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**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 September 30, 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)

	<b>Successor</b>	<b>Predecessor</b>
	<b>September 30,</b>	<b>December 31,</b>
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$245.9	\$25.9
Accounts and notes receivable, net of allowance for doubtful accounts of \$2.0 at September 30, 2007 and \$1.2 at December 31, 2006	74.6	98.9
Finance receivables, net of allowance for doubtful accounts of \$0.8 at December 31, 2006	0.0	57.0
Unbilled revenue	31.8	27.4
Inventories (Note 6)	1,482.7	1,437.5
Current deferred income tax asset	55.9	109.0
Prepaid expenses and other current assets	48.8	70.6
Total current assets	1,939.7	1,826.3
Property, plant and equipment, net (Note 7)	661.6	520.8
Goodwill (Note 3)	691.0	0.0
Intangible assets, net (Note 8)	1,159.7	53.1
Noncurrent deferred income tax asset	20.6	0.0
Other assets, net	118.4	118.0
Total assets	\$4,591.0	\$2,518.2
<b>Liabilities and Equity</b>		
Current liabilities		
Notes payable and current portion of long-term debt (Note 12)	\$54.6	\$0.0
Advance payments and billings in excess of costs incurred	505.8	424.5
Accounts payable	349.7	360.5
Accrued salaries and wages	44.1	38.2
Current deferred income taxes	23.8	0.0
Accrued interest payable	52.8	0.0
Other accrued expenses	158.9	172.8
Total current liabilities	1,189.7	996.0
Long-term debt (Note 12)	2,380.5	0.0
Accrued retiree benefits and other long-term liabilities	98.1	200.0
Deferred income taxes	0.0	78.1
Total liabilities	3,668.3	1,274.1
Commitments and contingencies (Note 13)		
Equity		
Paid-in capital	984.2	0.0
Parent company investment	0.0	(17.1)
Accumulated other comprehensive (loss) (Note 4)	(5.7)	(85.9)
Retained (deficit) earnings	(55.8)	1,347.1
Total equity	922.7	1,244.1
Total liabilities and equity	\$4,591.0	\$2,518.2

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	Predecessor	Successor	Predecessor	
	Three Months Ended September 30, 2007	Three Months Ended September 24, 2006	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006
Sales:					
Aircraft, parts and services	\$871.0	\$762.7	\$1,572.1	\$647.3	\$1,974.2
Sales to related parties	0.0	33.7	0.0	20.5	107.2
Total sales	871.0	796.4	1,572.1	667.8	2,081.4
Cost of sales:					
Aircraft, parts and services	721.7	619.3	1,380.2	545.6	1,655.5
Sales to related parties	0.0	35.8	0.0	20.5	97.1
Total cost of sales	721.7	655.1	1,380.2	566.1	1,752.6
Gross Margin	149.3	141.3	191.9	101.7	328.8
Selling, general and administrative expenses	66.4	51.5	121.6	52.0	145.5
Research and development expenses	20.8	21.1	44.8	21.3	58.4
Operating income	62.1	68.7	25.5	28.4	124.9
Intercompany interest expense, net	0.0	23.9	0.0	15.8	65.3
Interest expense (income), net	56.3	(4.2)	107.5	(0.9)	(12.5)
Other (income) expense, net	(1.7)	(0.8)	(2.8)	(0.1)	(1.0)
Non-operating expense, net	54.6	18.9	104.7	14.8	51.8
Income (loss) before taxes	7.5	49.8	(79.2)	13.6	73.1
(Benefit from) provision for income taxes	(13.8)	18.0	(23.4)	5.1	26.5
Net income (loss)	\$21.3	\$31.8	(\$55.8)	\$8.5	\$46.6

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	
	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006
Cash flows from operating activities:			
Net (loss) income	(\$55.8)	\$8.5	\$46.6
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	75.0	21.9	65.9
Amortization of debt issuance costs	4.8	0.0	0.0
Amortization of deferred compensation	4.8	0.0	0.0
Stock-based compensation	7.5	1.2	3.8
Current and deferred income taxes	(12.9)	(11.6)	26.8
Changes in assets and liabilities, net of effects of acquisition:			
Accounts receivable	16.1	9.8	47.2
Unbilled revenue, advanced payments and billings in excess of costs incurred	160.8	(78.6)	66.9
Inventories	(106.2)	(85.6)	(257.4)
Prepaid expenses and other current assets	(60.8)	26.5	28.3
Accounts payable	0.6	(5.6)	85.8
Accrued salaries and wages	9.8	(3.4)	(12.0)
Other accrued expenses	106.0	(11.8)	(26.8)
Pension and other changes, net	6.3	12.2	(21.1)
Sale of financing receivables	0.0	0.0	11.2
Origination of financing receivables	0.0	(20.6)	(157.3)
Collection of financing receivables not sold	40.4	36.2	191.3
Net cash provided by (used in) operating activities	196.4	(100.9)	99.2
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(30.7)	(26.2)	(27.5)
Acquisition of business, net of cash acquired	(3,218.0)	0.0	0.8
Additions to intangible assets	0.0	(1.1)	(1.4)
Net cash used in investing activities	(3,248.7)	(27.3)	(28.1)
Cash flows from financing activities:			
Equity contributions	976.7	0.0	0.0
Net transfers from (to) Raytheon	0.0	117.4	(77.3)
Issuance of long-term debt	2,400.0	0.0	0.0
Debt issuance costs	(72.0)	0.0	0.0
Payment of term loan	(6.5)	0.0	0.0
Net cash provided by (used in) financing activities	3,298.2	117.4	(77.3)
Effect of exchange rates on cash and cash equivalents	0.0	0.0	0.0
Net increase (decrease) in cash and cash equivalents	245.9	(10.8)	(6.2)
Cash and cash equivalents at beginning of period	0.0	25.9	25.7
Cash and cash equivalents at end of period	\$245.9	\$15.1	\$19.5

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

## **Hawker Beechcraft Acquisition 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 \$3,218.0 million, net of \$5 million cash acquired, and including direct costs of the acquisition of \$33.2 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 affiliates of The Goldman Sachs Group, Inc., affiliates of Onex Corporation, 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 considered reasonable by RA 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 do 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 September 30, 2007 and for the period from March 26, 2007 through September 30, 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 HBAC 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 Article 10 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”).

#### **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 all of 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 certain 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, training and special mission aircraft is subject to certain business risks. These risks include delays in 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. and foreign governments may be affected by changes in procurement policies, budget considerations, changing concepts of national defense, political developments abroad and other factors.

We are highly dependent on the availability of essential materials and purchased components, some of which are available only from a sole source or limited sources. Moreover, we are dependent upon the ability of our suppliers to provide material and components that meet specifications, quality standards and delivery schedules.

**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, incurred cost and estimated margin are recorded as revenue based on the ratio of costs incurred-to-date to 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 effects of changes in estimates resulting from any such revisions are reflected in the period the estimates are revised using a cumulative catch-up process. 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 shipped 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 were based on the estimated average margin of all aircraft in the lot and were 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. Reimbursement of research and development costs under cost-sharing arrangements is recorded as a reduction to expense.

**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.

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. The effect of changes in tax rates is recognized during the period in which the rate change occurs.

HBAC is included in the U.S. consolidated federal income tax return of HBI. Under the terms of an informal tax sharing agreement between HBAC and HBI, 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. 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 margin, 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 labor and material as well as applicable overhead. HBAC records pre-owned aircraft acquired in connection with the sale of new aircraft at the lower of the trade-in value or estimated net realizable value. 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 recorded 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 recorded 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. 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. As discussed in Note 3 below, intangible assets have been reflected at fair value in the opening balance sheet of HBAC. The weighted average amortization periods assigned to acquired intangible assets are: 3 years for order backlog, 4 years for computer software, 10 years for trademarks and trade names with definite lives, 15 years for technological knowledge and 17 years for customer relationships.

#### **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 trade names, 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 an operating segment basis and conducts its review for impairment on an operating segment basis. HBAC intends to perform an impairment review in the fourth quarter of 2007.

#### **Impairment of Long-Lived Assets**

In accordance with SFAS No. 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.

## **Notes Payable and Current Portion of Long-Term Debt**

Notes payable and current portion of long-term debt consist of the balances due on a promissory note related to a third party financing arrangement and the portion of long-term debt due within twelve months of the balance sheet date.

## **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 recorded cost and recognized margin.

## **Foreign Currency Translation**

The functional currency of certain 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 foreign currency forward contracts used by HBAC are transaction driven and directly related to a particular transaction. 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. The amortization of deferred financing costs is classified as interest expense.

## **Stock-Based Compensation**

Certain HBAC employees are participants in various HBI stock compensation plans. HBAC accounts for stock option plans and restricted share plans in accordance with SFAS No.123(R), *Share-Based Payment* and related interpretations ("SFAS 123(R)"). The expense attributable to HBAC 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 \$3,218.0 million, net of \$5.0 million cash acquired, and including direct costs of the acquisition of \$33.2 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 affiliates of The Goldman Sachs Group, Inc., affiliates of Onex Corporation, and certain members of company management. The total consideration reflects 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 the 338 election, the stock purchase is treated as an asset acquisition, and HBAC receives a stepped-up basis in assets equal to their fair 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	\$5.0
Accounts and notes receivable	90.8
Finance receivables	37.5
Unbilled revenue	59.9
Inventories	1,307.2
Prepaid expenses and other current assets	48.7
Property, plant and equipment	696.1
Goodwill	691.0
Intangible assets	1,197.2
Long-term finance receivables	4.2
Deferred tax asset	24.6
Other assets	59.5
	<hr/>
Total assets acquired	\$4,221.7

**Liabilities**

Advance payments and billings in excess of costs incurred	\$373.1
Accounts payable	349.1
Accrued salaries and wages	34.3
Other accrued expenses	150.1
Accrued pension and retiree benefits	61.1
Other long-term liabilities	31.0
	<hr/>
Total liabilities assumed	998.7
	<hr/>
Net assets acquired	\$3,223.0

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 because the valuation of certain items of inventory and certain liabilities 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 value based on management's computations. 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 included in intangible assets 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 historical 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.

Order backlog included in intangible assets was valued based on the total life of the backlog cash flows. Using this approach, order backlog was assigned a value of \$62.0 million with an estimated weighted average useful life of 3 years.

Technological knowledge included in intangible assets 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 a third party 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 included in intangible assets 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 a third party 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 \$691.0 million of goodwill was assigned to the Business and General Aviation, Trainer Aircraft, and Customer Support segments in the amounts of \$308.2 million, \$224.5 million, and \$158.3 million, respectively. However, the valuation is provisional and is subject to refinement as the Company completes its accounting for the Acquisition. 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:

- The acquired companies' position as a leading designer and manufacturer of business jet, turboprop, and piston aircraft, with 75 years of experience.
- The acquired company is the sole source provider of 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.
- The acquired company 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:

(In millions)	Nine Months Ended	
	Pro Forma September 30, 2007	Pro Forma September 24, 2006
Net sales	\$2,238.8	\$2,078.7
Operating income	\$74.2	\$72.5
Net income (loss)	(\$57.5)	(\$45.3)

The pro forma results of operations include adjustments for items directly related to the Acquisition and financing of the Acquisition, 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.

Included in pro forma operating income are non-recurring amounts of \$70.4 million and \$69.8 million for the nine months ended September 30, 2007 and September 24, 2006, respectively, related to the impact of a step-up in inventory valuation that would have occurred in accordance with purchase accounting had the Acquisition occurred at the beginning of the period presented.

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 (loss) consisted of the following:

<b>Accumulated Other Comprehensive (Loss)</b> (In millions)	<b>Successor</b> <b>September 30,</b> <b>2007</b>	<b>Predecessor</b> <b>December 31,</b> <b>2006</b>
Unfunded projected benefit obligation	<b>\$0.0</b>	(\$109.9)
Foreign exchange translation	<b>(0.5)</b>	0.0
Cash flow hedges	<b>(5.2)</b>	20.2
Unrealized gains on investments	<b>0.0</b>	3.8
<b>Total</b>	<b>(\$5.7)</b>	<b>(\$85.9)</b>

The unfunded projected benefit obligation is shown net of a tax benefit of \$59.2 million at December 31, 2006. The foreign exchange translation is shown net of a tax benefit of \$0.1 million at September 30, 2007. The cash flow hedges are shown net of a tax benefit of \$3.5 million and a tax liability of \$10.9 million at September 30, 2007 and December 31, 2006, respectively. Unrealized gains on investments are shown net of a tax liability of \$2.0 million at December 31, 2006.

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

<b>Comprehensive Income(Loss)</b> (In millions)	<b>Successor</b> <b>Three Months</b> <b>Ended</b> <b>September 30,</b> <b>2007</b>	<b>Predecessor</b> <b>Three Months</b> <b>Ended</b> <b>September 24,</b> <b>2006</b>	<b>Successor</b> <b>Six Months</b> <b>Ended</b> <b>September 30,</b> <b>2007</b>	<b>Predecessor</b> <b>Three Months</b> <b>Ended</b> <b>March 25,</b> <b>2007</b>	<b>Predecessor</b> <b>Nine Months</b> <b>Ended</b> <b>September 24,</b> <b>2006</b>
	Net income (loss)	<b>\$21.3</b>	\$31.8	<b>(\$55.8)</b>	\$8.5
Amortization of minimum pension liability	<b>0.0</b>	34.1	<b>0.0</b>	0.0	0.0
Amortization of unfunded projected benefit obligation	<b>0.0</b>	0.0	<b>0.0</b>	5.5	34.2
Foreign currency translation adjustments	<b>0.5</b>	0.6	<b>(0.5)</b>	(0.9)	0.5
Unrealized gain (loss) on cash flow hedges	<b>(11.7)</b>	7.6	<b>(5.2)</b>	(1.9)	21.1
Unrealized loss on investments	<b>0.0</b>	0.1	<b>0.0</b>	(0.3)	(0.2)
<b>Total comprehensive income(loss)</b>	<b>\$10.1</b>	\$74.2	<b>(\$61.5)</b>	\$10.9	\$102.2

#### 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 appropriately reflects the estimated remaining obligation based on the anticipated expenditures over the balance of the obligation period. Adjustments are made when actual warranty claim experience causes management to revise its estimates. The effects of changes in estimates are reflected in the period the estimates are revised. Activity related to commercial aircraft and part warranty provisions was as follows:

(In millions)	<b>Successor</b> <b>Three Months</b> <b>Ended</b> <b>September 30,</b> <b>2007</b>	<b>Predecessor</b> <b>Three Months</b> <b>Ended</b> <b>September 24,</b> <b>2006</b>	<b>Successor</b> <b>Six Months</b> <b>Ended</b> <b>September 30,</b> <b>2007</b>	<b>Predecessor</b> <b>Three Months</b> <b>Ended</b> <b>March 25,</b> <b>2007</b>	<b>Predecessor</b> <b>Nine Months</b> <b>Ended</b> <b>September 24,</b> <b>2006</b>
	Balance at beginning of period	<b>\$50.6</b>	\$54.1	<b>\$48.1</b>	\$57.5
Accrual for aircraft and part deliveries	<b>6.4</b>	9.2	<b>14.3</b>	8.1	23.0
Accruals (reversals) related to prior year deliveries	<b>0.4</b>	(7.0)	<b>1.0</b>	(0.1)	(4.8)
Warranty services provided	<b>(5.6)</b>	(5.1)	<b>(11.6)</b>	(4.2)	(16.5)
<b>Balance at end of period</b>	<b>\$51.8</b>	\$51.2	<b>\$51.8</b>	\$61.3	\$51.2

Warranty provisions related to aircraft deliveries on contracts accounted for under SOP 81-1 using the cost-to-cost method to measure progress towards completion are recorded as contract costs as the warranty work is performed. The estimation of these costs is an integral part of the revenue recognition process for these contracts.

## 6. Inventories

Inventories consisted of the following:

(In millions)	<b>Successor September 30, 2007</b>	Predecessor December 31, 2006
Finished goods	<b>\$220.3</b>	\$334.7
Work in process	<b>956.7</b>	852.6
Materials and purchased parts	<b>305.7</b>	250.2
Total	<b>\$1,482.7</b>	\$1,437.5

During the six months ended September 30, 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 six months ended September 30, 2007, as it was a non-cash transaction.

## 7. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

(In millions)	<b>Successor September 30, 2007</b>	Predecessor December 31, 2006
Land	<b>\$29.2</b>	\$4.7
Buildings and leasehold improvements	<b>147.9</b>	192.4
Aircraft and autos	<b>43.9</b>	110.8
Furniture, fixtures and office equipment	<b>3.9</b>	20.9
Tooling	<b>358.7</b>	607.6
Machinery and equipment	<b>91.4</b>	290.0
Construction in process	<b>24.1</b>	18.8
	<b>699.1</b>	1,245.2
Less accumulated depreciation	<b>37.5</b>	724.4
Net	<b>\$661.6</b>	\$520.8

Depreciation expense was \$18.6 million and \$18.3 million for the three months ended September 30, 2007 and September 24, 2006, respectively; \$37.5 million for the six months ended September 30, 2007; \$18.7 million for the three months ended March 25, 2007; and \$56.3 million for the nine months ended September 24, 2006.

## 8. Intangible Assets

Intangible assets consisted of the following:

(In millions)	Successor September 30, 2007	Predecessor December 31, 2006
Intangible assets subject to amortization:		
Technological knowledge	\$380.0	\$0.0
Customer relationships	257.0	0.0
Computer software	31.2	89.7
Order backlog	62.0	0.0
Trademarks / trade names - definite lives	6.0	0.0
Production drawings	0.0	14.8
Intellectual property rights	0.0	21.2
Intangible assets not subject to amortization:		
Trademarks / trade names - indefinite lives	461.0	0.0
	<b>1,197.2</b>	125.7
Less accumulated amortization	37.5	72.6
Net	<b>\$1,159.7</b>	\$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 September 30, 2007 and September 24, 2006, respectively; \$37.5 million for the six months ended September 30, 2007; \$3.2 million for the three months ended March 25, 2007; and \$9.6 million for the nine months ended September 24, 2006.

Amortization expense is expected to approximate \$18.7 million for the period from October 1, 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

HBAC is included in the consolidated U.S. federal tax return of HBI. RA's operating results were included in Raytheon's consolidated U.S. federal tax return. 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
	Six Months Ended September 30, 2007		Nine Months Ended September 24, 2006
Statutory tax rate	35.0	%	35.0
Extraterritorial income exclusion	0.0		(2.3)
Domestic manufacturing deduction	(3.5)		0.0
Research and development credit	(7.5)		0.0
State taxes net of federal benefit	4.7		2.9
ESOP dividend deduction benefit	0.0		(1.0)
Non-deductible costs	1.7		1.3
Other, net	(0.8)		0.4
Effective tax rate	<b>29.6</b>	<b>%</b>	36.3

Income taxes are accounted for in accordance with 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.

Management believes it is more likely than not those 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 carry-forwards at September 30, 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 reclassified certain liabilities included in deferred income taxes to other current liabilities in the accompanying balance sheet, none of which, if recognized, would affect HBAC’s effective income tax. As of September 30, 2007, HBAC had no accrued interest or penalties related to uncertain tax positions. Any interest or penalties on any future unrecognized tax benefits will be recorded as a component of income tax expense.

## 10. Pension and Other Employee Benefits

HBAC has several defined benefit pension and retirement plans covering the majority of its employees (“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:

	Successor		Predecessor		Successor		Predecessor	
	Three Months Ended September 30, 2007	Three Months Ended September 24, 2006	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006			
(In millions)								
Service cost	\$7.3	\$6.4	\$14.3	\$6.6	\$19.4			
Interest cost	13.1	12.9	25.9	13.8	39.1			
Expected return on plan assets	(16.7)	(13.4)	(33.1)	(17.1)	(40.8)			
Amortization of prior service cost	0.0	1.0	0.0	0.9	3.2			
Recognized net actuarial loss	0.0	6.0	0.0	4.2	18.4			
Curtailment loss recognized	0.0	0.2	0.0	0.0	0.2			
Net periodic benefit cost	3.7	13.1	7.1	8.4	39.5			

The net periodic benefit cost for RA includes expense from foreign Pension Benefits plans of \$0.7 million and \$2.1 million in the three and nine months ended September 24, 2006, respectively, and \$0.8 million for the three months ended 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 and six months ended September 30, 2007, recognized cost of \$0.3 million and 0.5 million, respectively, for contributions to this plan.

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

	Successor		Predecessor		Successor		Predecessor	
	Three Months Ended September 30, 2007	Three Months Ended September 24, 2006	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006			
(In millions)								
Service cost	\$0.2	\$0.0	\$0.4	\$0.2	\$0.4			
Interest cost	0.3	0.3	0.6	0.2	0.7			
Amortization of transition obligation	0.0	0.2	0.0	0.2	0.6			
Net periodic benefit cost	\$0.5	\$0.5	\$1.0	\$0.6	\$1.7			

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 when recognized.

## 11. Stock-Based Compensation

Effective January 1, 2006, RA adopted the provisions of SFAS 123(R), using the modified prospective method. SFAS 123(R) established the accounting for equity instruments exchanged for employee services. Under SFAS 123(R), share-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 123(R) 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 123(R), 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. For the three and nine months ended September 24, 2006, RA recognized \$1.3 million and \$3.8 million of stock compensation expense, respectively, and a \$0.4 million and \$1.3 million tax benefit, respectively, related to its participation in the RA stock option plan.

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 established price of HBI's stock as set by the Board of Directors at the date of grant. Option awards generally vest based on future service, ranging from one to five years, or on financial performance over the next five years. The stock options terminate ten years from the date of grant.

During the six months ended September 30, 2007, HBI granted non-qualified stock options to various members of HBAC management with vesting based on future service or financial performance. Vesting of these non-qualified stock options will generally begin during the first quarter of 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 123(R) 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 Accounting Bulletin No. 107. The expected volatility was determined using a peer group of 12 publicly-traded aerospace and defense companies' historical volatility index and ranged from 38.3% to 41.8% for the various vesting tranches. HBAC uses RA historical data to estimate its assumed annual forfeiture rate within the valuation model. The expected term of options granted 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%.

Stock option activity as of September 30, 2007 and changes during the six months then ended was as follows:

	Number of	Weighted-	Weighted- Average Remaining Contractual
<b>Service Vesting</b>	Options	Average Option Price	Term (in years)
Granted	3,586,580	\$10.00	
Exercised	0	\$0.00	
Forefeited or expired	0	\$0.00	
Outstanding	3,586,580	\$10.00	9.6
Expected to vest	2,812,282	\$10.00	9.6

	Number of	Weighted-	Weighted- Average Remaining Contractual
<b>Performance Vesting</b>	Options	Average Option Price	Term (in years)
Granted	4,020,153	\$10.00	
Exercised	0	\$0.00	
Forefeited or expired	0	\$0.00	
Outstanding	4,020,153	\$10.00	9.6
Expected to vest	3,118,006	\$10.00	9.6

As of September 30, 2007 no stock options had vested. During the three and six months ended September 30, 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 and expected to vest was \$0.3 million and \$29.4 million, respectively, for the three and six months ended September 30, 2007. The estimated fair values of the stock option grants are amortized to expense over the requisite service period. For the three and six months ended September 30, 2007, HBAC recognized \$3.2 million and \$5.1 million of stock compensation expense, respectively, and a \$0.9 million and \$1.4 million tax benefit, respectively, related to its participation in the HBI stock option plan.

#### **Equity Investment Plan**

On the date of the Acquisition, 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 awards or unvested stock 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. Each participant in the equity program was allowed to fund the equity purchase with, among other things, the estimated after-tax value of any balance the 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. Members of HBAC management used this funding method to purchase 593,273 restricted shares.

Restricted stock activity for the six months ended September 30, 2007 was as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Granted	593,273	\$10.00
Vested	0	\$0.00
Forfeited	0	\$0.00
Outstanding at September 30, 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 \$0.7 million and \$2.4 million of compensation expense and a tax benefit of \$0.2 million and \$0.9 million related to the restricted stock during the three months and six months ended September 30, 2007, respectively.

## 12. Debt and Notes Payable

Long-term debt consists of the following:

(In millions)	Successor	Predecessor
	September 30, 2007	December 31, 2006
Senior secured term loan due 2014	\$1,293.5	\$0.0
Senior fixed rate notes due 2015	400.0	0.0
Senior PIK-election notes due 2015	400.0	0.0
Senior subordinated notes due 2017	300.0	0.0
Total debt	\$2,393.5	\$0.0
Less current portion	13.0	0.0
Long-term debt	\$2,380.5	\$0.0

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 original outstanding principal through December 2013 with the remaining outstanding balance paid in full in March 2014. The revolving credit facility was undrawn at September 30, 2007. Borrowings under the credit agreement bear interest determined at the one and/or 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%, 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 ending October 1, 2007 was 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 ("PIK interest"), 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 and will pay interest in cash for the interest period commencing October 1, 2007.

The financing arrangements contain a number of customary covenants and restrictions, and HBAC was in compliance with these covenants as of September 30, 2007.

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

(In millions)	
October 1, 2007 through December 31, 2007	\$3.3
2008	13.0
2009	13.0
2010	13.0
2011	13.0
2012	13.0
Thereafter	2,325.3
<b>Total</b>	<b>\$2,393.6</b>

Notes payable represents a deferred payment obligation to a supplier under which the supplier is paid by a lender upon HBAC's receipt of goods and HBAC pays the lender within 155 days under terms of an underlying short-term promissory note, with interest determined at the five month LIBOR plus 1.85%.

### 13. **Commitments and Contingencies**

At September 30, 2007 HBAC had commitments under long-term operating leases requiring approximate annual rentals as follows:

(In millions)	
October 1, 2007 through December 31, 2007	\$2.0
2008	7.0
2009	6.7
2010	4.9
2011	2.6
2012	1.7
Thereafter	36.0
<b>Total</b>	<b>\$60.8</b>

Rent expense was \$2.3 million and \$6.0 million for the three months ended September 30, 2007 and September 24, 2006, respectively; \$4.3 million for the six months ended September 30, 2007; \$6.3 million for the three months ended March 25, 2007; and \$17.3 million for the nine months ended September 24, 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 September 30, 2007, future payments of \$7.5 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 \$11.2 million at September 30, 2007, extending through 2021.

At September 30, 2007, HBAC had commitments related to services to be provided for its information technology function requiring minimum annual payments as follows:

(In millions)	
October 1, 2007 through December 31, 2007	\$4.2
2008	16.3
2009	17.4
2010	4.6
2011	3.4
2012	3.4
Thereafter	1.7
<b>Total</b>	<b>\$51.0</b>

HBAC self-insures for losses and expenses for aircraft product liability up to a maximum of \$5 million per occurrence and \$20 million per fiscal year. Insurance purchased from third parties is expected to cover excess aggregate liability exposure from \$20

million to \$750 million. This coverage also includes the excess liability over \$5 million per occurrence. In conjunction with the Acquisition, Raytheon retained responsibility for product liability for occurrences prior to closing. The aircraft product liability reserve at September 30, 2007 was \$11.2 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 \$2.5 million. Discounted at a weighted-average risk-free rate of 6.0%, HBAC estimates the liability to be \$1.5 million and accrued this amount in other accrued expenses at September 30, 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 \$98.0 million, \$76.7 million, and \$1.6 million of these guarantees, letters of credit, and surety bonds, for which there were stated values, were outstanding at September 30, 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 a 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.

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.

On October 12, 2007, a legal action was filed naming HBAC, The Goldman Sachs Group, Inc., and an HBI director who is also an employee of The Goldman Sachs Group, Inc. as defendants. The complaint alleges that defendants breached an oral agreement with the plaintiffs whereby the plaintiffs would be compensated in connection with the arrangement and structuring of the acquisition of Raytheon Aircraft and alternatively that defendants defrauded plaintiffs in connection with such an arrangement. The defendants intend to vigorously defend the action. While the ultimate liability, if any, of this action is presently indeterminable, any liability is not expected to have a material adverse effect on HBAC's financial position, results of operations, or liquidity.

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 service support for the in-service aircraft worldwide. Historically, the Business and General Aviation and Customer Support 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.

While some working capital accounts are maintained on a segment basis, much of the Company's assets are not managed or maintained on a segment basis. Property, plant and equipment, including tooling, is used in the design and production of products for each of the segments and, therefore, is not allocated to any individual segment. In addition, cash, prepaid expenses, other assets and deferred taxes are maintained and managed on a consolidated basis and generally do not pertain to any particular segment. Raw materials and certain component parts are used in production across all segments. Work-in-process inventory is identifiable by segment but is managed and evaluated at the program level. As there is no segmentation of the Company's productive assets, no allocation of these amounts has been made for purposes of segment disclosure.

Segment financial results were as follows:

	Successor		Predecessor		Successor		Predecessor	
	Three Months Ended		Three Months Ended		Six Months Ended		Three Months Ended	
	September 30, 2007		September 24, 2006		September 30, 2007		March 25, 2007	
<b>Net Sales</b> (In millions)								
Business and General Aviation	\$665.0	\$572.6	\$1,170.2	\$487.6	\$1,430.6	\$487.6	\$1,430.6	\$1,430.6
Trainer Aircraft	99.0	105.0	194.2	91.2	322.9	91.2	322.9	322.9
Customer Support	145.6	145.7	271.9	116.4	412.7	116.4	412.7	412.7
Eliminations	(38.6)	(26.9)	(64.2)	(27.4)	(84.8)	(27.4)	(84.8)	(84.8)
<b>Total</b>	<b>\$871.0</b>	<b>\$796.4</b>	<b>\$1,572.1</b>	<b>\$667.8</b>	<b>\$2,081.4</b>	<b>\$667.8</b>	<b>\$2,081.4</b>	<b>\$2,081.4</b>

There were no sales to affiliated parties in the three months and six months ended September 30, 2007. Sales to affiliated parties for the three months ended March 25, 2007 were \$17.4 million and \$3.1 million for Business and General Aviation and Customer Support, respectively. Sales to affiliated parties for the three and nine months ended September 24, 2006 were \$11.1 million and \$53.6 million for Business and General Aviation group, and \$22.6 million and \$53.6 million for Customer Support, respectively.

Intersegment sales in the three months ended September 30, 2007 and September 24, 2006, respectively, were \$15.0 million and \$15.5 million for Business and General Aviation and \$23.6 million and \$10.3 million for Customer Support. Intersegment sales in the six months ended September 30, 2007 were \$31.6 million for Business and General Aviation and \$32.6 million for Customer Support. Intersegment sales in the period from January 1, 2007 through March 25, 2007 were \$13.5 million and \$13.9 million for Business and General Aviation and Customer Support, respectively. Intersegment sales in the nine months ended September 24, 2006 were \$49.0 million for Business and General Aviation and \$34.7 million for Customer Support.

	Successor		Predecessor		Successor		Predecessor	
	Three Months Ended		Three Months Ended		Six Months Ended		Three Months Ended	
	September 30, 2007		September 24, 2006		September 30, 2007		March 25, 2007	
<b>Operating Income (Loss)</b> (In millions)								
Business and General Aviation	\$33.5	\$50.6	(\$14.9)	\$3.6	\$65.8	\$3.6	\$65.8	\$65.8
Trainer Aircraft	11.3	11.7	22.6	12.2	40.8	12.2	40.8	40.8
Customer Support	16.7	6.8	17.3	11.9	20.3	11.9	20.3	20.3
Eliminations	0.6	(0.4)	0.5	0.7	(2.0)	0.7	(2.0)	(2.0)
<b>Total</b>	<b>\$62.1</b>	<b>\$68.7</b>	<b>\$25.5</b>	<b>\$28.4</b>	<b>\$124.9</b>	<b>\$28.4</b>	<b>\$124.9</b>	<b>\$124.9</b>

## 15. Accounting Standards

In September 2006, the FASB issued SFAS No. 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 No. 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 and six months ended September 30, 2007 reflects the business of Hawker Beechcraft Acquisition Company, LLC ("HBAC"), the successor business to RA. Comments regarding the three and six months ended September 30, 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 HBAC and RA'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 designs, develops, manufactures, markets and sells commercial and special mission aircraft and includes intercompany sales of aircraft parts manufactured by our aircraft production factories. The Trainer Aircraft segment designs, develops, manufactures, markets and sells military training aircraft to the United States and foreign governments, including the primary U.S. military trainer aircraft, the T-6A Texan II ("T-6A"). In 1995, RA was 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 provides parts, maintenance and flight support services for our installed fleet. Support is provided to owners of aircraft located around the world by both company-owned and 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.

During the three months ended September 30, 2007, HBAC established its accounting and reporting calendar as a stand-alone entity, adopting the last Sunday of the calendar month as its accounting period end date. In some months this differs from the calendar used by Raytheon and caused the three months ended September 30, 2007 to be comprised of 14 calendar weeks. For RA, the three months ended September 24, 2006 was comprised of 13 calendar weeks.

## **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 included in Raytheon's consolidated U.S. federal tax return. The provision for income taxes in the financial statements was determined as if HBAC and RA were stand-alone entities and filed separate income tax returns.

**Operating Results**  
(In millions)

	Successor	Predecessor	Successor	Predecessor	
	Three Months Ended September 30, 2007	Three Months Ended September 24, 2006	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006
Sales	\$871.0	\$796.4	\$1,572.1	\$667.8	\$2,081.4
Cost of Sales	721.7	655.1	1,380.2	566.1	1,752.6
Gross margin	149.3	141.3	191.9	101.7	328.8
Selling, general and administrative expenses	66.4	51.5	121.6	52.0	145.5
Research and development expenses	20.8	21.1	44.8	21.3	58.4
Operating income	62.1	68.7	25.5	28.4	124.9
Inter-company interest expense, net	0.0	23.9	0.0	15.8	65.3
Interest expense (income), net	56.3	(4.2)	107.5	(0.9)	(12.5)
Other income, net	(1.7)	(0.8)	(2.8)	(0.1)	(1.0)
Non-operating expense, net	54.6	18.9	104.7	14.8	51.8
Income (loss) before taxes	7.5	49.8	(79.2)	13.6	73.1
Provision for (benefit from) income taxes	(13.8)	18.0	(23.4)	5.1	26.5
Net income (loss)	21.3	31.8	(55.8)	8.5	46.6

**Sales.** Sales were \$871.0 million and \$1,572.1 million for the three and six months ended September 30, 2007, respectively, and reflect the volume, mix and distribution channel of aircraft deliveries in the Business and General Aviation segment as highlighted in the delivery chart below. Changes in the actual volume, mix and distribution channel of aircraft deliveries in any given period can affect sales and our overall financial results. Sales for the three months ended September 30, 2007 were also impacted by the delivery of 8 Hawker 900XP aircraft, a recently certified derivative aircraft, and delays in delivery of the Premier 1A aircraft due to issues with a supplier component. These issues have been resolved and the deliveries of the Premier resumed in October 2007.

**Business & General Aviation Segment Aircraft Delivery Units**

	Successor	Predecessor	Successor	Predecessor	
	Three Months Ended September 30, 2007	Three Months Ended September 24, 2006	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006
Hawker 900XP	8	0	8	0	0
Hawker 800XP/850XP	10	18	20	10	42
Hawker 400XP	12	12	20	7	35
Premier	5	9	17	15	20
King Airs	40	36	74	28	91
Pistons	31	20	62	19	74
Total	106	95	201	79	262

**Gross Margin.** Gross margin was \$149.3 million and \$191.9 million for the three and six months ended September 30, 2007, respectively, and is continuing to benefit from improved aircraft pricing and our ongoing focus on operating efficiencies. Gross margin will fluctuate in any particular period based on shifts in the volume, mix and distribution channel of aircraft models delivered. Gross margin for the three months and six months ended September 30, 2007 was impacted by charges totaling \$29.0 million and \$85.9 million, respectively, 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.

**Operating Income.** Operating income was \$62.1 million and \$25.5 million for the three and six months ended September 30, 2007, respectively. Partially offsetting the improved gross margin performance discussed above for the three and six months ended September 30, 2007 was increased selling, general and administrative expense in certain areas including overall company marketing expense associated with the volume and mix of aircraft deliveries and the marketing of our new aircraft derivative products. Selling, general and administrative expenses for the three and six months ended September 30, 2007 included \$1.6 million and \$5.9 million, respectively, of non-recurring costs to replace various services previously provided by Raytheon and to communicate our new company name.

In addition, for the three and six months ended September 30, 2007 selling, general and administrative expense included \$1.3 million and \$2.5 million, respectively, of increased depreciation and amortization expenses related to a step-up in the cost basis of property, plant and equipment and intangible assets in accordance with purchase accounting as a result of the Acquisition. Along with similar items discussed in gross margin above, the impact on operating income of the step-up in cost basis of inventory; property, plant and equipment; and intangible assets as a result of the Acquisition was \$30.9 million and \$88.7 million, respectively, for the three and six months ended September 30, 2007.

Research and development expense is a significant component of operating income and was \$20.8 million and \$44.8 million for the three and six months ended September 30, 2007, respectively. This expense is principally driven by our planned investment in refreshing our product offerings in the general aviation marketplace through a derivative strategy.

**Non-operating expense, net.** Non-operating expense, net, was \$54.6 million and \$104.7 million for the three and six months ended September 30, 2007, respectively. Non-operating expense, net, was \$14.8 million for the three months ended March 25, 2007 and \$18.9 million and \$51.8 million for the three and nine months ended September 24, 2006, respectively. HBAC Non-operating expense, net, is essentially comprised of interest expense associated with the debt as a result of the Acquisition.

**Provision for Income Taxes.** The effective tax rate for the six months ended September 30, 2007 was 29.6% and was favorably impacted by an anticipated research and development credit. The provision for income taxes for the three months ended September 30, 2007 was impacted by the application of the 29.6% effective tax rate to the accumulated pre-tax income for the six months ended September 30, 2007 compared to the provision for income taxes previously recorded using the effective tax rate and the level of pre-tax income for the three months ended June 24, 2007.

## Segment Results

(In millions)

	<u>Successor</u>	<u>Predecessor</u>	<u>Successor</u>	<u>Predecessor</u>	
	<u>Three Months</u>	<u>Three Months</u>	<u>Six Months</u>	<u>Three Months</u>	<u>Nine Months</u>
	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>
	<u>September 30,</u>	<u>September 24,</u>	<u>September 30,</u>	<u>March 25,</u>	<u>September 24,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2006</u>
<b>Sales</b>					
Business and General Aviation	\$665.0	\$572.6	\$1,170.2	\$487.6	\$1,430.6
Trainer Aircraft	99.0	105.0	194.2	91.2	322.9
Customer Support	145.6	145.7	271.9	116.4	412.7
Eliminations	(38.6)	(26.9)	(64.2)	(27.4)	(84.8)
<b>Total</b>	<b>\$871.0</b>	<b>\$796.4</b>	<b>\$1,572.1</b>	<b>\$667.8</b>	<b>\$2,081.4</b>
	<u>Successor</u>	<u>Predecessor</u>	<u>Successor</u>	<u>Predecessor</u>	
	<u>Three Months</u>	<u>Three Months</u>	<u>Six Months</u>	<u>Three Months</u>	<u>Nine Months</u>
	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>	<u>Ended</u>
	<u>September 30,</u>	<u>September 24,</u>	<u>September 30,</u>	<u>March 25,</u>	<u>September 24,</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2006</u>
<b>Operating Income (Loss)</b>					
Business and General Aviation	\$33.5	\$50.6	(\$14.9)	\$3.6	\$65.8
Trainer Aircraft	11.3	11.7	22.6	12.2	40.8
Customer Support	16.7	6.8	17.3	11.9	20.3
Eliminations	0.6	(0.4)	0.5	0.7	(2.0)
<b>Total</b>	<b>\$62.1</b>	<b>\$68.7</b>	<b>\$25.5</b>	<b>\$28.4</b>	<b>\$124.9</b>

### *Business and General Aviation*

Sales in the Business and General Aviation segment are the primary contributor to HBAC sales and are discussed in the Operating Results section.

Business and General Aviation segment operating income for the three months ended September 30, 2007 was \$33.5 million. During the three months ended September 30, 2007, operating income was impacted by \$28.7 million of additional expenses related to a step-up in the cost basis of inventory; property, plant and equipment; and intangible assets in accordance with purchase accounting as a result of the Acquisition, as well as a planned increase in research and development expense, and increased selling and general and administrative expense primarily related to transition expenses following the Acquisition.

Segment operating loss was \$14.9 million for the six months ended September 30, 2007. During the six months ended September 30, 2007, operating income was impacted by \$68.4 million of expenses related to a step-up in the cost basis of inventory; property, plant and equipment; and intangible assets in accordance with purchase accounting as a result of the Acquisition.

### *Trainer Aircraft.*

Sales in the Trainer Aircraft segment are principally comprised of program revenue on the JPATS contract. Revenue is recognized on this program under SOP 81-1 using the cost-to-cost method to measure progress towards completion. Accordingly, segment sales including estimated earned margin, are recognized as costs are incurred. The margin recognized is based on management's estimate of total program revenue and total program cost at completion. As estimates are updated, any impact on revenue and operating income as a result of the change in estimate is reflected in current earnings on a cumulative catch-up basis.

During the three months ended September 30, 2007 the Trainer segment delivered 2 T-6A Texan II Aircraft under its JPATS contract. Deliveries of the aircraft were discontinued during July 2007 due to issues related to supplier compliance with part specifications. The Company is working with the supplier and various regulatory agencies to resolve the non-compliance condition; however, it is unlikely that deliveries will resume prior to the end of 2007. Production of the aircraft has continued and the Company believes that the non-compliance condition does not impact safety of flight.

Segment operating income was \$11.3 million and \$22.6 million for the three and six months ended September 30, 2007, respectively, and included favorable adjustments to our estimates for our JPATS program of \$0.9 million and \$1.5 million, respectively.

## Customer Support

Sales in the Customer Support segment were not impacted by any unusual events during the three months ended September 30, 2007; however, ongoing productivity and strategic pricing initiatives have favorably impacted operating income. Included in the six months ended September 30, 2007 was a charge of \$16.6 million due to the step-up in the cost basis of inventory in accordance with purchase accounting as a result of the Acquisition. The operating income impact of the step-up in cost basis of inventory as a result of the Acquisition was essentially completed in the first three months after the Acquisition due to the completion of the sales process for the majority of the inventory on hand at the date of the Acquisition.

Customer Support segment operating income was \$16.7 million for the three months ended September 30, 2007 and was impacted by \$1.9 million of increased depreciation and amortization expenses due to the step-up in the cost basis of property, plant and equipment and intangibles in accordance with purchase accounting as a result of the Acquisition.

Segment operating income was \$17.3 million for the six months ended September 30, 2007 and was impacted by \$20.4 million of increased expenses due to the step-up on the cost basis of inventory; property, plant and equipment; and intangibles in accordance with purchase accounting as a result of the Acquisition.

## 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 is summarized below.

	Successor	Predecessor	
	Six Months Ended September 30, 2007	Three Months Ended March 25, 2007	Nine Months Ended September 24, 2006
(In millions)			
Operating cash flow	\$196.4	(\$100.9)	\$99.2
Investing cash flow	(3,248.7)	(27.3)	(28.1)
Financing cash flow	3,298.2	117.4	(77.3)

**Six Months Ended September 30, 2007.** Cash generated by operating activities was \$196.4 million. The net cash generated was primarily due to customer deposits received on new commercial aircraft, payments received on general aviation financing receivables, and the sale of used commercial aircraft. Cash was also positively impacted by a new financing arrangement with a third party supplier which extends payment terms in exchange for a short-term promissory note. 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 last quarter of the year as well as the ongoing reduction in T6-A advance payments. Cash generated by operating activities was also adversely affected by the delayed deliveries on the Premier and T-6A Texan II aircraft previously discussed.

Cash used in investing activities of \$3.2 billion included capital expenditures of \$30.7 million primarily related to company-manufactured tooling, facilities improvements 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 \$3.3 billion during the six months primarily represents the equity and debt financing received related to the Acquisition.

## **Recently Issued Accounting Standards**

In September 2006, the FASB issued SFAS No. 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 No. 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 are subject to interest rate risk in connection with our senior secured credit facilities. Our senior secured credit facilities provide for variable rate borrowings of up to \$1,693.5 million including availability of \$400.0 million under our revolving credit facility. We have entered into an interest rate swap agreement with an investment bank to swap \$900.0 million of our variable rate debt to fixed rate debt. We also enter into foreign currency forward contracts with commercial banks to fix the dollar value of commitments and payments to international vendors. 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.

Assuming the senior secured credit facilities were fully drawn, each one-eighth percentage point increase or decrease in the applicable interest rates would result in a corresponding change to our interest expense on the senior secured credit facilities by approximately \$1.0 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. 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.

On October 12, 2007, a legal action was filed naming HBAC, The Goldman Sachs Group, Inc., and an HBI director who is also an employee of The Goldman Sachs Group, Inc. as defendants. The complaint alleges that defendants breached an oral agreement with the plaintiffs whereby the plaintiffs would be compensated in connection with the arrangement and structuring of the acquisition of Raytheon Aircraft and alternatively that defendants defrauded plaintiffs in connection with such an arrangement. The defendants intend to vigorously defend the action. While the ultimate liability, if any, of this action is presently indeterminable, any liability is not expected to have a material adverse effect on HBAC's financial position, results of operations, or liquidity.

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 three months ended June 25, 2007). Except as noted below, there have been no material changes from the factors disclosed in our 2007 Form 10-Q (for the three months ended June 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 senior secured credit facilities. Our senior secured credit facilities provide for variable rate borrowings of up to \$1,693.5 million including availability of \$400.0 million under our revolving credit facility. We have entered into an interest rate swap agreement with an investment bank to swap \$900 million of our variable rate debt to fixed rate debt. We also enter into foreign currency forward contracts with commercial banks to fix the dollar value of commitments and payments to international vendors. 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.

Assuming the senior secured credit facilities were fully drawn, each one-eighth percentage point increase or decrease in the applicable interest rates would result in a corresponding change to our interest expense on the senior secured credit facilities by approximately \$1 million per year.

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

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

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

Not applicable

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

Not applicable

November 6, 2007