Not filed with the Securities and Exchange Commission. Furnished pursuant to the indentures governing the 8.5% Senior Fixed Rate Notes due 2015, 8.875%/9.625% Senior PIK-Election Notes due 2015 and 9.75% Senior Subordinated Notes due 2017 of Hawker Beechcraft Acquisition Company, LLC and Hawker Beechcraft Notes Company and the $1,810 million Senior Secured Credit Facility of Hawker Beechcraft Acquisition Company, LLC and Hawker Beechcraft Notes Company.

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 June 24, 2007.

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

Hawker Beechcraft Acquisition Company, LLC
Hawker Beechcraft Notes Company
(Exact Name of Registrant as Specified in its Charter)

Delaware	**71-1018770** **20-8650498**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

10511 East Central, Wichita, Kansas 67206
(Address of Principal Executive Offices) (Zip Code)
(316) 676-7111
(Registrant's telephone number, including area code)

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Securities Exchange Act of 1934.
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Hawker Beechcraft Acquisition Company, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions)

	Successor June 24, 2007	Predecessor December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	**$ 167.7**	$ 25.9
Accounts and notes receivable, net of allowance for doubtful accounts of $1.7 at June 24, 2007 and $1.2 at December 31, 2006	**94.6**	110.7
Finance receivables, net of allowance for doubtful accounts of $0.1 at June 24, 2007 and $0.8 at December 31, 2006	**2.0**	57.0
Unbilled revenue	**37.6**	27.4
Inventories	**1,400.1**	1,446.0
Current deferred income taxes	**-**	109.0
Prepaid expenses and other current assets	**47.8**	70.6
Total current assets	**1,749.8**	1,846.6
Property, plant, and equipment, net	**663.0**	520.8
Goodwill	**686.2**	-
Intangible assets, net	**1,178.5**	53.1
Other assets, net	**127.7**	118.0
Total assets	**$ 4,405.2**	$ 2,538.5
Liabilities and Equity		
Current liabilities		
Advance payments and billings in excess of costs incurred	**$ 465.7**	$ 424.5
Accounts payable	**321.2**	360.5
Accrued salaries and wages	**48.0**	38.2
Other accrued expenses	**143.7**	193.1
Total current liabilities	**978.6**	1,016.3
Long-term debt	**2,387.1**	-
Accrued retiree benefits and other long-term liabilities	**100.5**	200.0
Deferred income taxes	**30.3**	78.1
Total liabilities	**3,496.5**	1,294.4
Commitments and contingencies (Note 13)		
Equity		
Paid in capital	**980.3**	-
Parent company investment	**-**	(17.1)
Accumulated other comprehensive income (loss)	**5.5**	(85.9)
Retained (deficit) earnings	**(77.1)**	1,347.1
Total equity	**908.7**	1,244.1
Total liabilities and equity	**$ 4,405.2**	$ 2,538.5

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hawker Beechcraft Acquisition Company, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions)

	Successor Period From March 26, 2007 through June 24, 2007	Predecessor Three Months Ended June 25, 2006	Predecessor Period From January 1, 2007 through March 25, 2007	Predecessor Six Months Ended June 25, 2006
Sales:				
Aircraft, parts and services	**$ 701.1**	$ 731.8	$ 647.3	$ 1,211.5
Sales to related parties	**-**	48.6	20.5	73.5
Total sales	**701.1**	780.4	667.8	1,285.0
Cost of sales:				
Aircraft, parts and services	**658.5**	629.5	545.6	1,036.2
Sales to related parties	**-**	36.5	20.5	61.3
Total cost of sales	**658.5**	666.0	566.1	1,097.5
Gross Margin	**42.6**	114.4	101.7	187.5
Selling, general and administrative expenses	**55.2**	49.2	52.0	94.0
Research and development expenses	**24.0**	19.1	21.3	37.3
Operating (loss) income	**(36.6)**	46.1	28.4	56.2
Intercompany interest expense, net	**-**	21.3	15.8	41.4
Interest expense (income), net	**51.2**	(3.7)	(0.9)	(8.3)
Other (income) expense, net	**(1.1)**	0.4	(0.1)	(0.2)
Non-operating expense, net	**50.1**	18.0	14.8	32.9
(Loss) income before taxes	**(86.7)**	28.1	13.6	23.3
Provision for (benefit from) income taxes	**(9.6)**	10.2	5.1	8.5
Net (loss) income	**$ (77.1)**	$ 17.9	$ 8.5	$ 14.8

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hawker Beechcraft Acquisition Company, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Successor	Predecessor	
	Period From March 26, 2007 through June 24, 2007	Period From January 1, 2007 through March 25, 2007	Six Months Ended June 25, 2006
Cash flows from operating activities:			
Net (loss) income	**$ (77.1)**	$ 8.5	$ 14.8
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	**37.6**	21.9	44.4
Amortization of debt issuance costs	**2.2**	-	-
Amortization of deferred compensation	**3.2**	-	-
Stock-based compensation	**3.6**	1.2	2.6
Deferred income taxes	**8.2**	(11.6)	8.5
Changes in assets and liabilities, net of effects of acquisition:			
Accounts receivable	**6.9**	9.8	0.2
Unbilled revenue, advanced payments and billings in excess of costs incurred	**115.2**	(78.6)	92.0
Inventories	**(43.4)**	(85.6)	(184.5)
Prepaid expenses and other current assets	**4.7**	26.5	21.9
Accounts payable	**(23.5)**	(5.6)	23.6
Accrued salaries and wages	**13.2**	(3.4)	(12.1)
Other accrued expenses	**(25.6)**	(11.8)	(33.6)
Pension and other changes, net	**30.2**	12.2	13.2
Sale of financing receivables	**-**	-	6.5
Origination of financing receivables	**-**	(20.6)	(101.0)
Collection of financing receivables not sold	**38.4**	36.2	125.0
Net cash provided by (used in) operating activities	**93.8**	(100.9)	21.5
Cash flows from investing activities:			
Expenditures for property, plant, and equipment	**(13.5)**	(26.2)	(17.1)
Acquisition of business, net of cash acquired	**(3,223.3)**	-	0.1
Additions to intangible assets	**-**	(1.1)	(0.9)
Net cash used in investing activities	**(3,236.8)**	(27.3)	(17.9)
Cash flows from financing activities:			
Equity contributions	**976.7**	-	-
Net transfers from (to) Raytheon	**-**	117.4	(9.5)
Issuance of long-term debt	**2,400.0**	-	-
Debt issuance costs	**(66.0)**	-	-
Net cash provided by (used in) financing activities	**3,310.7**	117.4	(9.5)
Net increase (decrease) in cash and cash equivalents	**167.7**	(10.8)	(5.9)
Cash and cash equivalents at beginning of period	**-**	25.9	25.7
Cash and cash equivalents at end of period	**$ 167.7**	$ 15.1	$ 19.8

The accompanying notes are an integral part of the condensed consolidated financial statements.

Hawker Beechcraft Acquistion Company, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Background and Basis of Presentation

Hawker Beechcraft, Inc. ("HBI") was formed in late 2006 by GS Capital Partners VI, L.P., an affiliate of The Goldman Sachs Group, Inc., and Onex Partners II LP, an affiliate of Onex Corporation, for the purpose of purchasing the Raytheon Aircraft business ("RA" or the "Predecessor") from Raytheon Company ("Raytheon") (the "Acquisition"). On March 26, 2007, the first day of the second fiscal quarter, the transaction was completed. HBI acquired all of the outstanding membership interests of Raytheon Aircraft Acquisition Company, LLC, which was renamed Hawker Beechcraft Acquisition Company, LLC ("HBAC"), and substantially all of the assets of Raytheon Aircraft Services Limited. Following the Acquisition, HBI contributed the equity interest of the entity purchasing the assets of Raytheon Aircraft Services Limited to HBAC. HBAC is engaged in the design, development, manufacturing, marketing, selling and servicing of business and general aviation, training and special mission aircraft.

The total consideration for the Acquisition was $3,229.2 million, including direct costs of the acquisition of $39.5 million. The Acquisition was financed with the proceeds from the offerings of HBAC's 8.5% Senior Fixed Rate Notes due 2015, 8.875%/9.625% Senior PIK-Election Notes due 2015, 9.75% Senior Subordinated Notes due 2017, borrowings under HBAC's senior secured credit facilities, and equity contributions by GS Capital Partners VI, L.P., Onex Partners II LP, and certain members of HBAC management.

Predecessor-The accompanying unaudited condensed consolidated financial statements of RA include allocations of certain Raytheon corporate expenses, including legal, human resources, payroll, accounting, employee benefits, real estate, insurance, information technology, telecommunications, treasury and other Raytheon corporate and infrastructure costs. The expense and cost allocations were determined on bases that were deemed reasonable by management in order to reflect the utilization of services provided or the benefit received by RA during the periods presented. The condensed consolidated financial statements included herein does not necessarily reflect the results of operations, financial position, changes in owner's net investment and cash flows of HBAC in the future or what RA's financial condition or results of operations would have been had it operated as a separate, stand-alone entity during the periods presented.

Successor- The accompanying unaudited condensed consolidated financial statements include the accounts of HBAC and subsidiaries subsequent to the Acquisition. The consolidated financial statements of HBAC as of June 24, 2007 and for the period from March 26, 2007 through June 24, 2007 reflect the Acquisition under the purchase method of accounting in accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations ("SFAS 141")*.

Certain information and footnote disclosures normally included in consolidated financial statements, prepared in accordance with generally accepted accounting principles in the United States of America (GAAP), have been condensed or omitted. The year-end condensed balance sheet data was derived from the audited financial statements of RA but does not include all disclosures required by GAAP. In the opinion of management, these condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for presentation of financial statements for the interim periods in accordance with GAAP and with the instructions to Form 10-Q in Article 10 of Regulation S-X.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of HBAC and its wholly-owned and majority-owned subsidiaries. The Predecessor information is for the RA business, which represents substantially the operations acquired by HBI. All material intercompany transactions have been eliminated. Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are used when accounting for long-term contracts including estimates of the extent of progress towards completion, contract revenue and contract completion costs, as well as warranty cost, contingencies and customer and vendor claims. Actual results could differ from those estimates.

Risks and Uncertainties
The highly competitive market for business and special mission aircraft is subject to certain business risks. These risks include timely development and certification of new product offerings, the current state of the general aviation aircraft markets, and government regulations affecting aircraft.

Sales to the U.S. government may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors.

Revenue Recognition
Revenue for aircraft sales is recognized in accordance with AICPA Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* ("SOP 81-1"). For the majority of our aircraft sales, SOP 81-1 is applied using the units-of-delivery method to measure progress towards completion. Actual sales and costs values for the unit being delivered are used as the basis for recording revenue and its associated margin. Under this method, revenue is recognized when title to an airworthy aircraft is transferred to the customer.

To a lesser extent, SOP 81-1 is applied using the cost-to-cost method to measure progress towards completion. The use of the cost-to-cost method is limited to longer term contracts with substantial contract specific development or engineering cost. For these contracts, management believes the cost-to-cost method provides a better measure of progress towards completion than the units of delivery method. Under this method, cost and margin are recorded as revenue based on the ratio of costs incurred-to-date to the total estimated costs at the completion of the contract. Accordingly, management must apply judgment to determine the estimated contract revenue and costs. Contract estimates are reviewed periodically to determine whether revisions to contract values or estimated costs at completion are necessary. The effect of changes in estimates resulting from any such revisions is reflected in the period the estimate is revised. Claims are included in revenue estimates only when it is probable that a reliably estimated increase in contract value will be realized. To the extent estimated total costs on a contract exceed the total estimate of revenue to be earned from the contract, the full value of the estimated loss is recorded in the period the loss is identified.

We recognize revenue on aircraft parts and services as the part is delivered or as the service is performed.

Lot Accounting
RA used lot accounting for new commercial aircraft introductions. Lot accounting involves selecting a lot size at the time a new aircraft begins to be delivered and measuring an average margin over the entire lot for each aircraft sold. The costs attributed to aircraft delivered are based on the estimated average margin of all aircraft in the lot and are determined under the learning curve concept, which anticipates a predictable decrease in unit costs from cost reduction initiatives and as tasks and production techniques become more efficient through repetition. HBAC does not use Lot Accounting.

Advertising Expenses
Advertising costs are expensed as incurred.

Research and Development Expenses
Expenditures for research and development projects sponsored by the Company are expensed as incurred.

Income Taxes
Income taxes are accounted for in accordance with SFAS No. 109, *Accounting for Income Taxes* ("SFAS 109"). Deferred income tax assets and liabilities are recognized for future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded to reduce deferred income tax assets to an amount that, in the opinion of management, will more-likely-than-not be realized. The effect of changes in tax rates is recognized during the period in which the rate change occurs.

HBAC records an income tax expense or benefit based on the net income earned or net loss incurred in each tax jurisdiction and the tax rate applicable to that income or loss. In the ordinary course of business, there are transactions for which the ultimate tax outcome is uncertain. The final tax outcome of these matters may be different than the estimates originally made by management in determining the income tax provision. A change to these estimates could impact the effective tax rate and, subsequently, net income or net loss.

HBAC is included in the U.S. consolidated federal income tax return of HBI. Under the terms of an informal tax sharing agreement, the amount of the cumulative tax liability of each member shall not exceed the total tax liability as computed on a separate return basis.

RA was included in Raytheon's consolidated US federal and state tax returns. The provision for income taxes was determined on a separate return basis in accordance with SFAS 109, which requires the recognition of deferred income taxes using the liability method. Under this method, RA was assumed to file a separate return from Raytheon reporting its taxable income or loss and paying applicable tax based on its separate taxable income and associated tax attributes. Under the tax sharing agreement with Raytheon, RA did not reimburse Raytheon for its share of the consolidated tax liabilities. Accordingly, taxes payable computed under the separate return method were included in parent company investment in the RA financial statements.

Cash and Cash Equivalents
Cash and cash equivalents consist of short-term, highly liquid investments with original maturities of 90 days or less.

Unbilled Revenue
Unbilled revenue is stated at cost plus estimated profit, but not in excess of realizable value.

Inventories
Inventories are stated at cost (first-in, first-out or average cost), but not in excess of realizable value. Inventoried costs include direct engineering, production and applicable overhead. As discussed in Note 3 below, inventories were reflected at fair value in the opening balance sheet of HBAC.

Property, Plant, and Equipment
Property, plant, and equipment are stated at cost. Major improvements are capitalized while expenditures for maintenance, repairs, and minor improvements are charged to expense as incurred. Aircraft tooling is accounted for as a group. When assets, other than aircraft tooling, are retired or otherwise disposed of, the historical costs of the assets and related accumulated depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in income. When aircraft tooling assets are retired or replaced in the ordinary course of business the historical cost is charged to accumulated depreciation, regardless of the age of the asset, and no gain or loss is recognized.

Provisions for depreciation are computed using accelerated and straight-line methods. Depreciation provisions are based on estimated useful lives as follows: buildings- 10 to 45 years, aircraft, machinery and equipment- 5 to 10 years. Aircraft tooling is depreciated using a composite depreciation rate with an estimated useful life of 12 years that reflects the blended estimates of the lives of major tooling asset components as compared to depreciation expense calculated on an asset-by-asset basis. Leasehold improvements are amortized over the lesser of the remaining life of the lease or the estimated useful life of the improvement. As discussed in Note 3 below, property, plant, and equipment has been reflected at fair value in the opening balance sheet of HBAC. Depreciation of acquired property, plant, and equipment is based on the evaluated remaining life of the assets at the date of the Acquisition.

Intangible Assets
Intangible assets consist of initial fair values of trade names, trademarks, order backlog, customer relationships, technological knowledge, and computer software.

Goodwill and Other Intangible Assets
In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite-lives, consisting of trademarks and tradenames, are not amortized but are instead reviewed for impairment on a reporting unit basis, at least annually, or more frequently if indicators arise. HBAC defines its reporting units on a segment basis and conducts its review for impairment on a segment basis.

Impairment of Long-Lived Assets
In accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, management determines whether long-lived assets are to be held-for-use or held-for-disposal. Upon indication of possible impairment, management evaluates the recoverability of held-for-use long-lived assets by measuring the carrying amount of the assets against the related estimated undiscounted future cash flows. When an evaluation indicates that the future undiscounted cash flows are not sufficient to recover the carrying value of the asset, the asset is written down to its estimated fair value. In order for long-lived assets to be considered held-for-disposal, management must have committed to a plan to dispose of the assets. Once deemed held-for-disposal, the assets are stated at the lower of carrying amount or net realizable value.

Advance Payments and Billings in Excess of Costs Incurred
Advance payments and billings in excess of costs incurred consists of deposits on commercial contracts, advances, and performance-based payments from government or special mission customers in excess of cost and recognized profit.

Foreign Currency Translation
The functional currency of HBAC's foreign subsidiaries is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted-average exchange rate during the period. The resulting translation adjustments are recorded as a component of accumulated other comprehensive income.

Foreign Currency Contracts
HBAC enters into foreign currency forward contracts with commercial banks to fix the dollar value of specific commitments and payables to international vendors. The hedges used by HBAC are transaction driven and directly related to a particular transaction for which a commitment is in place. These instruments are executed with creditworthy institutions and the foreign currencies are denominated in currencies of major industrial countries. We do not hold or issue financial instruments for trading or speculative purposes.

Deferred Financing Costs
Deferred financing costs are incurred to obtain long-term financing and are amortized over the terms of the related debt. The amortization of deferred financing costs is classified as interest expense.

Stock-Based Compensation
HBAC's employees are participants in various stock compensation plans. HBAC accounts for stock option plans and restricted share plans in accordance with SFAS No.123(R), *Share-Based Payments* The expense attributable to HBAC's employees is recognized over the period the amounts are earned and vested, as described in Note 11.

3. Acquisition

The total consideration for the Acquisition was $3,229.2 million, including direct costs of the acquisition of $39.5 million. The Acquisition was financed with the proceeds from the offerings of HBAC's 8.5% Senior Fixed Rate Notes due 2015, 8.875%/9.625% Senior PIK-Election Notes due 2015, 9.75% Senior Subordinated Notes due 2017, borrowings under HBAC's senior secured credit facilities, and equity contributions by GS Capital Partners VI, L.P., Onex Partners II LP, and certain members of company management. The total consideration includes finalization of the purchase price with Raytheon, which occurred on June 12, 2007.

For income tax purposes, a joint Internal Revenue Code ("IRC") §338(h)(10) election ("338 election") will be made by HBAC and Raytheon in connection with the Acquisition. Pursuant to a 338 election, the stock purchase is treated as an asset acquisition, and HBAC receives a stepped-up basis in assets equal to their fair market value at Acquisition. The tax attributes as they existed prior to the Acquisition are no longer applicable. The adjusted basis computed under Internal Revenue Service Income Tax Regulation §1.338-5(b) was allocated under IRC §1060 and deferred taxes were applied against any differences in the book and tax bases of the acquired assets and assumed liabilities, resulting in a net deferred tax asset.

HBAC has preliminarily allocated the purchase price on the basis of the fair value of the underlying assets acquired and liabilities assumed as follows:

Assets		
Cash and cash equivalents	$	5.9
Accounts and notes receivable, net		101.5
Finance receivables, net		37.5
Unbilled revenue		60.5
Inventories		1,329.0
Prepaid expenses and other current assets		55.7
Property, plant, and equipment		696.1
Goodwill		686.2
Intangible assets		1,197.2
Long-term finance receivables		4.2
Other assets		80.7
Total assets acquired		4,254.5
Liabilities		
Advance payments and billings in excess of costs incurred		373.4
Accounts payable		344.7
Accrued salaries and wages		34.8
Other accrued expenses		174.5
Accrued pension and retiree benefits		61.1
Other long-term liabilities		36.8
Total liabilities assumed		1,025.3
Net assets acquired	$	3,229.2

HBAC applied the provisions of SFAS 141 in allocating the purchase price; however, the allocation of the purchase price remains provisional as of the date of issue for these financial statements. HBAC engaged independent appraisers to assist in determining the fair values of property, plant and equipment, inventories, and intangible assets acquired, including trademarks, trade names, customer relationships, and order backlog. HBAC has received preliminary values from the appraisers, which are reflected in the amounts above. The allocation of the purchase price, however, is subject to further refinement because the valuation of certain non-core inventory balances, certain long-term assets other than property, plant, and equipment or intangible assets, and certain long-term liabilities other than long-term retiree benefits requires receipt and evaluation of additional fair value information. Management expects to finalize the purchase price allocations by the end of 2007.

Cash, accounts receivable, accounts payable, and other current assets and liabilities were stated at historical carrying values, which was considered fair value, given their short-term nature.

In accordance with the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, HBAC's projected pension obligations and assets have been reflected in the allocation of the purchase price at the projected benefit obligation less plan assets at fair market value based on management's computations, which included valuations performed by independent actuaries engaged by HBAC. The fair value of the plan assets reflects an additional $67.2 million of funding made by Raytheon immediately following the Acquisition in accordance with the terms of the stock purchase agreement.

Customer relationships were valued in groupings given the unique attributes of certain customers and segments. The value was determined using an income approach and takes into account the expected revenue growth and attrition rates of customers. Using this approach, customer relationships were assigned a value of $257.0 million with an estimated weighted average useful life of 17 years.

Technological knowledge was valued using a royalty savings method, whereby the value of the knowledge is estimated based on the benefit received by HBAC for owning the knowledge rather than paying for its use. Using this approach, technological knowledge was assigned a value of $380.0 million with an estimated weighted average useful life of 15 years.

Trademarks and trade names were valued using a royalty savings method, whereby the value of the trademark or trade name is estimated based upon the benefit received by HBAC for owning the trademarks or trade names rather than paying for their use. Using this approach, trademarks and trade names having definite lives were valued at $6.0 million with an estimated weighted average useful life of 10 years. Certain other indefinite life trademark and trade names were valued at $461.0 million.

Deferred income tax assets as of the date of the Acquisition represent the expected future tax consequences of temporary differences between the fair values of the assets acquired, other than goodwill, and liabilities assumed and their tax bases.

The $686.2 million of goodwill was assigned to the Business and General Aviation, Trainer Aircraft, and Customer Support segments in the amounts of $309.5 million, $224.8 million, and $151.9 million, respectively. However, the valuation is based on the preliminary appraisal and is subject to refinement. Based on the preliminary valuation, approximately $61.1 million of goodwill and other intangible assets will not be deductible for income tax purposes.

The primary reasons for the Acquisition and the primary factors that contributed to a purchase price that resulted in the recognition of goodwill include:

- HBAC's position as a leading designer and manufacturer of business jet, turboprop, and piston aircraft. With the Predecessor having 75 years of experience, we believe we are positioned to be one of the most respected and established manufacturers of general aviation aircraft. The Hawker and Beechcraft brands have long stood for innovation, performance, quality and value and support the strong and competitive market positions of our aircraft.

- HBAC is the sole source provider of the world's best selling primary military trainer aircraft to the U.S. Air Force and the U.S. Navy.

- The Hawker 4000 and Premier 1A aircraft were the first all-composite fuselage business jets certified in the industry.

- HBAC has assembled a large trained and skilled workforce.

The following unaudited financial data summarizes HBAC's results of operations as if the Acquisition had occurred as of the beginning of the periods presented:

	Actual	**Pro Forma**		
(In millions)	**Period From March 26, 2007 through June 24, 2007**	Three Months Ended June 25, 2006	Period From January 1, 2007 through March 25, 2007	Six Months Ended June 25, 2006
Net sales	**$ 701.1**	$ 779.4	$ 667.8	$ 1,283.2
Operating (loss) income	**(36.6)**	55.6	41.8	70.1
Net (loss) income	**(77.1)**	4.8	(5.4)	(15.4)

The pro forma results of operations include adjustments for items directly related to the Acquisition and financing thereof, as well as the effects of purchase accounting adjustments, principally:

(1) adjustments to depreciation and amortization resulting from the new fair value of property, plant, and equipment and identified intangible assets (with finite lives),
(2) the elimination of lot accounting,
(3) adjustments to pension expense as a result of funding by Raytheon at closing and the impact of purchase accounting,
(4) adjustments to interest expense to reflect HBAC's new capital structure, and
(5) corresponding adjustments to income tax expense.

The pro forma information is not necessarily indicative of the results that actually would have been attained if the Acquisition had occurred as of the beginning of the periods presented or that may be attained in the future.

4. Comprehensive Income:

Accumulated other comprehensive income (loss) consisted of the following:

Accumulated Other Comprehensive Income (Loss) (In millions)	**June 24, 2007**	December 31, 2006
Unfunded projected benefit obligation	**$ -**	$ (109.9)
Foreign exchange translation	**(1.0)**	-
Cash flow hedges	**6.5**	20.2
Unrealized gains on investments	**-**	3.8
Total	**$ 5.5**	$ (85.9)

The unfunded projected benefit obligation is shown net of tax benefits of $59.2 million at December 31, 2006. The foreign exchange translation is shown net of tax benefits of $0.6 million at June 24, 2007. The cash flow hedges are shown net of tax liabilities of $4.5 million and $10.9 million at June 24, 2007 and December 31, 2006, respectively. Unrealized gains on investments are shown net of tax liabilities of $2.0 million at December 31, 2006.

The computation of comprehensive (loss) income is as follows:

	Successor	Predecessor	Predecessor	
Comprehensive (Loss) Income (In millions)	**Period From March 26, 2007 through June 24, 2007**	Three Months Ended June 25, 2006	Period From January 1, 2007 through March 25, 2007	Six Months Ended June 25, 2006
Net income (loss)	**$ (77.1)**	$ 17.9	$ 8.5	$ 14.8
Amortization of minimum pension liability	-	-	-	0.1
Amortization of unfunded projected benefit obligation	-	-	5.5	-
Foreign currency translation adjustments	**(1.0)**	(0.3)	(0.9)	(0.1)
Unrealized gains (losses) on cash flow hedges	**6.5**	8.9	(1.9)	13.5
Unrealized losses on investments	-	(0.2)	(0.3)	(0.3)
Total comprehensive (loss) income	**$ (71.6)**	$ 26.3	$ 10.9	$ 28.0

5. Product Warranty

Warranty provisions related to commercial aircraft and parts sales are determined based upon an estimate of costs that may be incurred for warranty services over the period of coverage from 1 to 10 years. HBAC estimates its warranty costs based on historical warranty claim experience. The warranty accrual is reviewed quarterly to verify that it properly reflects the remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience differs from estimates. Activity related to commercial aircraft and part warranty provisions was as follows:

(In millions)	**March 26, 2007 through June 24, 2007**	Three Months Ended June 25, 2006	January 1, 2007 through March 25, 2007	Six Months Ended June 25, 2006
Balance at beginning of period	**$ 61.3**	$ 49.5	$ 57.5	$ 49.5
Accrual for aircraft and part deliveries	**7.9**	8.2	8.1	13.8
Accruals (reversals) related to prior year aircraft and part deliveries	**(2.5)**	2.0	(0.1)	2.2
Warranty services provided	**(6.0)**	(5.6)	(4.2)	(11.4)
Balance at end of period	**$ 60.7**	$ 54.1	$ 61.3	$ 54.1

Warranty provisions related to aircraft sales performed under long-term contracts are accounted for as contract costs as the work is performed. The estimation of these costs is an integral part of the accounting for long-term contracts.

6. Inventories

Inventories consisted of the following at:

(In millions)	Successor June 24, 2007	Predecessor December 31, 2006
Finished goods	**$ 268.2**	$ 334.7
Work in process	**861.5**	852.6
Materials and purchase parts	**270.4**	258.7
Total	**$ 1,400.1**	$ 1,446.0

During the three months ended June 24, 2007, aircraft valued at $27.7 million were physically returned to inventory held for sale. The resulting non cash transfer from property, plant, and equipment to finished goods inventory was excluded from changes in inventories in the statement of cash flows for the three months ended June 24, 2007.

7. Property, Plant, and Equipment

Property, plant, and equipment consisted of the following at:

(In millions)	Successor June 24, 2007	Predecessor December 31, 2006
Land	**$ 29.1**	$ 4.7
Buildings and leasehold improvements	**146.9**	192.4
Aircraft and autos	**43.3**	110.8
Furniture, fixtures and office equipment	**3.7**	20.9
Tooling	**349.3**	607.6
Machinery and equipment	**85.7**	290.0
Construction in process	**23.9**	18.8
	$ 681.9	$ 1,245.2
Less accumulated depreciation	**18.9**	724.4
Total	**$ 663.0**	$ 520.8

Depreciation expense was $18.9 million and $19.0 million for the three months ended June 24, 2007 and June 25, 2006, respectively, $18.7 million for the period from January 1, 2007 through March 25, 2007, and $38.0 million for the six months ended June 25, 2006.

8. Intangible Assets

Intangible assets are summarized as follows:

(In millions)	Average Life (Years)	Successor June 24, 2007	Average Life (Years)	Predecessor December 31, 2006
Intangible assets subject to amortization:				
Technological knowledge	15	**$ 380.0**		$ -
Customer relationships	17	**257.0**		-
Computer software	4	**31.2**	10	89.7
Customer backlog	3	**62.0**		-
Trademarks / trade names - definite lives	10	**6.0**		-
Production drawings		**-**	32	14.8
Intellectual property rights		**-**	8	21.2
Intangible assets not subject to amortization:				
Trademarks / trade names - indefinite lives		**461.0**		-
		$ 1,197.2		$ 125.7
Less accumulated amortization		**18.7**		72.6
Total		**$ 1,178.5**		$ 53.1

Amortization expense is calculated on a straight-line basis and was $18.7 million and $3.2 million for the three months ended June 24, 2007 and June 25, 2006, respectively, $3.2 million for the period from January 1, 2007 to March 25, 2007, and $6.4 million for the six months ended June 25, 2006.

Amortization expense is expected to approximate $56.1 million for the period from March 26, 2007 to December 31, 2007 and $74.9 million, $65.5 million, $53.1 million, $46.1 million and $42.6 million for the years ending 2008 through 2012, respectively.

9. Income Taxes

RA's operating results have historically been included in Raytheon's consolidated U.S. federal tax return. HBAC is included in the consolidated U.S. federal tax return of HBI. The provision for income taxes in these financial statements reflects income taxes as if the businesses were stand-alone entities and filed separate income tax returns, paying applicable tax based on their separate taxable income and associated tax attributes.

The provision for income taxes differs from the U.S. statutory rate due to the following:

	Successor	Predecessor	Predecessor	
	Period From March 26, 2007 through June 24, 2007	Three Months Ended June 25, 2006	Period From January 1, 2007 through March 25, 2007	Six Months Ended June 25, 2006
Statutory tax rate	**35.0 %**	35.0 %	35.0 %	35.0 %
Extraterritorial income exclusion	**0.0**	(2.3)	0.0	(2.3)
Domestic manufacturing deduction	**(10.9)**	0.0	0.0	0.0
Research and development credit	**(23.7)**	0.0	(4.8)	0.0
State taxes net of federal benefit	**5.1**	2.9	3.2	2.9
ESOP dividend deduction benefit	**0.0**	(1.0)	(1.7)	(1.0)
Non-deductible costs	**5.7**	1.3	2.1	1.3
Other, net	**(0.1)**	0.4	3.7	0.4
Effective tax rate	**11.1 %**	36.3 %	37.5 %	36.3 %

HBAC utilizes the asset and liability method of accounting for income taxes, which requires that deferred tax assets and liabilities be recorded to reflect the future tax consequences of temporary differences between the book and tax basis of various assets and liabilities. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Management believes it is more likely than not that current and long-term deferred tax assets, with the exception of state tax-loss carryforwards generated in 2007 and expiring in 2012, will be realized through the reduction of future taxable income. A valuation allowance of $9.8 million has been recorded against the projected state tax-loss carryforwards at June 24, 2007.

On January 1, 2007, RA adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), which clarifies the accounting for uncertainty in income tax positions. This interpretation requires recognition in the consolidated financial statements of only those tax positions determined to be more likely than not of being sustained upon examination based on the technical merits of the positions. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

In connection with the Acquisition and pursuant to the stock purchase agreement, all tax liabilities, including FIN 48 liabilities of RA, were retained by Raytheon. HBAC completed an assessment of FIN 48 with respect to income tax positions expected to be taken in the initial tax return filings. Based on this assessment, HBAC did not record a liability for uncertain tax positions. Any interest or penalties on any future unrecognized tax benefits will be recorded as a component of income tax expense. HBAC does not expect any material changes to occur during the next twelve months regarding its FIN 48 considerations.

10. Pension and Other Employee Benefits

HBAC has several defined benefit pension and retirement plans covering the majority of its employees, including certain employees in foreign countries ("Pension Benefits"). In addition to providing Pension Benefits, HBAC provides certain health care and life insurance benefits to retired employees through other postretirement defined benefit plans ("Other Benefits").

The table below outlines the components of net periodic benefit cost for the defined benefit pension plans:

(In millions)	**Successor** **Period From March 26, 2007 through June 24, 2007**	Predecessor Three Months Ended June 25, 2006	Predecessor Period From January 1, 2007 through March 25, 2007	Predecessor Six Months Ended June 25, 2006
Service cost	**$ 7.0**	$ 6.5	$ 6.6	$ 13.0
Interest cost	**12.8**	13.1	13.8	26.2
Expected return on plan assets	**(16.4)**	(13.7)	(17.1)	(27.4)
Amortization of prior service cost	**-**	1.1	0.9	2.2
Recognized net actuarial loss	**-**	6.2	4.2	12.4
Net periodic benefit cost	**$ 3.4**	$ 13.2	$ 8.4	$ 26.4

The net periodic benefit cost for RA includes expense from foreign Pension Benefits plans of $0.7 million and $1.4 million in the three and six months ended June 25, 2006, respectively, and $0.8 million for the period from January 1, 2007 through March 25, 2007. As part of the Acquisition, Raytheon retained the foreign Pension Benefits plans and their associated assets and liabilities. HBAC implemented a defined contribution benefit plan for its employees in the United Kingdom, and, for the three months ended June 24, 2007, recognized cost of $0.2 million for contributions to this plan.

The table below outlines the components of net periodic benefit cost of Other Benefits:

(In millions)	**Successor** **Period From March 26, 2007 through June 24, 2007**	Predecessor Three Months Ended June 25, 2006	Predecessor Period From January 1, 2007 through March 25, 2007	Predecessor Six Months Ended June 25, 2006
Service cost	**$ 0.2**	$ 0.2	$ 0.2	$ 0.4
Interest cost	**0.3**	0.2	0.2	0.4
Amortization of transition obligation	**-**	0.2	0.2	0.4
Net periodic benefit cost	**$ 0.5**	$ 0.6	$ 0.6	$ 1.2

Under SFAS 158, any previously unrecognized deferred amounts, such as demographic or asset gains or losses and the impact of historical plan changes, are included in accumulated other comprehensive income (loss). These amounts are amortized from accumulated other comprehensive income (loss) to net periodic benefit expense.

11. Stock-Based Compensation

Effective January 1, 2006, RA adopted the provisions of SFAS 123(R), *Shared-Based Payment* and related interpretations ("SFAS 123R"), using the modified prospective method . SFAS 123R established the accounting for equity instruments exchanged for employee services. Under SFAS 123R, shared-based compensation cost is measured at the grant date based on the calculated fair value of the award. The expense is recognized over the employees' requisite service period, which is generally the vesting period of the award. SFAS 123R also requires the related excess tax benefit received upon exercise of stock options or vesting of restricted stock, if any, to be reflected in the statement of cash flows as a financing activity rather than as an operating activity. In connection with the implementation of SFAS 123R, RA elected the short-cut method in determining its additional paid-in capital pool of windfall benefits and the graded vesting method to amortize compensation expense over the service period.

During the Predecessor periods, RA employees participated in Raytheon's various employee stock plans. There were no stock options granted during 2006. No new grants will be made to the HBAC employees under Raytheon's plans.

Following the Acquisition, HBI implemented a stock option plan which permits the grant of non-qualified stock options for up to 9.8 million shares. Option awards are generally granted with an exercise price equal to the market price of HBI's stock at the date of grant. Option awards generally vest based on years of service, ranging from one to five years, or on performance conditions attainable over the next five years. The stock options terminate ten years from the date of grant.

During the three months ended June 24, 2007, HBI granted non-qualified stock options to various members of HBAC management with vesting tied to either performance or service conditions. The earliest vesting of these non-qualified stock options will occur in March 2008 based upon the 2007 financial results and on the first anniversary of the date of grant.

HBAC applied the fair value provisions of SFAS 123R to value the stock option awards. The fair value of the stock options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Service Vesting	Performance Vesting
Expected term in years	6.5	6.4
Expected volatility	41.5%	40.8%
Expected dividend yield	0.0%	0.0%
Assumed annual forfeiture rate	8.0%	8.0%

The expected life was determined using the simplified method as prescribed in SEC Staff Account Bulletin No. 107. The expected volatility was determined using our peer group's historical volatility and ranged from 38.3% to 41.8% for the various vesting tranches. HBAC uses historical data to estimate employee termination within the valuation model. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free interest rate over the expected term at the time of grant ranged from 4.9% to 5.1%.

A summary of stock option activity as of June 24, 2007 and changes during the three months then ended is presented below:

Service Vesting	Number of Options	Weighted-Average Option Price	Weighted-Average Remaining Contractual Term (in years)
Granted	3,534,814	$10.00	
Exercised	-	-	
Forefeited or expired	-	-	
Outstanding at June 24, 2007	3,534,814	$10.00	9.8
Expected to vest	2,771,692	$10.00	9.8

Performance Vesting	Number of Options	Weighted-Average Option Price	Weighted-Average Remaining Contractual Term (in years)
Granted	3,976,477	$10.00	
Exercised	-	-	
Forefeited or expired	-	-	
Outstanding at June 24, 2007	3,976,477	$10.00	9.8
Expected to vest	3,118,006	$10.00	9.8

As of June 24, 2007, no stock options had vested. During the three months ended June 24, 2007, the weighted-average grant date fair value of options granted was $5.01 and $4.91 for service vesting awards and performance vesting awards, respectively. The total fair value of awards granted during the three months ended June 24, 2007 and expected to vest was $29.1 million. The estimated fair values of the stock option grants are amortized to expense over the requisite service period. For the three months ended June 24, 2007, HBAC recognized $1.9 million of stock compensation expense and a $0.2 million tax benefit related to its participation in the HBI stock option plan.

Equity Investment Plan

At closing, HBAC (former RA) employees ceased their employment with Raytheon. Accordingly, Raytheon's obligation for any restricted stock awards or unvested stock options held by those employees was terminated. The stock purchase agreement provided that the value held by the employees would be used to create the Hawker Beechcraft Retention Program ("the HB Retention Program"). Any HBAC employee with previous Raytheon restricted stock or unvested options became a participant in the HB Retention Program at the values assigned in the stock purchase agreement. Vesting dates in the HB Retention Program are identical to the previous Raytheon awards.

In addition, certain members of HBAC management were given the opportunity to participate in the HBI management equity program. Participants in the equity program were allowed to fund their equity purchase with, among other things, the estimated after-tax value of any balance an equity participant had in the HB Retention Program. Any shares purchased using funds from the HB Retention Program were restricted shares, with the restrictions lapsing at dates corresponding to the vesting dates in the HB Retention Program. HBAC management used this funding method to purchase $5.9 million of equity. Restricted stock activity for the three months ended June 24, 2007 was as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Granted	593,273	$10.00
Vested	-	-
Forfeited	-	-
Outstanding at June 24, 2007	593,273	$10.00

The estimated fair value of the restricted stock grant is amortized to expense over the requisite service period. HBAC recognized $1.7 million of compensation expense and a tax benefit of $0.2 million related to the equity program during the three months ended June 24, 2007.

12. Debt

Long-term debt consists of the following:

(In millions)	**Successor June 24, 2007**	Predecessor December 31, 2006
Senior secured term loan due 2014	**$ 1,300.0**	$ -
Senior fixed rate notes due 2015	**400.0**	-
Senior PIK-election notes due 2015	**400.0**	-
Senior subordinated notes due 2017	**300.0**	-
Total debt	**$ 2,400.0**	**$ -**
Less: current portion	**12.9**	-
Long-term debt	**$ 2,387.1**	$ -

In connection with the Acquisition, HBAC executed a $1,810.0 million credit agreement that includes a $1,300.0 million secured term loan, a $400 million secured revolving credit facility, and a $110.0 million synthetic letter of credit facility. The secured term loan requires quarterly principal payments of 0.25% of the outstanding principal through December 2013 with the remaining outstanding balance paid in full in March 2014. The revolving credit facility was undrawn at June 24, 2007. Borrowings under the credit agreement bear interest determined at the three month London Interbank Offered Rate (“LIBOR”) plus 2.00%, payable quarterly.

In connection with the credit agreement, HBI, on behalf of HBAC, entered into an interest rate swap agreement to swap a notional amount of $900 million of its borrowing under the credit agreement from a LIBOR-based floating rate to a fixed rate. The agreement converts the floating rate to a fixed interest rate of 4.91% plus the applicable margin, 2.00%, at June 24,2007, and the notional amount decreases annually until the agreement expires in December 2011. The swap was designated as a cash flow hedge. Changes in the fair value of this instrument are expected to be highly effective in offsetting the fluctuations in the floating interest rate and are recorded in other comprehensive income until the underlying transaction is recorded. The accounting for the cash flow impact of the swap is recorded as an adjustment to interest expense.

In connection with the Acquisition, HBAC issued $400 million in senior fixed rate notes due April 2015, $400 million senior PIK-election notes due April 2015, and $300 million senior subordinated notes due April 2017. Interest on the notes is paid semi-annually on April 1 and October 1, commencing on October 1, 2007. The interest rate for the senior fixed rate notes and senior subordinated notes is 8.50% and 9.75%, respectively, and is payable in cash. Interest earned on the senior PIK-election notes for the initial interest period will be paid in cash. For any interest period thereafter through April 1, 2011, HBAC may elect to pay interest on the senior PIK-election notes, at its option: entirely in cash, entirely by increasing the principal amount of the senior PIK-election notes, or 50% cash interest and 50% PIK interest. Cash interest will accrue at a rate of 8.875% per annum and PIK interest will accrue at a rate of 9.625% per annum. HBAC will elect the form of interest payment with respect to each interest period prior to the beginning of the applicable interest period.

The financing arrangements contain a number of customary covenants and restrictions, and HBAC was in compliance with these covenants as of June 24, 2007.

The minimum principal repayment requirements on long-term debt are as follows:

(In millions)	
June 25, 2007 through December 31, 2007	$ 9.7
2008	12.9
2009	12.7
2010	12.6
2011	12.5
2012	12.3
Thereafter	2,327.3
Total	**$ 2,400.0**

13. Commitments and Contingencies

At June 24, 2007 HBAC had commitments under long-term operating leases requiring approximate annual rentals as follows:

(In millions)	
June 25, 2007 to December 31, 2007	$3.8
2008	6.9
2009	6.5
2010	4.9
2011	2.6
Thereafter	37.6
Total	$62.3

Rent expense was $2.0 million and $4.9 million for the three months ended June 24, 2007 and June 25, 2006, respectively, $6.3 million for the period from January 1, 2007 to March 25, 2007, and $11.3 million for the six months ended June 25, 2006. Subsequent to the Acquisition, Raytheon retained certain lease obligations that were previously held by RA.

In the normal course of business, HBAC leases equipment, office buildings, and other facilities under leases that include standard escalation clauses for adjusting rent payments to reflect changes in price indices, as well as renewal options.

HBAC has committed to construct facilities and purchase equipment under contracts with various third parties. At June 24, 2007, additional payments of $4.8 million are required under these contracts.

HBAC has assigned certain leasehold interests to third parties but remains liable to the lessor to the extent the assignee defaults on future lease payments amounting to $11.5 million at June 24, 2007, extending through 2021.

At June 24, 2007, HBAC had commitments related to services to be provided for its information technology function requiring minimum annual payments as follows:

(In millions)	
June 25, 2007 to December 31, 2007	$ 8.0
2008	15.7
2009	17.2
2010	4.6
2011	3.4
Thereafter	5.1
Total	$54.0

In connection with certain aircraft sales, HBAC has offered trade-in incentives whereby the customer will receive a pre-determined trade-in value if they purchase another aircraft from HBAC. The excess of the value of these trade-in incentives, the majority of which expire by the end of 2007, over the current estimated fair value of the underlying aircraft was approximately $1.5 million at June 24, 2007. Due to the high degree of uncertainty inherent in determining the likelihood a customer will exercise the incentive, no accrual has been made for this contingency.

HBAC self-insures for losses and expenses for aircraft product liability up to a maximum of $5 million per occurrence and $20 million annually. Insurance is purchased from third parties to cover excess aggregate liability exposure from $20 million to $750 million. This coverage also includes the excess of liability over $5 million per occurrence. In conjunction with the Acquisition, Raytheon retained responsibility for product liability for occurrences prior to closings. The aircraft product liability reserve at June 24, 2007 was $7.4 million based on management's estimate of its expected losses not covered by third party insurers. HBAC currently has no offsetting receivable for insurance recovery associated with this estimate.

HBAC is involved in various stages of investigation and cleanup related to remediation of various environmental sites. HBAC's estimate of total environmental remediation costs expected to be incurred is $1.6 million. Discounted at a weighted-average risk-free rate of 6.0%, HBAC estimates the liability to be $1.2 million and had this amount accrued in other accrued expenses at June 24, 2007. In conjunction with the Acquisition, Raytheon retained environmental liability reserves of approximately $8.2 million. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage, and the unresolved extent of HBAC's responsibility, it is difficult to determine the ultimate outcome of these matters. However, any additional liability is not expected to have a material adverse effect on HBAC's financial position, results of operations, or liquidity.

HBAC issues guarantees and has banks and surety companies issue, on its behalf, letters of credit and surety bonds to meet various administrative, bid, performance, warranty, retention, and advance payment obligations of HBAC or its affiliates. Approximately $0.0 million, $78.8 million, and $1.0 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at June 24, 2007, respectively. These instruments expire on various dates through 2016.

At December 31, 2006 RA had $14.8 million, $62.4 million and $1.2 million in outstanding guarantees with stated values, letters of credit and surety bonds, respectively. In addition, Raytheon provided an RA customer an indemnity agreement in support of RA's contractual obligations with a stated maximum value of $125.0 million. Upon completion of the Acquisition, this indemnity was terminated upon the mutual consent of the parties involved.

HBAC is subject to oversight by the FAA. The FAA routinely evaluates aircraft operational and safety requirements and is responsible for certification of new and modified aircraft. Future action by the FAA may adversely affect HBAC's financial position, results of operations, and liquidity, including recovery of its investment in its newer aircraft.

HBAC as a defense contractor is subject to many levels of audit and investigation. Agencies that oversee contract performance include: the Defense Contract Audit Agency, the Department of Defense Inspector General, the Government Accountability Office, the Department of Justice, and Congressional Committees.

In addition, various claims and legal proceedings generally incidental to the normal course of business are pending or threatened against HBAC. While the ultimate liability or potential range of loss, if any, from these proceedings is presently indeterminable, any additional liability is not expected to have a material adverse effect on HBAC's financial position, results of operations, or liquidity.

14. Business Segment Reporting

Reportable segments include the following: Business and General Aviation, Trainer Aircraft, and Customer Support. Business and General Aviation designs, develops, manufactures, markets, and sells commercial and specially modified general aviation aircraft. Trainer Aircraft designs, develops, manufactures, markets, and sells military training aircraft to the US and foreign governments. Customer Support provides after-market parts and services support for the in-service aircraft worldwide. Historically, segment net sales included sales to parties affiliated with Raytheon as well as intersegment sales recorded at cost plus a specified fee, which may differ from what the selling entity would be able to obtain on external sales. Subsequent to the Acquisition, any sales to parties affiliated with Raytheon are reported as external sales. The Trainer Aircraft segment does not have either related party or intersegment sales.

Segment financial results were as follows:

Net Sales (In millions)	**Successor** **Period From March 26, 2007 through June 24, 2007**	Predecessor Three Months Ended June 25, 2006	Predecessor Period From January 1, 2007 through March 25, 2007	Predecessor Six Months Ended June 25, 2006
Business and General Aviation	**$ 505.2**	$ 530.9	$ 487.6	$ 858.0
Trainer Aircraft	**95.2**	129.4	91.2	217.9
Customer Support	**126.3**	152.4	116.4	267.0
Eliminations	**(25.6)**	(32.3)	(27.4)	(57.9)
Total	**$ 701.1**	$ 780.4	$ 667.8	$ 1,285.0

Sales to affiliated parties in the three months and six months ended June 25, 2006 were $31.5 million and $42.5 million for Business and General Aviation, respectively, and $17.1 million and $31.0 million for Customer Support, respectively. Sales to affiliated parties for the period from January 1, 2007 through March 25, 2007 were $17.4 million and $3.1 million for Business and General Aviation and Customer Support, respectively.

Intersegment sales in the three months ended June 24, 2007 and June 25, 2006, respectively, were $16.6 million and $19.6 million for Business and General Aviation and $9.0 million and $12.7 million for Customer Support. Intersegment sales in the period from January 1, 2007 through March 25, 2007 were $13.5 million and $13.8 million for Business and General Aviation and Customer Support, respectively. Intersegment sales in the six months ended June 25, 2006 were $33.5 million for Business and General Aviation and $24.4 million for Customer Support, respectively.

Operating (Loss) Income (In millions)	**Successor** **Period From March 26, 2007 through June 24, 2007**	Predecessor Three Months Ended June 25, 2006	Predecessor Period From January 1, 2007 through March 25, 2007	Predecessor Six Months Ended June 25, 2006
Business and General Aviation	**$ (48.4)**	$ 20.7	$ 3.6	$ 15.2
Trainer Aircraft	**11.3**	16.8	12.2	29.1
Customer Support	**0.6**	10.0	11.9	13.5
Eliminations	**(0.1)**	(1.4)	0.7	(1.6)
Total	**$ (36.6)**	$ 46.1	$ 28.4	$ 56.2

15. Accounting Standards

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The effect, if any, of adopting SFAS 157 on our financial position and results of operations has not been determined.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* (“SFAS 159”). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The effect, if any, of adopting SFAS 159 on our financial position and results of operations has not been determined.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of financial condition and results of operations for 2006 and for the three months ended March 25, 2007 reflects the business of Raytheon Aircraft ("RA"), the predecessor business acquired by Hawker Beechcraft, Inc. ("HBI"). Unless otherwise indicated, the discussion and analysis does not give effect to the Acquisition or include proforma financial adjustments. Any discussion and analysis of financial condition and results of operations for the three months ended June 24, 2007 reflects the business of Hawker Beechcraft Acquisition Company, LLC ("HBAC"), the successor business to RA. Comments regarding the three months ended June 24, 2007 reflect the Acquisition and exclude those assets and liabilities retained by Raytheon in accordance with the stock purchase agreement.

The following discussion and analysis of RA's and HBAC's financial condition and results of operations should be read in conjunction with and is qualified in its entirety by reference to the condensed consolidated financial statements and accompanying notes included elsewhere in this Form 10-Q. Except for historical information the discussion in this section includes forward looking statements that involve risks and uncertainties and future results could differ materially from those discussed below. See discussions under the caption "Cautionary Note Regarding Forward-Looking Statements".

Cautionary Note Regarding Forward-Looking Statements

Statements that are not reported financial results or other historical information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This Form 10-Q includes forward-looking statements including, for example, statements about the terms and benefits of the Acquisition (defined below) , our business outlook, the markets in which we operate, including growth of our various markets and our expectations, beliefs, plans, strategies, objectives, prospects, assumptions or future events or performance. These forward-looking statements are not guarantees of future performance. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. These statements are based on management's expectations that involve a number of business risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth or referred to above. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Presentation of Financial Statements

On March 26, 2007 HBI consummated the acquisition (the "Acquisition") of the RA business from Raytheon. HBI completed the Acquisition by acquiring all of the outstanding membership interests of Raytheon Aircraft Acquisition Company, LLC (which was renamed Hawker Beechcraft Acquisition Company, LLC "HBAC") and substantially all of the assets of Raytheon Aircraft Services Limited. Following the Acquisition, HBI contributed the equity interests of the entity purchasing the assets of Raytheon Aircraft Services Limited to HBAC.

Overview

HBAC is a leading designer and manufacturer of business jet, turboprop and piston aircraft. With 75 years of experience, we believe we are positioned to be one of the most respected and established manufacturers of general aviation aircraft. Our Hawker and Beechcraft brands have long stood for innovation, performance, quality and value and support the strong and competitive market positions of our aircraft products.

HBAC has three operating segments—Business and General Aviation, Trainer Aircraft and Customer Support. The Business and General Aviation segment includes all commercial and special mission aircraft sales as well as intercompany sales of aircraft parts manufactured by our aircraft production factories to the Customer Support segment. The Trainer Aircraft segment manufactures the primary military trainer aircraft, the T-6A. In 1995, we were awarded the U.S. Air Force and the U.S. Navy's Joint Primary Aircraft Training System ("JPATS") program. Under the contract, we are the sole source provider to the U.S. Air Force and the U.S. Navy of their primary military trainer aircraft. The Customer Support segment principally provides parts, maintenance and flight support services for our installed fleet. Support is provided to owners of aircraft located around the world by company-owned and through company-authorized third-party service centers.

Selected Factors Affecting Our Results of Operations

The general aviation aircraft industry has historically been a cyclical industry that is impacted by many factors, including the strength of the U.S. and global economies, corporate profits and geo-political events. In recent years, the industry has shown consistent growth driven in large part by strong global economic conditions, growth in fractional ownership demand and increasing international acceptance of, and demand for, general aviation aircraft. We believe that changes in industry-wide deliveries of general aviation aircraft typically lag changes in general economic conditions and corporate profit trends.

We believe that demand for products and services provided by our Customer Support and Trainer Aircraft segments are less susceptible to changes in economic conditions and provide us with a more stable and recurring source of revenues. Our Customer Support business is driven by the size and age of our installed fleet and overall maintenance requirements for our aircraft. Our Trainer Aircraft business is driven largely by government and defense spending and decreases or reprioritization of such spending could affect the performance of this segment.

Principal Statement of Operations Items

Sales. Sales are generated primarily from the delivery of aircraft, shipment of parts and performance of services to a wide array of customers including corporations, fractional and charter operators, the U.S. and foreign governments, and individuals. Certain programs, including our JPATS program, record sales as program cost are incurred.

Cost of Sales. Significant components within cost of sales are purchased components and raw materials, direct labor cost associated with the manufacture of aircraft and parts and provision of services, and fixed and variable manufacturing overhead expense related to our manufacturing operations.

Selling, General and Administrative Expense. Selling, general and administrative expenses are expensed as incurred and consist primarily of sales and marketing expenses (including sales and customer support salaries, commissions, airplane demonstrations, and advertising) and corporate expenses (including executive and operating segment management, treasury, accounting, finance, tax, information technology, human resources, legal, contracts, environmental, governance, and insurance).

Research and Development Expenses. Expenditures for research and development projects are expensed as incurred and consist primarily of labor, associated engineering overhead costs, outside service costs, and material costs used during the research and development of new products.

Non-operating Expense, net. HBAC incurs significant interest expense related to the debt incurred as a result of the Acquisition. For RA, non-operating expense, net represented intercompany interest due from or payable to Raytheon Company net of external interest income and other income. As a subsidiary of Raytheon, RA did not have independent third party borrowings and, as a result, external interest expense was not significant. Instead RA relied upon Raytheon to finance operations and was allocated an intercompany interest charge.

Provision for Income Taxes. HBAC is included in the consolidated U.S. federal tax return of HBI. RA's operating results were historically included in Raytheon's consolidated U.S. federal tax return of HBI. The provision for income taxes in the financial statements was determined as if the entities were stand-alone entities and filed separate income tax returns.

Operating Results

	Successor Period From March 26, 2007 through June 24, 2007	Predecessor Three Months Ended June 25, 2006
Total Sales	**701.1**	780.4
Total Cost of Sales	**658.5**	666.0
Gross Margin	**42.6**	114.4
Selling, general and administrative expenses	**55.2**	49.2
Research and development expenses	**24.0**	19.1
Operating (loss) income	**(36.6)**	46.1
Intercompany interest expense, net	**-**	21.3
Interest expense (income), net	**51.2**	(3.7)
Other (income) expense, net	**(1.1)**	0.4
Non-operating expense, net	**50.1**	18.0
(Loss) income before taxes	**(86.7)**	28.1
Provision for (benefit from) income taxes	**(9.6)**	10.2
Net (loss) income	**$ (77.1)**	$ 17.9

Comparison of the Three Months June 24, 2007 to the Three Months June 25, 2006

Sales. HBAC sales were $701.1 million for the three months ended June 24, 2007 compared to $780.4 million for RA during the three months ended June 25, 2006 The sales decrease was primarily due to the quantity and mix of commercial aircraft deliveries during the quarter and lower sales volume within the Trainer Aircraft and Customer Support segments. Further details regarding the product mix of new aircraft deliveries are provided in the table below. During the three months ending June 24, 2007, HBAC delivered 109 total aircraft units whereas during the three months ending June 25, 2006, RA delivered 107 aircraft units.

Aircraft Delivery Units

	Three Months Ended June 24, 2007	Three Months Ended June 25, 2006	Change
Hawker 4000	0	0	0
Hawker 800XP/850XP	10	16	(6)
Hawker 400XP	8	13	(5)
Premier	12	7	5
King Airs	34	33	1
Pistons	31	30	1
T-6A	14	8	6
TOTAL	109	107	2

Cost of Sales. Cost of sales was $658.5 million, or 93.9% of sales, for the three months ended June 24, 2007, compared to $666.0 million, or 85.3% of sales, for the three months ended June 25, 2006. The increase as a percentage of sales was principally an increase in cost of sales of $57.0 million resulting from a step-up in the cost basis of finished goods and work-in-process inventory, property, plant, and equipment and intangible assets in accordance with purchase accounting related to the Acquisition.

Selling, General and Administrative Expense. Selling, general and administrative expenses were $55.2 million, or 7.9% of sales, for the three months ended June 24, 2007, compared to $49.2 million, or 6.3% of sales, for the three months ended June 25, 2006. The $6.0 million increase in expense resulted primarily from $4.2 million of non-recurring initial setup costs to replace various services previously provided by Raytheon and $1.3 million of higher depreciation and amortization expense related to a step-up in the cost basis of property, plant, and equipment and intangible assets in accordance with purchase accounting related to the Acquisition.

Research and Development Expenses. Research and development expenses were $24.0 million, or 3.4% of sales, for the three months ended June 24, 2007 compared to $19.1 million, or 2.4% of sales, for the three months ended June 25, 2006. The increase in expenses reflects the increased product development expense associated with the Hawker 900XP, Hawker 750, King Air 200GT, King AirC90GTi, and other derivative programs partially offset by lower research and development expenses incurred on the Hawker 4000 program. This increase in expense is a result of our planned investment in refreshing our product offerings in the General Aviation marketplace through a derivative strategy.

Operating Income. Operating loss was $36.6 million, or 5.2% of sales, for the three months ended June 24, 2007, compared to operating income of $46.1 million, or 5.9% of sales, for the three months ended June 25, 2006. The reduction in operating income is principally due to the $57.9 million impact of purchase accounting, primarily in the cost of sales and selling, general and administrative expense sections as well as higher research and development expense.

Non-Operating Expense, Net. Non-operating expense, net was $50.1 million for the three months ended June 24, 2007, compared to $18.0 million for the three months ended June 25, 2006. The increase was principally due to the increased cost of debt as a result of the Acquisition compared to the intercompany interest allocation previously charged to RA by Raytheon Company.

Provision for Income Taxes. The effective rate for the provision for income taxes for the three months ended June 24, 2007 was 11.1% compared to 36.3% for the three months ended June 25, 2006. The decrease in the effective tax rate was attributed to the decrease in the projected pre-tax income used in the calculation of the annual effective tax rate as computed under Financial Interpretation (FIN) 18 “Interim Financial Reporting” for the three months ended June 24, 2007. The decrease in the projected pre-tax income is primarily driven by an increase in cost of sales related to the projected sale of inventory that had been revalued in purchase accounting and additional depreciation, amortization and interest expense as a result of the Acquisition. The company’s projected taxable income for the 2007 tax year includes the impact of contingent liabilities assumed at Acquisition. These liabilities are capitalized as tax deductible goodwill when they are paid thereby deferring the tax deduction over the remaining life of goodwill. Based on the projected taxable income, HBAC is able to recognize the benefit of permanent items such as the domestic manufacturing deduction and research and development credit that reduce the effective tax rate. These permanent items had a greater impact on the effective tax rate for the three months ended June 24, 2007 as compared to the three months ended June 25, 2006 because of the significant decrease to the 2007 projected pre-tax income resulting from the Acquisition.

Segment Results

The following table presents a comparison of segment sales and operating income for the three months ended June 24, 2007 and June 25, 2006.

	Three Months Ended June 24, 2007	**Three Months Ended June 25, 2006**
	(In millions)	
Sales by Segment:		
Business and General Aviation	$505.2	$530.9
Trainer Aircraft	95.2	129.4
Customer Support	126.3	152.4
Eliminations	(25.6)	(32.3)
Total	$701.1	$780.4

	Three Months Ended June 24, 2007	**Three Months Ended June 25, 2006**
	(In millions)	
Operating Income (Loss) by Segment:		
Business and General Aviation	($48.4)	$20.7
Trainer Aircraft	11.3	16.8
Customer Support	0.6	10.0
Eliminations	(0.1)	(1.4)
Total	($36.6)	$46.1

Business and General Aviation. Business and General Aviation sales for the three months ended June 24, 2007 decreased $25.7 million, or 4.8%, over the three months ended June 25, 2006 due to a net four unit reduction in aircraft delivery volume and mix changes in aircraft deliveries during the quarter as displayed below. The variance in units delivered during the quarter was partly due to production and customer acceptance delays and a shift in the timing of new aircraft deliveries throughout 2007. During the quarter ended June 24, 2007, six fewer Hawker 850XP and five fewer Hawker 400XP deliveries partially offset by five additional Premier, one additional King Air, and one additional Piston delivery units occurred compared to 2006.

Business & General Aviation Segment

Aircraft Delivery Units

	Three Months Ended June 24, 2007	**Three Months Ended June 25, 2006**	**Change**
Hawker 4000	0	0	0
Hawker 800XP/850XP	10	16	(6)
Hawker 400XP	8	13	(5)
Premier	12	7	5
King Airs	34	33	1
Pistons	31	30	1
TOTAL	95	99	(4)

Operating loss was $48.4 million, or 9.6% of sales, for the three months ended June 24, 2007, compared to operating income of $20.7 million, or 3.9% of sales, for the three months ended June 25, 2006. The reduction in operating margin during the three months ended June 24, 2007 was principally caused by additional costs related to purchase accounting, a reduction in the number of aircraft delivered, a shift in the mix of aircraft delivered during the period, a planned increase in research and development expense, and increased selling and general and administrative expense primarily related to transition expenses following the Acquisition.

Trainer Aircraft. Trainer Aircraft sales for the three months ended June 24, 2007 decreased by $34.2 million, or 26.4%, as compared to the three months ended June 25, 2006. Second quarter 2006 sales included a non-recurring $12.9 million final price re-determination sales adjustment related to the Ground Based Training Systems component of the JPATS contract as well as a $3.1 million favorable adjustment to our contract estimates for our JPATS contract. The non-recurrence of these events as well as reduced volume on the current production contract resulted in the sales variance.

Operating income was $11.3 million, or 11.9% of sales, for the three months ended June 24, 2007, compared to $16.8 million, or 13.0% of sales, for the three months ended June 25, 2006. Second quarter 2007 operating income was lower than the comparable period in 2006 as second quarter 2006 results included a $3.1 million favorable adjustment to our contract estimates for our JPATS program and the margin related to the non-recurring final price re-determination adjustment associated with the Ground Based Training Systems component of the JPATS contract.

Customer Support. Customer Support sales for the three months ended June 24, 2007 decreased by $26.1 million, or 17.1%, from the three months ended June 25, 2006 due primarily to the termination of the unprofitable, related party Flight Options contract in early 2006.

Operating income was $0.6 million, or 0.5% of sales, for the three months ended June 24, 2007, compared to $10.0 million, or 6.6% of sales, for the three months ended June 25, 2006. The decrease in operating margins was due to the impact of purchase accounting partially offset by the termination of the unprofitable, related party Flight Options contract in early 2006 and improved operational performance. The purchase accounting impact resulted from an increase in inventory values at Acquisition and higher depreciation and amortization expense and totaled $18.2 million.

Liquidity and Capital Resources

RA historically satisfied its liquidity requirements through a combination of cash generated from operating activities as well as from borrowings from Raytheon. All excess cash was remitted to Raytheon. HBAC's short-term liquidity needs include amounts required for debt service and day-to-day operating expenses such as working capital requirements and the funding of capital expenditures. Our future long-term liquidity requirements include working capital, capital expenditures and debt service. As a result of the Acquisition, HBAC has issued $1,100.0 million of notes, including $400.0 million of 8.5% Senior Fixed Rate Notes due 2015, $400.0 million 8.875%/9.625% Senior PIK-Election Notes due April 1, 2015 and $300.0 million of 9.75% Senior Subordinated Notes due April 1, 2017, and entered into senior secured credit facilities totaling $1,810.0 million, consisting of a $1,300.0 million term loan drawn at the close of the Acquisition, an undrawn $400.0 million revolving credit facility and a $110.0 million synthetic letter of credit facility.

Cash provided by operating, investing and financing activities for the three months ended June 24, 2007 and June 25, 2006 is summarized below.

(In millions)	**Three Months Ended**	
	6/24/2007	**6/25/2006**
Operating Cash Flow	$93.8	($2.4)
Investing Cash Flow	(3,236.8)	(9.2)
Financing Cash Flow	3,310.7	8.5

Three Months Ended June 24, 2007. Cash generated by operating activities was $93.8 million. The net cash generated was primarily due to customer deposits received on new commercial aircraft and payments received on general aviation financing receivables. Partially offsetting these impacts was cash used in building commercial aircraft inventory on a more linear timeline compared to aircraft sales which are more heavily weighted to occur during the second half of the year as well as the on-going reduction in T6-A advance payments due to the changed payment terms associated with the program going forward.

Cash used in investing activities of $3,236.8 million included capital expenditures of $13.5 million primarily related to company-manufactured tooling and modernizing equipment used in the manufacturing process. The balance of investing cash used relates to the Acquisition consideration.

Cash provided by financing activities of $3,310.7 million during the three months represents the equity and debt financing received related to the Acquisition.

Three Months Ended June 25, 2006. Cash used by operating activities was $2.4 million. The net cash used during the period was primarily due to the more linear build of commercial aircraft compared to aircraft sales which were more weighted to the second half of the year as well as the reduction in T6-A advance payments.

Cash used in investing activities of $9.2 million during the period included capital expenditures of $9.0 million primarily related to company manufactured tooling and $0.2 million of additions to intangible assets primarily related to investment in software.

Cash provided by financing activities of $8.5 million during the three months represents the net intercompany borrowing activity with Raytheon.

Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 establishes a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. This accounting standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The effect, if any, of adopting SFAS 157 on our financial position and results of operations has not been determined.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting period. This accounting standard is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The effect, if any, of adopting SFAS 159 on our financial position and results of operations has not been determined.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary market exposures are to interest rates and foreign exchange rates. We meet our working capital requirements with a combination of variable rate short-term and fixed rate long-term financing. We enter into interest rate swap agreements with commercial and investment banks to manage interest rates associated with our financing arrangements. We also enter into foreign currency forward contracts with commercial banks to fix the dollar value of commitments and payments to international vendors and the value of foreign currency denominated receipts. The market-risk sensitive instruments we use for hedging are entered into with commercial and investment banks and are directly related to a particular asset, liability or transaction for which a firm commitment is in place.

Following the Acquisition, we are subject to interest rate market risk in connection with our long-term debt. Our principal interest rate exposure relates to outstanding amounts under our new senior secured credit facilities. Our new senior secured credit facilities provide for variable rate borrowings of up to $1,700.0 million including availability of $400.0 million under our revolving credit facility. Assuming the senior secured credit facilities are fully drawn, each one-eighth percentage point increase or decrease in the applicable interest rates would correspondingly change our interest expense on the senior secured credit facilities by approximately $2.1 million per year.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

This section is not currently applicable to our business

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

HBAC is involved in various stages of investigation and cleanup relative to remediation of various environmental sites. All appropriate costs expected to be incurred in connection therewith have been accrued. Due to the complexity of environmental laws and regulations, the varying costs and effectiveness of alternative cleanup methods and technologies, the uncertainty of insurance coverage and the unresolved extent of our responsibility, it is difficult to determine the ultimate outcome of these matters. However, in the opinion of management, any liability is not expected to have a material effect on our financial position, liquidity or results of operations. Raytheon retained a significant portion of the liability associated with environmental remediation in accordance with the purchase agreement related to the Acquisition.

Various other claims and legal proceedings generally incidental to the normal course of business are pending or threatened on behalf of or against us. While we cannot predict the outcome of these matters, in the opinion of management, any liability arising from them is not expected to have a material effect on our financial position, liquidity or results of operations after giving effect to provisions already recorded.

ITEM 1A. RISK FACTORS

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. "Risk Factors" in our 2007 Form 10-Q (for the quarter ended March 25, 2007). Except as noted below, there have been no material changes from the factors disclosed in our 2007 Form 10-Q(for the quarter ended March 25, 2007), although we may disclose changes to such factors or disclose additional factors from time to time. On March 26, 2007, we completed the Acquisition of Raytheon Aircraft. Following the Acquisition, we are subject to interest rate market risk in connection with our long-term debt. Our principal interest rate exposure relates to outstanding amounts under our new senior secured credit facilities. Our new senior secured credit facilities provide for variable rate borrowings of up to $1,700.0 million including availability of $400.0 million under our revolving credit facility. Assuming the senior secured credit facilities are fully drawn, each one-eighth percentage point increase or decrease in the applicable interest rates would correspondingly change our interest expense on the senior secured credit facilities by approximately $2.1 million per year

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

None.

August 08, 2007