procedures."
- We will pay interest to a person other than the holder of record on the record date if we elect to redeem the notes on a date that is after a record date but on or prior to the corresponding interest payment date. In this instance, we will pay accrued interest on the notes being redeemed to, but not including, the redemption date to the same person to whom we will pay the principal of those notes.

Except as provided below, we will pay interest on:

- the global note to DTC in immediately available funds; and
- any definitive notes by check mailed to the holders of those notes.

At maturity, interest on the definitive notes will be payable at the office of the trustee as set forth under " Trustee."

Interest generally will be computed on the basis of a 360-day year comprised of twelve 30-day months. If an interest payment date is not a business day at a place of payment, payment shall be made on the next succeeding business day and no interest shall accrue for the intervening period. If the stated maturity date, redemption date or repurchase date of a note would fall on a day that is not a business day, the required payment of interest, if any, and principal will be made on the next succeeding business day and no interest on such payment will accrue for the period from and after the stated maturity date, redemption date or repurchase to such next succeeding business day. The term "business day" means, with respect to any note, any day other than a Saturday, a Sunday or a day on which banking institutions in the City of New York are authorized or required by law, regulation or executive order to close.

Conversion Rights

Subject to the conditions described below, you may convert your notes into shares of our common stock based on a conversion rate of 53.7924 shares of our common stock per $1,000 principal amount of notes (equivalent to an initial conversion price of approximately $18.59 per share). The conversion rate in effect at any given time is referred to in this prospectus as the "applicable conversion rate" and will be subject to adjustment as described under " Anti-dilution Adjustments" below. The "applicable conversion price" at any given time is equal to the principal amount of the notes divided by the applicable conversion rate.

You may surrender your notes for conversion at the applicable conversion rate prior to the stated maturity of the notes under any of the following circumstances:

- on any business day up to the maturity date, if the closing sale price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the eleventh trading day of any fiscal quarter is greater than 120% of the applicable conversion price on the eleventh trading day of that quarter;
- at any time after February 1, 2019, if the closing sale price of our common stock on any trading day after February 1, 2019 is greater than 120% of the then applicable conversion price;
- at any time until February 1, 2019, during the five consecutive business day period following any five consecutive trading day period in which the trading price (as defined below) for a note for each day of that trading period was less than 98% of the closing sale price of our common stock on such corresponding trading day multiplied by the applicable conversion rate;
- if we have called your notes for redemption, provided that if we elect to redeem less than all of the notes, only those notes called for redemption may be converted;
- during any period in which the credit rating assigned to our long-term senior debt by Moody's is below Caa1 and by Standard & Poor's is below B, the credit rating assigned to our long-term senior debt is suspended or withdrawn by both such rating agencies, or neither rating agency is rating our long-term senior debt; or
- upon the occurrence of specified corporate transactions discussed below.

The *"closing sale price"* of our common stock on any date means the closing per share sale price (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on that date as reported on the New York Stock Exchange or, if our common stock is not then listed on the New York Stock Exchange, then on the principal U.S. national or regional exchange or market on which the common stock is then listed or quoted, or if the common stock is not listed or quoted on a U.S. national or regional exchange or market, as reported on the principal other market on which the common stock is then traded. In the absence of such quotations, our board of directors will make a good faith determination of the sale price.

"Trading day" means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not then listed on the New York Stock Exchange, then on another national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a national or regional securities exchange, on the National Association of Securities Dealers Automated Quotation System or, if our common stock is not quoted on the National Association of Securities Dealers Automated Quotation System, on the principal other market on which our common stock is then traded.

Conversion Upon Satisfaction of Sale Price Condition

You may surrender any of your notes for conversion on any business day up to the maturity date if the closing sale price of our common stock, for at least 20 trading days in the period of 30 consecutive trading days ending on the eleventh trading day of any fiscal quarter, is greater than 120% of the applicable conversion price on the eleventh trading day of that quarter.

You may also surrender any of your notes for conversion at any time after February 1, 2019, if the closing sale price of our common stock on any trading day after February 1, 2019 is greater than 120% of the then applicable conversion price.

The conversion agent, which initially will be U.S. Bank National Association, will, on our behalf, determine daily if the notes are convertible as a result of the sale price of our common stock and notify us and the trustee.

Conversion Upon Satisfaction of Trading Price Condition

You may surrender any of your notes for conversion, at any time until February 1, 2019, during the five consecutive business day period following any five consecutive trading day period in which the trading price for a note for each day of that trading period was less than 98% of the closing sale price of our common stock on such corresponding trading day multiplied by the applicable conversion rate; *provided, however,* that if, on the trading day immediately prior to the conversion date, the closing sale price of our common stock is greater than 100% of the applicable conversion price but less than or equal to 120% of the applicable conversion price, then you will receive, in lieu of shares of our common stock based on the applicable conversion rate, cash, shares of our common stock, or a combination of cash and shares of our common stock, at our option, with a value equal to 100% of the principal amount of the notes plus accrued and unpaid interest, if any, as of the conversion date (a "principal value conversion"). The notes will not be convertible pursuant to this trading price condition after February 1, 2019. If you surrender your notes for conversion and it is a principal value conversion, we will notify you by the second trading day following the date of conversion whether we will pay you all or a portion of the principal amount plus accrued and unpaid interest, if any, in cash, shares of our common stock or a combination of cash and shares of our common stock, and in what percentage. Any common stock delivered upon a principal value conversion will be valued at 100% of the average of the closing sale prices for the five consecutive trading days commencing on the third trading day following the conversion date. We will pay you cash and deliver shares of our common stock, as applicable, no later than the third business day following the specified five trading day averaging period.

The *"trading price"* of the notes on any date of determination means the average of the secondary market bid quotations per note obtained by the trustee for $5.0 million principal amount of the notes at approximately 3:30 p.m., New York City time, on such determination date from two independent nationally recognized securities dealers we select, which may include the initial purchasers, *provided* that if at least two such bids cannot reasonably be obtained by the trustee, but one such bid can reasonably be obtained by the trustee, this one bid shall be used. If the trustee cannot reasonably obtain at least one bid for $5.0 million principal amount of the notes from a nationally recognized securities dealer or in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the notes, then the trading price of the notes will equal (1) the applicable conversion rate of the notes multiplied by (2) the closing sale price of our common stock on such determination date.

The conversion agent will, on our behalf, determine if the notes are convertible as a result of the trading price of the notes and notify us; *provided, however,* that the conversion agent shall have no obligation to determine the trading price of the notes unless we have requested such determination and we shall have no obligation to make such request unless requested to do so by a holder of the notes. At such time, we shall instruct the conversion agent to determine the trading price of the notes beginning on the next trading day and on each successive trading day until the trading price of the notes is greater than or equal to 98% of the product of the closing sale price of our common stock multiplied by the applicable conversion rate.

Conversion Upon Notice of Redemption

You may surrender for conversion any of the notes called for redemption at any time prior to the close of business on the business day prior to the redemption date, even if the notes are not otherwise convertible at such time. If you have already delivered a purchase notice or a designated event purchase notice with respect to a note, however, you may not surrender that note for conversion until you have withdrawn the notice in accordance with the indenture.

Conversion Upon Credit Rating Event

You may surrender any of your notes for conversion during any period in which (1) the rating assigned to our long-term senior debt by Moody's is below Caa1 and by Standard & Poor's is below B, (2) the credit rating assigned to our long-term senior debt is suspended or withdrawn by both Moody's and Standard & Poor's, or (3) neither Moody's nor Standard & Poor's is rating our long-term senior debt.

Conversion Upon Specified Corporate Transactions

Even if none of the conditions described above has occurred, if we elect to:

- distribute to all holders of our common stock certain rights entitling them to purchase our common stock at less than the current market price (as defined below), or

- distribute to all holders of our common stock our assets, debt securities or certain rights to purchase our securities, which distribution has a per share value exceeding 10% of the closing sale price of our common stock on the trading day preceding the declaration date for such distribution,

we must notify you at least 20 days prior to the ex-dividend date for such distribution. Once we have given that notice, even if your notes are not otherwise convertible at that time, you may surrender your notes for conversion at any time until the earlier of the close of business on the business day prior to the ex-dividend date or our announcement that such distribution will not take place. You may not exercise this right to convert if you may participate in the distribution without conversion.

In addition, if we are party to a consolidation, merger or binding share exchange pursuant to which all or substantially all of our common stock would be converted into cash, securities or other property, even if your notes are not otherwise convertible at the time, you may surrender notes for conversion at any time from and after the date that is 15 days prior to the anticipated effective date of the transaction until 15 days after the actual date of such transaction and, at the effective time of such consolidation, merger or binding share exchange, the right to convert a note into our common stock will be changed into a right to convert the note into the kind and amount of cash, securities or other property that you would have received if you had converted your notes immediately prior to the transaction. If the transaction also constitutes a "change in control," as defined below, you can require us to purchase all or a portion of your notes as described under " Designated Event."

Upon determination that you are or will be entitled to convert your notes into shares of our common stock in accordance with the foregoing provisions, we will issue a press release through a public medium that is customary for such press releases or publish the information on our web site or through such other public medium as we may use at that time.

Conversion Consideration

If you surrender your notes for conversion, we will have the right to deliver cash, shares of our common stock, or a combination of cash and shares of our common stock, at our option, in an amount per note equal to (1) the applicable conversion rate multiplied by (2) the "applicable stock price", which is the average of the closing sale prices of our common stock for the five consecutive trading days beginning on the third trading day following the conversion date. We will notify you through the conversion agent no later than two business days following the conversion date of our election to deliver shares of our common stock or to pay cash in lieu of delivery of some or all of the shares (and, if applicable, the dollar amount per note that we will pay in cash), unless we have already informed you of our election in connection with our optional redemption of the notes as described under " Redemption Rights."

If we elect to deliver cash in lieu of all of the shares into which the notes are convertible, the amount of cash deliverable per note will be as follows:

Applicable Stock Price * Applicable Conversion Rate

If we elect to deliver cash in lieu of some (but not all) of the shares into which the notes are convertible, the number of shares of our common stock deliverable per note will be as follows:

$$\frac{\text{(Applicable Stock Price * Applicable Conversion Rate)} \quad \text{Cash Amount}}{\text{Applicable Stock Price}}$$

provided, however, that we will pay cash in lieu of fractional shares otherwise issuable upon conversion of the notes.

Conversion Procedures

If you wish to exercise your conversion right, you must deliver an irrevocable conversion notice, together, if the notes are in certificated form, with the certificated security (the date of such delivery of notice and all other requirements for conversion have been satisfied, the *"conversion date"*), to the conversion agent who will, on your behalf, convert the notes into our common stock. You may obtain copies of the required form of the conversion notice from the conversion agent. Shares of our common stock and cash deliverable upon conversion will be delivered through the conversion agent no later than the third business day following determination of the applicable stock price.

We will not issue fractional shares of our common stock upon conversion of the notes. In lieu of fractional shares otherwise issuable (calculated on an aggregate basis in respect of all the notes you have surrendered for conversion), you will be entitled to receive cash in an amount equal to the value of such fractional shares, based on the applicable stock price.

Upon conversion of notes, you generally will not receive any cash payment of interest. Our delivery to you of the full number of shares of our common stock into which a note is convertible, together with any cash payment for fractional shares, or cash or a combination of cash and shares of our common stock in lieu thereof, will be deemed to satisfy our obli