

James H.M. Sprayregen, P.C.
Paul M. Basta
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, New York 10022
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

- and -

Patrick J. Nash, Jr. (admitted *pro hac vice*)
Ross M. Kwasteniet (admitted *pro hac vice*)
KIRKLAND & ELLIS LLP
300 N. LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

Counsel to the Debtors and Debtors in Possession

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	
)	Chapter 11
HAWKER BEECHCRAFT, INC., <i>et al.</i> , ¹)	
)	Case No. 12-11873 (SMB)
Debtors.)	(Jointly Administered)
)	

**DEBTORS' MOTION FOR ENTRY OF AN ORDER
APPROVING THE DEBTORS' KEY EMPLOYEE INCENTIVE PLAN
AND KEY EMPLOYEE RETENTION PLAN AND GRANTING RELATED RELIEF**

¹ The Debtors in the chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: Hawker Beechcraft, Inc. (2598); Arkansas Aerospace, Inc. (7496); Beech Aircraft Corporation (0487); Beechcraft Aviation Company (3548); Hawker Beechcraft Acquisition Company, LLC (8770); Hawker Beechcraft Corporation (5770); Hawker Beechcraft Defense Company, LLC (5891); Hawker Beechcraft Finance Corporation (8763); Hawker Beechcraft Global Customer Support Corporation (7338); Hawker Beechcraft Holding, Inc. (6044); Hawker Beechcraft International Delivery Corporation (6640); Hawker Beechcraft International Holding LLC (6757); Hawker Beechcraft International Service Company (9173); Hawker Beechcraft Notes Company (0498); Hawker Beechcraft Quality Support Company (7800); Hawker Beechcraft Regional Offices, Inc. (3889); HBC, LLC (N/A); and Rapid Aircraft Parts Inventory and Distribution Company, LLC (N/A). The location of the Debtors' corporate headquarters and the Debtors' service address is: 10511 East Central, Wichita, Kansas 67206.

The above-captioned debtors and debtors in possession (collectively, the “Debtors”) file this motion (this “Motion”) for the entry of an order, substantially in the form attached hereto as **Exhibit A**, (a) approving and authorizing the Debtors’ proposed key employee incentive plan (the “KEIP”) and Key Employee Retention Plan (the “KERP”), (b) authorizing the Debtors to make payments to certain management employees under the KEIP and certain non-insider employees under the KERP, and (c) granting certain related relief. In support of this Motion, the Debtors submit the *Declaration of Robert S. Miller in Support of Debtors’ Motion for Entry of an Order Approving the Debtors’ Key Employee Incentive Plan and the Key Employee Retention Plan and Granting Related Relief*, attached hereto as **Exhibit B** (the “Miller Declaration”), and the *Declaration of Nick Bubnovich in Support of Debtors’ Motion for Entry of an Order Approving the Debtors’ Key Employee Incentive Plan and the Key Employee Retention Plan and Granting Related Relief*, attached hereto as **Exhibit C** (the “Bubnovich Declaration”). In further support of this Motion, the Debtors respectfully state as follows:

Jurisdiction

1. The United States Bankruptcy Court for the Southern District of New York (the “Court”) has jurisdiction over this matter pursuant to 28 U.S.C. §§ 157 and 1334. This matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2).

2. Venue is proper pursuant to 28 U.S.C. §§ 1408 and 1409.

3. The statutory bases for the relief requested herein are sections 105(a), 363(b), and 503(c) of title 11 of the United States Code (the “Bankruptcy Code”) and Rule 6004 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”).

Background

4. On May 3, 2012 (the “Petition Date”), each of the Debtors filed a voluntary petition for relief under chapter 11 of the Bankruptcy Code. The Debtors are operating their

businesses and managing their properties as debtors in possession pursuant to section 1107(a) and 1108 of the Bankruptcy Code. On May 4, 2012, the Court entered an order [Docket No. 34] authorizing the joint administration and procedural consolidation of the chapter 11 cases pursuant to Bankruptcy Rule 1015(b). No request for the appointment of a trustee or examiner has been made in the chapter 11 cases. On May 11, 2012, the United States Trustee for the Southern District of New York (the “U.S. Trustee”) appointed an official committee of unsecured creditors pursuant to section 1102 of the Bankruptcy Code (the “Committee”) [Docket No. 83].

Relief Requested

5. By this Motion, the Debtors seek entry of an order (a) approving and authorizing the KEIP and the KERP, (b) authorizing the Debtors to make payments under the KEIP and the KERP to the participants in such plans, and (c) granting certain related relief.

Description of the KEIP and KERP

A. Restructuring Support Agreement and the Debtors’ Marketing Process.

6. As the Debtors have previously disclosed, they filed these chapter 11 cases to implement a consensual debt-to-equity recapitalization transaction (the “Standalone Transaction”) that has been agreed to by holders of a majority of the Debtors’ prepetition secured debt (the “Consenting Lenders”) and prepetition senior bond debt (the “Consenting Bondholders,” and together with the Consenting Lenders, the “Consenting Creditors”). The terms of the Standalone Transaction were set forth in a restructuring term sheet and a related restructuring support agreement (collectively, the “RSA”).² In furtherance of the Standalone

² The RSA was attached as an exhibit to the *Declaration of Robert S. Miller (I) in Support of Debtors’ Chapter 11 Petitions and First Day Motions and (II) Pursuant to Local Bankruptcy Rule 1007-2*, filed on May 4, 2012 [Docket No. 22].

Transaction, on June 30, 2012, the Debtors filed their proposed chapter 11 plan [Docket No. 304] (the “Plan”) and disclosure statement [Docket No. 305] (the “Disclosure Statement”) which implement the terms contained in the RSA.

7. The RSA also provided that the Debtors and their advisors would engage in a marketing process to determine whether a third-party sale or plan sponsorship transaction might be more attractive than the Standalone Transaction (the “Third-Party Transaction”). The Debtors and their advisors, in consultation with the Consenting Creditors and the Committee, conducted a thorough marketing process. After evaluating several rounds of “stalking horse” proposals, the Debtors, after consultation with and the Consenting Creditors and the Committee, determined that the final proposal from Superior Aviation Beijing, Co., Ltd. (“Superior”) was the most attractive and most viable stalking horse proposal (the “Superior Proposal”).³ However, because the Superior Proposal is non-binding and remains subject to ongoing due diligence, definitive documentation, regulatory approvals, and certain other conditions, the Debtors and the Consenting Creditors intend to continue to pursue the Standalone Transaction on a parallel path.

8. The Debtors’ senior management team will play an indispensable role in the performance of the business over the next few months, which will drive the overall outcome of the Standalone Transaction or the Third-Party Transaction. Recognizing the key role that the Debtors’ senior management team will play in their restructuring efforts and operating performance, the Consenting Creditors and the Committee support the KEIP, the implementation of which will maximize value for all of the Debtors’ stakeholders.

³ On July 10, 2012, the Debtors filed the *Debtors’ Motion for the Entry of an Order Authorizing the Debtors to Enter Into an Exclusive Negotiations Agreement and a Refund Agreement* [Docket No. 324] (the “Superior Motion”), in furtherance of the Superior Proposal.

B. Necessity for and Development of the KEIP.

9. Because the Debtors' senior management team has been, and must continue to, actively pursue two separate alternative restructuring transactions, the Standalone Transaction and the Third-Party Transaction, on an accelerated timeline in addition to running the Debtors' day-to-day affairs, the Debtors have an immediate need to implement the KEIP and provide incentive opportunities for the Debtors' eight-person senior leadership team (the "SLT"). Providing incentive opportunities for the SLT, such as those contemplated in the KEIP, will enable the Debtors to achieve their near-term operating performance and restructuring goals, which are all the more challenging to achieve given the Debtors' accelerated dual-track restructuring process. Indeed, as described in more detail below, because the SLT must actively pursue both the Standalone Transaction and the Third-Party Transaction at the same time and on an accelerated timeline (while performing their usual job duties), the SLT has seen an enormous increase in their work load, without any concomitant increase in their compensation. Therefore, the Debtors propose that the SLT be eligible to participate in the KEIP to incentivize and reward the SLT for achieving strong business performance and for achieving a timely and favorable outcome for the Debtors' restructuring.

10. Immediately prior to and since the commencement of the chapter 11 cases, individual members of the SLT have worked around the clock (sometimes literally), shouldering responsibilities that are well above and beyond their day-to-day duties outside of chapter 11, and are even more onerous given the Debtors' dual-track restructuring process which is proceeding on an accelerated timeline. The SLT has, among other things, been called upon to respond to myriad complex issues to ensure the continued viability of their businesses, including negotiating the RSA, negotiating and finalizing their \$400 million postpetition debtor-in-possession financing facility (the "DIP Facility") and the cash flow projections and required budgets related

thereto, responding to and communicating with their numerous creditors including the Debtors' valuable trade partners, and expending significant time and resources complying with bankruptcy-related reporting obligations. In addition (and at the same time), the Debtors, with the assistance of their advisors, have engaged in an extensive marketing process in an effort to determine whether an alternative Third-Party Transaction may provide more value to their estates than the Standalone Transaction. In connection with these efforts, the Debtors and their advisors, among other things, developed a comprehensive list of potential buyers and investors, identified and vetted over 35 potential buyers, conducted several rounds of bidding, and ultimately selected the Superior Proposal as the most attractive and most viable potential stalking horse proposal.

11. Notwithstanding the significant extra effort required of the SLT as a result of the Debtors' dual-track restructuring process, SLT's total compensation packages are below-market. Historically, in addition to base salary, the Debtors have compensated a core team of key employees through an annual cash incentive program based on attainment of certain cash and percentage profit goals (the "MIP") and through certain equity-based awards (the "Equity Investment Plan"). The Debtors developed the MIP to attract and motivate talented executives to achieve certain financial and operational results. MIP participants included both employees who would qualify as "insiders" (as defined in section 101(31) of the Bankruptcy Code) as well as non-insider employees. Incentive payments under the MIP consisted of a percentage of participants' respective base salaries. On February 10, 2011, for fiscal year 2010, the Debtors paid approximately \$10.25 million in incentive payments under the MIP. Because the applicable performance metrics were not achieved in fiscal year 2011, the Debtors paid no incentive awards under the MIP for fiscal year 2011. To date, the board of directors of parent Debtor Hawker

Beechcraft, Inc. (the “Board”) has not adopted a MIP for fiscal year 2012, and no payments were made to the SLT under the MIP or any other alternative bonus plan, including the Equity Investment Plan, since the payments for fiscal year 2010 described above. Therefore, notwithstanding the significant increase in their work load as a result of the Debtors’ prepetition restructuring efforts and these chapter 11 cases, the only compensation provided to the Debtors’ senior management team for fiscal year 2012, as of the date hereof, is their base salary.

12. Prior to the Petition Date, as the Debtors examined various restructuring alternatives, the Debtors recognized that achieving a successful reorganization would require appropriately incentivizing the Debtors’ senior management. To assist them in their efforts, the Debtors retained Towers Watson (“Towers”) to advise the Debtors’ management on the design of a management incentive plan that would provide employees instrumental to the success of the Debtors’ restructuring efforts and operational performance with appropriate compensation. Towers determined that the total compensation levels for the SLT were materially below the industry median, principally due to the fact that the SLT will receive no bonus or other incentive opportunity for fiscal year 2012.⁴ The Debtors, together with Towers, structured the KEIP to alleviate this compensation gap and to ensure that key management employees are incentivized to assist in expeditiously implementing a value-maximizing restructuring transaction and focus on operations and near-term results as the Debtors enter their most important sales period.⁵

⁴ As described in more detail in the Disclosure Statement, in connection with the Debtors’ attempts to restructure and improve their leadership, during the first quarter 2012, the Debtors increased compensation for certain members of the SLT by approximately four percent of base salary. In addition, the Debtors restored to prior levels the compensation for certain SLT members who had previously consented to voluntary pay reductions. Towers’ conclusion that total compensation levels for the SLT are below-market takes into consideration these prepetition pay increases.

⁵ Historically, the Debtors’ peak aircraft sales period has occurred during the last quarter of the calendar year.

13. The Debtors' Chief Executive Officer, Robert S. Miller, also played a pivotal role in formulating and negotiating the KEIP. Importantly, Mr. Miller is not a participant in the KEIP and will receive no award payments thereunder. Therefore, Mr. Miller's participation in the development of the KEIP was not motivated by personal pecuniary interest, but rather a desire to improve the Debtors' financial and operating performance and achieve a value-maximizing restructuring transaction on an accelerated timeline. As set forth in the Miller Declaration, the Debtors, together with Mr. Miller and the Debtors' advisors, carefully considered compensation components that would appropriately incentivize and reward employees for maximizing value while ensuring that the terms of any proposed incentive plan were competitive and market-driven. Specifically, the Debtors and Mr. Miller, through discussions with their major creditor constituents, including the Consenting Creditors and the Committee, structured the KEIP to (a)(i) reward strong financial and operational performance and (ii) reward the successful and expeditious conclusion of the Standalone Transaction, or (b) reward the successful conclusion of a Third-Party Transaction. The Debtors believe that the KEIP will maintain continuity among the SLT to facilitate an expeditious restructuring process, maximize value for all parties in interest, generate a higher recovery for all creditors, and provide for a plan that is fair and reasonable to all stakeholders and consistent with market practice.

14. To evaluate the competitiveness of the KEIP, Towers gathered external market compensation data from several survey sources, encompassing a large and diverse database of compensation information. These data sources were selected because they reflect pay practices for the Debtors' relevant labor market for executives. Towers determined that base salaries plus target KEIP opportunities for the SLT are within the range of competitive practice on a target total compensation basis. Moreover, base salaries plus maximum KEIP award opportunities are

also within the range of competitive practice on a target total compensation basis. Towers also analyzed the KEIP opportunities against approximately 25 other companies that have filed for chapter 11 for which Towers had data on key employee incentive plan opportunities and determined that the proposed KEIP opportunities are within the range of competitive practice on a total compensation basis.

15. Because the proposed timeline for consummation of either the Standalone Transaction or the Third-Party Transaction lead up to and will coincide with the Debtors' most significant sales period (the last quarter of the calendar year), the Debtors believe there is an urgent need to act now to appropriately align the interests of the Debtors, the SLT, and the Debtors' stakeholders. Recognizing the importance of incentivizing the SLT to expeditiously consummate a value-maximizing restructuring transaction, enhance earnings, and maximize value to these estates, the Consenting Creditors and the Committee support the KEIP and the relief requested herein. This support suggests that the KEIP offers considerable benefits for the Debtors' estates and fairly aligns the interests of the Debtors, their employees, and their stakeholders.

C. Terms of the KEIP.

16. With the above principles and challenges in mind, the Debtors developed the KEIP, which is calibrated to achieve one primary goal: to motivate the members of the Debtors' management and align their incentives with those of the Debtors' stakeholders. Accordingly, the KEIP is focused on incentivizing those key employees who possess significant knowledge of the industry and the Debtors' businesses and who drive the high-level operations that dictate the Debtors' financial performance. In light of the fact that the outcome of a Third-Party Transaction is currently unknown, the KEIP consists of two potential (but exclusive) methods of receiving compensation: (a) the Standalone Transaction incentive (the "Standalone Transaction

Award”) and (b) an incentive which is based upon Court approval and consummation of a Third-Party Transaction (the “Third-Party Transaction Award”). To be clear, participating employees will only be eligible to receive incentive compensation under either the Standalone Transaction Award or the Third-Party Transaction Award, but not both, depending upon the outcome of the Debtors’ third-party marketing process.

17. In addition, in order for a member of the SLT to receive a KEIP award payment, (a) except as set forth below, the SLT member must waive all prepetition unsecured claims, including prepetition unsecured claims for severance, bonus or incentive awards, and any right to payment upon a change of control triggered by the Standalone Transaction or Third-Party Transaction (excluding accrued vacation time), whether arising under such member’s prepetition employment agreement, the Debtors’ organizational documents, or other agreements and (b) the economic distributions to creditors, whether in the form of cash, equity in the reorganized Debtors, or other form of consideration, in the Standalone Transaction or Third-Party Transaction must be consistent with the distribution formula set forth in the RSA (unless otherwise agreed to by the Consenting Creditors and the Committee). For the avoidance of doubt, the SLT is not waiving any claims for indemnification, contribution, reimbursement, or any right to payment under the Debtors’ director and officer insurance policies and the Debtors’ organizational documents.

1. Eligible Participants.

18. The Debtors developed the KEIP to appropriately incentivize the SLT, who the Debtors have identified as the most capable of maximizing financial performance for the benefit of all parties in interest, and all of whom are “insiders” (as that term is defined in section 101(31) of the Bankruptcy Code). The SLT includes the following:

- The Chairman of Hawker Beechcraft Corporation;

- The Executive Vice President of Operations;
- The Vice President of Human Resources;
- The Vice President of Engineering;
- The Executive Vice President and General Counsel;⁶
- The Senior Vice President of Global Customer Support;
- The Chief Financial Officer; and
- The Executive Vice President of Customers.

19. The Debtors have determined that the SLT is instrumental to the Debtors' ability to consummate the Plan or gain approval of a Third-Party Transaction, drive actions that maximize value for the Debtors' estates, and facilitate a successful restructuring on an accelerated basis. In determining the KEIP participant pool, the Debtors identified those employees that are critical to the Debtors' restructuring efforts and that drive high-level operations needed to maximize value for the Debtors and their estates during this critical period. Without the diligent efforts of these employees, the Debtors could not hope to expeditiously achieve consummation of the Plan or Court approval and consummation of a Third-Party Transaction. Accordingly, because the Debtors' successful restructuring and emergence from chapter 11 depend on these eight employees, it is appropriate that they participate in the KEIP.

2. The Standalone Transaction Award.

20. Under the Standalone Transaction Award, the Debtors, with input from Towers, have set individual cash award opportunities based upon a percentage of each individual's base compensation. As described in further detail below, the Standalone Transaction Award would be paid for achieving expedited consummation of a standalone chapter 11 plan of reorganization

⁶ Effective as of June 30, 2012, the Debtors' Vice President and General Counsel was promoted to Executive Vice President and General Counsel.

(including, but not limited to, the Plan) and for achieving certain financial performance goals. Specifically, 50 percent of an eligible employee’s total target award opportunity is based upon the date of plan consummation (the “Consummation Award”) and the remaining 50 percent of an eligible employee’s total target award opportunity is based upon the Debtors’ achieving a target level of Cumulative Net Cash Flow (as defined below) (the “Financial Performance Award”).

a. The Consummation Award.

21. The Consummation Award is designed to incentivize the SLT to consummate a value-maximizing restructuring transaction on an accelerated timeline. The Consummation Award for each SLT member is based on a specified percentage of each participant’s base salary, with a target goal award of 50 percent of base salary, a maximum “stretch goal” award of 100 percent of base salary, and a minimum award of 0 percent in the event that the Debtors do not achieve plan consummation on or before December 15, 2012. The following chart illustrates the Consummation Award achieved based on the effective date of the Plan:

	Date of Plan Consummation	Total % of Base Salary	Total Payouts Under Consummation Award
–	After 12/15/12	0%	\$0
Level 1	Target - After 12/8/12, but on or before 12/15/12	50%	\$1,332,000
Level 2	After 12/1/12, but on or before 12/8/12	62.5%	\$1,615,000
Level 3	After 11/24/12, but on or before 12/1/12	75%	\$1,938,000
Level 4	After 11/17/12, but on or before 11/24/12	82.5%	\$2,131,800
Level 5	Stretch Goal - On or before 11/17/12	100 %	\$2,664,000

Each of the above dates will be extended by the number of days beyond August 31, 2012, in which the treatment of the Debtors’ three IRS-qualified defined benefit pension plans has not been resolved by the entry of an order of the Court, but in no event shall the extension exceed 30 days. The above dates may otherwise be extended at the discretion of both the Consenting

Creditors and the Committee. The Consummation Award shall be earned on the occurrence of the effective date of a chapter 11 plan within the time period specified herein.

22. The Consummation Award recognizes the value-preserving benefits of an expeditious and coordinated trip through chapter 11. The aggressive plan consummation targets are consistent with, and directly support the achievement of, the Debtors' goal to consummate a value-maximizing restructuring transaction as soon as possible. Providing such targeted incentives helps maximize the likelihood that the Debtors will adhere to their desired accelerated timeline for the chapter 11 cases. Consummating a plan of reorganization and exiting chapter 11 within the short timeframe provided by the Consummation Award is critical to the Debtors' financial restructuring and important to their maintaining a competitive, successful business. Indeed, the Debtors' timely consummation of a plan will allow their creditors to more quickly realize value and receive recoveries accorded them under such plan. Furthermore, the time frame set forth in the Consummation Award was extensively negotiated and is supported by the Debtors' major creditor constituents, including the Consenting Creditors and the Committee.

b. The Financial Performance Award.

23. The Financial Performance Award is based on the Debtors achieving a certain target level of cumulative Net Cash Flow (as defined in the DIP Facility, with additional disbursement exclusions including, (a) interest and fees under the DIP Facility, (b) adequate protection payments made on account of prepetition secured debt, (c) any disbursements related to pension obligations, and (d) receipt exclusions including the Payments as defined in the Superior Motion) for the period from July 9, 2012 through the week of plan consummation (the "Cumulative Net Cash Flow"). Similar to the Consummation Award, the Financial Performance Award for each SLT member is based on a percentage of each member's base salary. If the Debtors achieve the target Cumulative Net Cash Flow goal, payments on account the Financial

Performance Award would be 50 percent of each participant's base salary, resulting in a total target payout of \$1,332,000 to the SLT. To the extent that the Debtors exceed this target, payments on account of the Financial Performance Award can reach up to 100 percent of each participant's base salary, resulting in a total maximum payout of \$2,644,000. If performance is below the minimum threshold level, no payments will be made. The following chart illustrates the Cumulative Net Cash Flow levels and corresponding base salary percentage payouts:

Cumulative Net Cash Flow Measurement by Date and Payout Level						
Date of Plan Consummation (Week Ending Date)	Level 1: 50% of Base Salary - \$1,332,000	Level 2: 60% of Base Salary - \$1,598,400	Level 3: 70% of Base Salary - \$1,864,800	Level 4: 80% of Base Salary - \$2,131,200	Level 5: 90% of Base Salary - \$2,397,600	Level 6: 100% of Base Salary - \$2,664,400
October 20, 2012	(\$81.6) million – (\$89.1) million	(\$74.1) million – (\$81.6) million	(\$66.6) million – (\$74.1) million	(\$59.1) million – (\$66.6) million	(\$51.6) million – (\$59.1) million	Greater than (\$51.6) million
October 27, 2012	(\$55.4) million – (\$62.9) million	(\$47.9) million – (\$55.4) million	(\$40.4) million – (\$47.9) million	(\$32.9) million – (\$40.4) million	(\$25.4) million – (\$32.9) million	Greater than (\$25.4) million
November 2, 2012	(\$50.6) million – (\$58.1) million	(\$43.1) million – (\$50.6) million	(\$35.6) million – (\$43.1) million	(\$28.1) million – (\$35.6) million	(\$20.6) million – (\$28.1) million	Greater than (\$20.6) million
November 9, 2012	(\$49.3) million – (\$56.8) million	(\$41.8) million – (\$49.3) million	(\$34.3) million – (\$41.8) million	(\$26.8) million – (\$34.3) million	(\$19.3) million – (\$26.8) million	Greater than (\$19.3) million
November 16, 2012	(\$57.4) million – (\$64.9) million	(\$49.9) million – (\$57.4) million	(\$42.4) million – (\$49.9) million	(\$34.9) million – (\$42.4) million	(\$27.4) million – (\$34.9) million	Greater than (\$27.4) million
November 23, 2012	(\$29.2) million – (\$36.7) million	(\$21.7) million – (\$29.2) million	(\$14.2) million – (\$21.7) million	(\$6.7) million – (\$14.2) million	\$0.8 million – (\$6.7) million	Greater than \$0.8 million
November 30, 2012	(\$40.6) million – (\$48.1) million	(\$33.1) million – (\$40.6) million	(\$25.6) million – (\$33.1) million	(\$18.1) million – (\$25.6) million	(\$10.6) million – (\$18.1) million	Greater than (\$10.6) million
December 7, 2012	(\$32.8) million – (\$40.3) million	(\$25.3) million – (\$32.8) million	(\$17.8) million – (\$25.3) million	(\$10.3) million – (\$17.8) million	(\$2.8) million – (\$10.3) million	Greater than (\$2.8) million
December 14, 2012	(\$17.3) million – (\$24.8) million	(\$9.8) million – (\$17.3) million	(\$2.3) million – (\$9.8) million	\$5.2 million – (\$2.3) million	\$12.7 million – \$5.2 million	Greater than \$12.7 million
December 21, 2012	(\$6.2) million – (\$13.7) million	\$1.3 million – (\$6.2) million	\$8.8 million – \$1.3 million	\$16.3 million – \$8.8 million	\$23.8 million – \$16.3 million	Greater than \$23.8 million
December 28, 2012 (or later)	(\$4.0) million – (\$11.5) million	\$3.5 million – (\$4.0) million	\$11.0 million – \$3.5 million	\$18.5 million – \$11.0 million	\$26.0 million – \$18.5 million	Greater than \$26.0 million

To the extent the Cumulative Net Cash Flow falls between two payout levels, award amounts would be prorated.⁷ To the extent the effective date of the Standalone Transaction occurs after January 15, 2013, the Debtors agree to provide an updated Cumulative Net Cash Flow forecast for purposes of calculating the Cumulative Net Cash Flow test to the Consenting Creditors and the Committee covering the period from December 28, 2012 through the effective date of the Standalone Transaction, which shall be subject to the consents of the Consenting Creditors and the Committee, which consent will not be unreasonably withheld. The Financial Performance Award shall be earned after operating results are finalized for July 9, 2012, through the week in which a chapter 11 plan of reorganization is consummated.⁸

24. To further ensure that the Debtors' senior leadership team is appropriately incentivized to achieve operational success during the Debtors' most significant sales periods, the Debtors have tied 50 percent of the total Standalone Transaction Award to financial targets based on Cumulative Net Cash Flow. The Debtors believe there is an urgent need to implement an appropriate incentive structure based on operating performance and that the Financial Performance Award appropriately aligns the interests of the Debtors, the SLT, and the Debtors' stakeholders.

c. Payment of Standalone Transaction Award.

25. As described above, each of the SLT member's allocation of the cash available under the Standalone Transaction Award is based upon (a) a percentage of the employee's base salary, (b) the date of plan consummation, and (c) the cash flow savings achieved by the Debtors.

⁷ For example, if the metric falls exactly between Levels 4 and Level 5, the corresponding payout opportunity percent of base salary would be 85% (80% + 90%, divided by 2).

⁸ The Debtors agree that they will make payments on account of all postpetition trade accounts payable and other obligations in the ordinary course and as payments become due.

If target goals are reached under both the Consummation Award and the Financial Performance Award, the Standalone Transaction Award provides for a target payout totaling 100 percent of base salary for each participant. In such a scenario, the total aggregate Standalone Transaction Award payout would be \$2,664,000. The below chart includes the SLT members' base salaries and illustrates the target goal scenario:

Position	Salary	Target Multiplier of Salary (Consummation Award)	Target Multiplier of Salary (Financial Performance Award)	Target Award Opportunity (Consummation Award)	Target Award Opportunity (Financial Performance Award)	Total "Target" Standalone Transaction Award Opportunity
Chairman, HBC	\$630,000	50%	50%	\$315,000	\$315,000	\$630,000
EVP, Operations	\$302,000	50%	50%	\$151,000	\$151,000	\$302,000
VP, Human Resources	\$260,000	50%	50%	\$130,000	\$130,000	\$260,000
VP, Engineering	\$260,000	50%	50%	\$130,000	\$130,000	\$260,000
EVP and General Counsel	\$325,000 ⁹	50%	50%	\$162,500	\$162,500	\$325,000
SVP, Global Customer Support	\$245,000	50%	50%	\$122,500	\$122,500	\$245,000
CFO	\$300,000	50%	50%	\$150,000	\$150,000	\$300,000
EVP, Customers	\$342,000	50%	50%	\$171,000	\$171,000	\$342,000
Total	\$2,664,000			\$1,332,000	\$1,332,000	\$2,664,000

The total maximum aggregate payout under the Standalone Transaction Award, payable only if "stretch" goals are achieved under both the Consummation Award and the Financial Performance Award, is 200 percent of each participant's base salary, which aggregates to total incentive payments of \$5,328,000. The chart below illustrates the stretch goal scenario:

⁹ Effective as of June 30, 2012, the Debtors' Vice President and General Counsel was promoted to Executive Vice President and General Counsel and received a salary change from \$245,000 to \$325,000.

Position	Salary	Stretch Multiplier of Salary (Consummation Award)	Stretch Multiplier of Salary (Financial Performance Award)	Stretch Award Opportunity (Consummation Award)	Stretch Award Opportunity (Financial Performance Award)	Total "Stretch" Standalone Transaction Award Opportunity
Chairman, HBC	\$630,000	100%	100%	\$630,000	\$630,000	\$1,260,000
EVP, Operations	\$302,000	100%	100%	\$302,000	\$302,000	\$604,000
VP, Human Resources	\$260,000	100%	100%	\$260,000	\$260,000	\$520,000
VP, Engineering	\$260,000	100%	100%	\$260,000	\$260,000	\$520,000
EVP and General Counsel	\$325,000	100%	100%	\$325,000	\$325,000	\$650,000
SVP, Global Customer Support	\$245,000	100%	100%	\$245,000	\$245,000	\$490,000
CFO	\$300,000	100%	100%	\$300,000	\$300,000	\$600,000
EVP, Customers	\$342,000	100%	100%	\$342,000	\$342,000	\$684,000
Total	\$2,664,000			\$2,664,000	\$2,664,000	\$5,328,000

26. The Debtors believe that the Standalone Transaction Award will adequately and fairly incentivize the SLT. The Debtors, in consultation with Towers and their other advisors, conducted extensive due diligence and invested a great deal of thought into the best way to structure the Standalone Transaction Award to ensure that it is competitive, market-based, and, above all, effective. As described above, prior to the filing of this Motion, Towers, at the Debtors' request, vetted the potential payouts under the Standalone Transaction Award in a number of respects, including industry standards, and determined that the compensation set forth in the Standalone Transaction Award proposed by the Debtors is within the range of competitive practice of incentive programs at similarly situated companies.

d. Timing of Standalone Transaction Award Payments.

27. The Standalone Transaction Award, including the Consummation Award and the Financial Performance Award, to the extent earned, will be paid on the effective date of the confirmed plan or as soon as practicable thereafter, after consultation with the Committee. To be

eligible to receive payment of a Standalone Transaction Award, SLT members must be employed on the date of payment unless an SLT member is terminated without cause or resigns for good reason prior to payment. The timing of the Standalone Transaction Award payouts was carefully developed by the Debtors, with input from Towers, and was negotiated with the Consenting Creditors and the Committee. The Debtors believe that the payout timing of the Standalone Transaction Award is appropriate to correctly incentivize the SLT and to ensure that they are appropriately motivated during this critical stage of the chapter 11 cases.

3. The Third-Party Transaction Award.

28. As described above, the Debtors and their advisors are actively pursuing a Third-Party Transaction. In an effort to continue to incentivize the SLT's efforts in connection with the Debtors' Third-Party Transaction—both directly as well as indirectly by ensuring the Debtors' key employees are focused on operations and near-term results as they enter the back end of the calendar year (which is their most significant sale period)—the Debtors propose to offer the SLT a bonus if a Third-Party Transaction is approved by the Court and closes before certain defined outside dates. Accordingly, if the Debtors obtain Court approval of and ultimately consummate a Third-Party Transaction, the Third-Party Transaction Award will replace the Standalone Transaction Award.

29. Under the Third-Party Transaction Award, each member of the SLT would receive a sale bonus of 200 percent of their base salary upon Court approval of a Third-Party Transaction prior to December 15, 2012 that (a) results in a purchase price of at least \$1.79 billion and (b) closes no later than January 15, 2013.¹⁰ In addition, if the Court-approved Third-Party Transaction results in a purchase price of less than \$1.79 billion, the Third-Party

¹⁰ These dates may be extended by agreement of both the Consenting Creditors and the Committee.

Transaction Award opportunity would decrease by 25 percent of each SLT member’s base salary for each \$100 million in purchase price below \$1.79 billion;¹¹ *provided, however*, that such downward adjustment will not apply if (a) the decrease in purchase price is the result of a purchase price adjustment triggered by the assumption of certain liabilities (which are not currently contemplated) and (b) the assumption of such liabilities is supported by the Committee. Total payouts under the Third-Party Transaction Award in the event of the timely approval and consummation of a Third-Party Transaction, that results in a purchase price of at least \$1.79 billion, would be \$5,328,000. The following chart illustrates the Third-Party Transaction Award that would be awarded to each member of the SLT in the event that a Third-Party Transaction resulting in a purchase price of at least \$1.79 billion is approved by the Court on or before December 15, 2012, and closes on or before January 15, 2013:

SLT Member	Base Salary	Multiplier of Salary	Total Award
Chairman , HBC	\$630,000	200%	\$1,260,000
EVP, Operations	\$302,000	200%	\$604,000
VP, Human Resources	\$260,000	200%	\$520,000
VP, Engineering	\$260,000	200%	\$520,000
EVP and General Counsel	\$325,000	200%	\$650,000
SVP, Global Customer Support	\$245,000	200%	\$490,000
CFO	\$300,000	200%	\$600,000
EVP, Customers	\$342,000	200%	\$684,000
Total			\$5,328,000

The Third-Party Transaction Award is designed to align the interests of the SLT with all stakeholders in the Debtors’ chapter 11 cases, including, without limitation, the interests of the Debtors’ creditors. Indeed, as described above, Towers has determined that the compensation set forth in the Third-Party Transaction Award proposed by the Debtors is within the range of competitive practice of incentive programs at similarly situated companies.

¹¹ To the extent the purchase price falls between two \$100 million increments, award amounts would be prorated.

30. Payment of the Third-Party Transaction Award to all SLT members will be made on the effective date of a plan for the Third-Party Transaction, or as soon as reasonably practicable thereafter, after consultation with the Committee, provided that consummation of such Third-Party Transaction occurs on or before January 15, 2013 (except as provided herein). To be eligible to receive payment of a Third-Party Transaction Award, SLT members must be employed on the date of payment unless an SLT member is terminated without cause or resigns for good reason prior to payment. As is the case with the Standalone Transaction Award, the timing of award payouts under the Third-Party Transaction Award was carefully developed by the Debtors, with input from Towers and likewise was negotiated with the Consenting Creditors and the Committee. Thus, the Debtors believe that the timing of the Third-Party Transaction Award payment is reasonable and will ensure the participants are appropriately motivated during this critical stage of the chapter 11 cases.

4. The Standalone Transaction Award in the Event of an Unsuccessful Third-Party Transaction.

31. While the Debtors believe that consummation of a Third-Party Transaction may maximize value for the Debtors' stakeholders, they are also aware of the possibility that they may pursue a Third-Party Transaction, however, despite their diligent efforts, the Third-Party Transaction may not close at no fault of the Debtors' management team. In such a scenario, the Debtors would toggle to pursue emergence through a stand-alone plan and the Standalone Transaction Award (including both the Consummation Award and the Financial Performance Award) will, once again, replace the Third-Party Transaction Award. However, the metrics of the Financial Performance Award would be adjusted for certain cash costs expected to be incurred while the Debtors are pursuing a Third-Party Transaction. The following chart

illustrates the Cumulative Net Cash Flow levels and corresponding base salary percentage payouts in the event of an unsuccessful Third-Party Transaction:

Cumulative Net Cash Flow Measurement by Date and Payout Level						
Date of Plan Consummation (Week Ending Date)	Level 1: 50% of Base Salary - \$1,332,000	Level 2: 60% of Base Salary - \$1,598,400	Level 3: 70% of Base Salary - \$1,864,800	Level 4: 80% of Base Salary - \$2,131,200	Level 5: 90% of Base Salary - \$2,397,600	Level 6: 100% of Base Salary - \$2,664,400
October 20, 2012	(\$94.2) million – (\$101.7) million	(\$86.7) million – (\$94.2) million	(\$79.2) million – (\$86.7) million	(\$71.7) million – (\$79.2) million	(\$64.2) million – (\$71.7) million	Greater than million (\$64.2) million
October 27, 2012	(\$68.0) million – (\$75.5) million	(\$60.5) million – (\$68.0) million	(\$53.0) million – (\$60.5) million	(\$45.5) million – (\$53.0) million	(\$38.0) million – (\$45.5) million	Greater than million (\$38.0) million
November 2, 2012	(\$63.2) million – (\$70.7) million	(\$55.7) million – (\$63.2) million	(\$48.2) million – (\$55.7) million	(\$40.7) million – (\$48.2) million	(\$33.2) million – (\$40.7) million	Greater than million (\$33.2) million
November 9, 2012	(\$61.9) million – (\$69.4) million	(\$54.4) million – (\$61.9) million	(\$46.9) million – (\$54.4) million	(\$39.4) million – (\$46.9) million	(\$31.9) million – (\$39.4) million	Greater than million (\$31.9) million
November 16, 2012	(\$70.0) million – (\$77.5) million	(\$62.5) million – (\$70.0) million	(\$55.0) million – (\$62.5) million	(\$47.5) million – (\$55.0) million	(\$40.0) million – (\$47.5) million	Greater than million (\$40.0) million
November 23, 2012	(\$41.8) million – (\$49.3) million	(\$34.3) million – (\$41.8) million	(\$26.8) million – (\$34.3) million	(\$19.3) million – (\$26.8) million	(\$11.8) million – (\$19.3) million	Greater than million (\$11.8) million
November 30, 2012	(\$53.2) million – (\$60.7) million	(\$45.7) million – (\$53.2) million	(\$38.2) million – (\$45.7) million	(\$30.7) million – (\$38.2) million	(\$23.2) million – (\$30.7) million	Greater than million (\$23.2) million
December 7, 2012	(\$45.4) million – (\$52.9) million	(\$37.9) million – (\$45.4) million	(\$30.4) million – (\$37.9) million	(\$22.9) million – (\$30.4) million	(\$15.4) million – (\$22.9) million	Greater than million (\$15.4) million
December 14, 2012	(\$29.9) million – (\$37.4) million	(\$22.4) million – (\$29.9) million	(\$14.9) million – (\$22.4) million	(\$7.4) million – (\$14.9) million	\$0.1 million – (\$7.4) million	Greater than million \$0.1 million
December 21, 2012	(\$18.8) million – (\$26.3) million	(\$11.3) million – (\$18.8) million	(\$3.8) million – (\$11.3) million	\$3.7 million – (\$3.8) million	\$11.2 million – \$3.7 million	Greater than \$11.2 million
December 28, 2012 (or later)	(\$16.6) million – (\$24.1) million	(\$9.1) million – (\$16.6) million	(\$1.6) million – (\$9.1) million	\$5.9 million – (\$1.6) million	\$13.4 million – \$5.9 million	Greater than \$13.4 million

If the determination of an unsuccessful Third-Party Transaction occurs in July, August, September, or October, 2012, each of the above measurements shall be increased by \$12.6 million, \$9.5 million, \$6.3 million, and \$3.2 million, respectively. However, there will be no adjustment to the above Cumulative Cash Flow tests for an unsuccessful Third-Party Transaction that is deemed to occur on or after November 1, 2012. To the extent the effective date of the Standalone Transaction occurs after January 15, 2013, the Debtors agree to provide an updated Cumulative Net Cash Flow forecast for purposes of calculating the Cumulative Net Cash Flow test to the Consenting Creditors and the Committee covering the period from December 28, 2012 through the effective date of the Standalone Transaction, which shall be subject to the consents of the Consenting Creditors and the Committee, which consent will not be unreasonably withheld.

32. In recognition of (a) the SLT's considerable efforts to pursue, obtain Court approval for, and consummate a Third-Party Transaction (although without success) and (b) the continuing demands on the SLT to pursue the successful consummation of a standalone plan of reorganization, the Debtors, in consultation with Towers and their other advisors believe that, in the event of an unsuccessful Third-Party Transaction, it will still be necessary (and perhaps even more so) to incentivize the SLT to maximize the value of the Debtors' estates.

D. Description of the KERP.

1. Necessity and Development of the KERP.

33. By this Motion, the Debtors also seek approval of the KERP for approximately 31 of the Debtors' management-level non-insider employees that the Debtors have determined are vital to the Debtors' business and reorganization (the "KERP Participants"). The KERP Participants work across various departments within the Debtors' business, including operations, engineering, customer organization, finance, human resources, and legal. As part of the Debtors'

changing business environment and ongoing restructuring efforts, the KERP Participants have been called upon to undertake additional responsibilities and expend significantly more working-hours than contemplated by the normal terms of their employment. The KERP Participants' additional responsibilities include, among other things, assisting with Third-Party Transaction negotiations and due diligence, negotiating with suppliers and vendors, participating in contract assumption and rejection analysis, reviewing sale solicitation materials, preparing business plans, cash flow projections, and related budgets required under the DIP Facility, gathering and coordinating the dissemination of due diligence information, and complying with the various reporting requirements for debtors operating in chapter 11.

34. Prior to the Petition Date, most of the KERP Participants were eligible to participate in the MIP and some also participated in the Equity Investment Plan. The KERP Participants who were not eligible to participate in the MIP earned commissions in addition to their base salary. As mentioned above, however, because the Debtors did not meet the applicable performance metrics in fiscal year 2011, no MIP bonuses were paid for fiscal year 2011, and the MIP has not been adopted by the Board for the fiscal year 2012. In addition, due to a decrease in airplane sales, those KERP Participants receiving commissions were paid less than in previous years. Therefore, current compensation levels for each of the KERP Participants are below market levels largely because no MIP or Equity Investment Plan bonuses have been paid in recent years and also due to a decrease in earned commissions. The Debtors believe the KERP will aid the Debtors' retention of the KERP Participants and will incentivize them to expend the additional efforts and time necessary to maximize the value of the Debtors' assets.

2. Eligible Participants.

35. The KERP Participants have been carefully selected by certain members of the SLT as persons that are critical to (a) maximizing the value of the Debtors' assets leading up to

consummation of a stand-alone plan of reorganization and/or (b) obtaining court approval for, participating in, and closing a Third-Party Transaction. The KERP Participants generally include management employees at the following levels: manager, senior manager, general manager, vice president, senior vice president, and director. Notwithstanding the fact that certain of the KERP Participants have titles such as “vice president” or “director,” none of the KERP Participants is an insider (as defined in section 101(31) of the Bankruptcy Code).¹²

36. The Debtors believe that each of the KERP Participants is necessary to their restructuring efforts and that such participants possess important experience, relationships, and familiarity with the Debtors’ operations and infrastructure that would be incredibly costly to replace. Indeed, defections among the KERP Participants would cause the Debtors to incur significant costs in recruiting and attracting similarly qualified replacements, and there is a real risk that similarly qualified replacements may not exist. Loss of any of the KERP Participants would therefore likely negatively impact the value of the Debtors’ assets.

3. The Terms of the KERP.

37. The KERP has been tailored to incentivize the KERP Participants to remain with the Debtors, and, like the KEIP, to achieve a successful emergence from Chapter 11. Specifically, each KERP Participant will receive a lump-sum cash award payment upon either (a) the effective date of a plan of reorganization, or (b) the consummation of a Third-Party Transaction. To be eligible to receive a KERP payment KERP Participants members must be employed on the date of payment unless a KERP Participant is terminated without cause or resigns for good reason prior to payment.

¹² None of the KERP Participants (a) sits on the Board, (b) is elected or appointed by the Board to manage daily operations, or (c) has a controlling interest in the Debtors or exercises sufficient authority over the Debtors so as to dictate corporate policy and the disposition of corporate assets.

38. The total aggregate payout under the KERP to the KERP Participants will be no more than \$1.9 million (the “KERP Pool”).¹³ The KERP Participants have been divided into six groups according to each participant’s department, and each departmental group is entitled to a fixed percentage of the KERP Pool. Individual award amounts will be allocated on a discretionary basis by the department leader based on each participant’s contribution to the Debtors’ restructuring efforts and ongoing operational success, *provided, however* that, without the consent of the Committee, no KERP Participant shall be entitled to receive an award payment that is greater than 50 percent of such participant’s base salary. The following chart illustrates the departmental groups, the estimated number of KERP Participants in each group, and the percentage of the KERP Pool allocated to each group:

Department	Number of KERP Participants	Allocation of KERP Pool
Operations	10	\$855,000 (45%)
Engineering	4	\$171,000 (9%)
Customer Organization	7	\$494,000 (26%)
Finance	5	\$266,000 (14%)
Legal	3	\$76,000 (4%)
Human Resources	2	\$38,000 (2%)
Total		\$1,900,000

The Debtors believe that the KERP is appropriately tailored to incentivize the KERP Participants, who are essential to both the Debtors’ ongoing business operations and restructuring success, to not only remain with the Debtors through their restructuring efforts but also to maximize value for the Debtors’ stakeholders in the process.

¹³ The Debtors reserve the right to add additional non-insider employees to the pool of KERP Participants *provided, that* (a) the Committee consents to such addition and (b) the Debtors shall not make payments under the KERP in excess of \$1.9 million, in the aggregate.

Promotion of the General Counsel

39. On June 4, 2012, the Board voted to promote the former Vice President and General Counsel to Executive Vice President and General Counsel (the "General Counsel") and increase his salary from \$245,000 to \$325,000 (the "Promotion"), effective as of June 30, 2012, and subject to Court approval. The General Counsel has served as the Debtors' Vice President and General Counsel since July 26, 2010, and has served as the Debtors' Vice President, General Counsel, and Secretary since August 26, 2010. Through his years of service to the Debtors, the General Counsel has gained a great deal of institutional knowledge regarding the Debtors and their business.

40. The General Counsel's prior job duties included leading a nine-person legal department that was responsible for all of the Debtors' world-wide legal and compliance matters, which included oversight over the following areas, among others: (a) corporate governance; (b) regulatory and anti-trust compliance; (c) debt covenant compliance; (d) international expansion; (e) general litigation (including product liability, product quality, and employee litigation); (f) federal policy implementation; (g) government contracts; (h) environmental health and safety matters; (i) union contract negotiations; (j) employment matters; and (k) negotiating economic incentive grants from various governmental bodies. As a result of the Promotion, the General Counsel's job duties were expanded to include responsibility for the Debtors' fifteen-person import-export team, in addition to duties required of the General Counsel as a result of the Debtors' restructuring efforts. Since the inception of his employment, the General Counsel has provided the Debtors with tremendous leadership through a difficult period in the Debtors' history and, as a result, the General Counsel is a valued business partner.

41. Because of the General Counsel's experience with and knowledge of the Debtors' business, as well as the outstanding services that the General Counsel has provided to the

Debtors since the inception of his employment, the Debtors decided to promote the General Counsel to a higher position in their organization. Although the Debtors believe that the Promotion can be implemented in the ordinary course of business without the need for Court approval, out of an abundance of caution, the Debtors respectfully request that the Court approve the Promotion, effective as of June 30, 2012, as an exercise of their sound business judgment.

Basis for Relief

A. Implementing the KEIP and the KERP is an Exercise of the Debtors' Sound Business Judgment and is Authorized by Section 363(b) of the Bankruptcy Code.

42. Section 363(b)(1) of the Bankruptcy Code provides that a debtor "after notice and a hearing, may use, sell or lease, other than in the ordinary course of business, property of the estate." To approve the use of estate property under section 363(b)(1) of the Bankruptcy Code, the Second Circuit requires a debtor to show that the decision to use the property outside of the ordinary course of business was based on the debtor's business judgment. *Official Comm. of Unsecured Creditors v. LTV Corp. (In re Chateaugay Corp.)*, 973 F.2d 141, 143 (2d Cir. 1992); *Comm. of Equity Sec. Holders v. Lionel Corp. (In re Lionel Corp.)*, 722 F.2d 1063, 1070 (2d Cir. 1983); *In re Ionosphere Clubs, Inc.*, 100 B.R. 670, 675 (Bankr. S.D.N.Y. 1989); *In re Global Crossing Ltd.*, 295 B.R. 726, 743 (Bankr. S.D.N.Y. 2003).

43. The business judgment rule shields a debtor's management's decisions from judicial second guessing. *Comm. of Asbestos-Related Litigants v. Johns-Manville Corp. (In re Johns-Manville Corp.)*, 60 B.R. 612, 615-16 (Bankr. S.D.N.Y. 1986) (a "presumption of reasonableness attaches to a [d]ebtor's management decisions" and courts will generally not entertain objections to the debtor's conduct after a reasonable basis is set forth). Once a debtor articulates a valid business justification, the law vests the debtor's decision to use property outside of the ordinary course of business with a strong presumption that "in making a business

decision the directors of a corporation acted on an informed basis, in good faith and in the honest belief that the action was in the best interests of the company.” *Official Comm. of Subordinated Bondholders v. Integrated Res., Inc. (In re Integrated Res., Inc.)*, 147 B.R. 650, 656 (S.D.N.Y. 1992) (citations and internal quotations omitted), *appeal dismissed*, 3 F.3d 49 (2d Cir. 1993). Thus, if a debtor’s actions satisfy the business judgment rule, then the transaction in question should be approved under section 363(b)(1) of the Bankruptcy Code.

1. The KEIP.

44. The implementation of the KEIP is a proper exercise of the Debtors’ business judgment and is in the best interests of the Debtors, their estates, and all of their stakeholders. In addition to their ordinary-course activities overseeing the Debtors’ businesses and maintaining key relationships with employees, customers, and suppliers, the SLT must work diligently to drive both the Standalone Transaction and the Third-Party Transaction. These employees and their skills, knowledge, and motivation are essential to the Debtors’ consummating a Standalone Transaction or a Third-Party Transaction. In addition, the Debtors’ business performance over the next few months will drive the ultimate outcome of the Standalone Transaction and Third-Party Transaction. In fact, as noted above, the eight participating employees were identified precisely because of their contributions to the success of the Debtors’ operational and financial performance.

45. Furthermore, the KEIP aligns the interests of the SLT and all stakeholders in the chapter 11 cases. The Debtors have structured the KEIP carefully to balance the Debtors’ need to incentivize the SLT and to provide them with appropriate, market-competitive compensation, with the need to ensure that the Debtors’ estates receive enhanced value in exchange for incentive payments—the result being a net win for all. The critical goal of the Debtors going forward is to achieve improved earnings performance during an enhanced sales period while

working to consummate a Standalone Transaction or a Third-Party Transaction expeditiously, which is in the best interests of the Debtors' estates and all parties in interest in their chapter 11 cases. Because payments under the KEIP are made only upon the Debtors' achieving either (a) the Standalone Transaction Award or (b) the Third-Party Transaction Award, the KEIP is tailored to motivate the SLT to consummate the Standalone Transaction or the Third-Party Transaction expeditiously and attain cash flow targets that are critical to the Debtors' operations. By so linking the SLT's increased compensation opportunities to enhanced value for the Debtors' estates, the KEIP successfully and fairly aligns the interests of the Debtors, their employees, and their stakeholders. Thus, the KEIP is designed to "achieve the desired performance." *See In re Dana Corp.*, 358 B.R. 567, 576 (Bankr. S.D.N.Y. 2006).

46. Not only is the KEIP calculated to achieve the desired performance, but the payments to be made under the KEIP are reasonable. Towers analyzed the potential payouts using benchmarks for senior management compensation in publicly disclosed incentive plans, as well as information contained in several survey sources containing hundreds of participants each, and found the potential payouts to be reasonable and within market practice. Additionally, Towers determined that the Debtors' senior management team is significantly undercompensated as compared to the market for similarly situated companies, despite the additional burdens shouldered by these employees during these chapter 11 cases. Absent the relief requested herein, the Debtors do not believe the SLT is properly incentivized to hit operating targets during the critical upcoming sales periods. Accordingly, the Debtors believe that the design of the KEIP is reasonable and will improve morale among the participating employees and incentivize them to maximize value for all stakeholders in the chapter 11 cases.

47. Further, and perhaps most importantly, the KEIP has been extensively negotiated and is supported by the Consenting Creditors and the Committee. This support suggests that the KEIP offers considerable benefits for the Debtors' estates and fairly aligns the interests of the Debtors, their employees, and their creditors.

48. Courts in this jurisdiction and others have recognized that programs such as the KEIP can be an efficient means of maximizing value for a debtor's estate and, accordingly, have approved similar incentive programs. *See, e.g., Dana Corp.*, 358 B.R. at 584 (approving management incentive plan); *In re Velo Holdings, Inc.*, No. 12-11384, 2012 WL 2015870, at *9 (Bankr. S.D.N.Y. June 6, 2012) (approving key employee incentive plan for both insiders and non-insiders with incentive targets tied to financial performance and sales of the debtors' business units); *In re Borders Grp., Inc.*, Case No. 11-10614 (MG) (Bankr. S.D.N.Y. Apr. 22, 2011) (approving incentive plan for senior management employees, including insiders, based on achievement of certain financial performance metrics in addition to timely confirmation of a plan of reorganization or court-approved asset sale); *In re TerreStar Networks Inc.*, Case No. 10-15446 (SHL) (Bankr. S.D.N.Y. Feb. 23, 2011) (approving incentive plan for insiders based on achieving certain financial performance goals at either plan confirmation or an approved asset sale); *In re Lear Corp.*, Case No. 09-14326 (ALG) (Bankr. S.D.N.Y. Aug. 28, 2009) (approving insider incentive plan, 75 percent of which was based on achievement of restructuring milestones, including confirmation and consummation of a plan of reorganization, and 25 of which was based on achievement of quarterly financial goals); *In re BearingPoint, Inc.*, Case No. 09-10691 (REG) (Bankr. S.D.N.Y. July 24, 2009) (approving incentive plan based on (i) the sale of business units, (ii) employees working on estate transition and wind-down activities, and (iii) percentage of creditor recoveries); *In re Tronox Inc.*, Case No. 09-10156 (ALG) (Bankr.

S.D.N.Y. June 9, 2009) (approving a dual-track insider incentive plan where awards were based on either (i) short-term profitability goals with 50 percent of payments contingent on consummating a plan of reorganization, or (ii) the proceeds from an asset sale above a set threshold); *In re Calpine Corp.*, Case No. 05-60200 (BRL) (Bankr. S.D.N.Y. May 15, 2006) (approving incentive plan where size of incentive pool was tied to the debtor's market adjusted enterprise value and plan adjusted enterprise value); *In re PlusFunds Grp., Inc.*, Case No. 06-10402 (JMP) (Bankr. S.D.N.Y. Apr. 19, 2006) (approving incentive plan payable upon successful sale of debtor's assets); *In re Musicland Holding Corp.*, Case No. 06-10064 (SMB) (Bankr. S.D.N.Y. Feb. 1, 2006) (approving "success payments" for five senior management employees to be paid on the earlier of sale of substantially all assets or consummation of a chapter 11 plan); *see also In re Midway Games Inc.*, Case No. 09-10465 (KG) (Bankr. D. Del. Apr. 22, 2009) (approving an incentive plan for insiders based on the achievement of chapter 11 restructuring milestones); *In re Nortel Networks Inc.*, Case No. 09-10138 (KG) (Bankr. D. Del. Mar. 20, 2009) (approving incentive plan based on the achievement of separate milestones, including a cost reduction plan, "certain parameters . . . that will result in a leaner and more focused organization" and plan confirmation); *In re WCI Comtys., Inc.*, Case No. 08-11643 (KJC) (Bankr. D. Del. Feb. 4, 2009) (approving incentive plan based in part on chapter 11 milestones and in part on financial performance).¹⁴

49. Accordingly, the Debtors submit that implementing the KEIP is a valid exercise of the Debtors' business judgment and that approval of the KEIP is in the best interests of the Debtors, their estates, and all parties in interest in their chapter 11 cases.

¹⁴ Because of the voluminous nature of the orders cited herein, they are not attached to this Motion. Copies of these orders are available upon request of the Debtors' counsel.

2. The KERP.

50. The Debtors also respectfully submit that implementing the KERP is a valid exercise of their business judgment. The KERP is aimed at retaining the KERP Participants by providing them with job security and appropriate compensation commensurate with the Debtors' historical practices (tailored to apply to the Debtors' current circumstances and objectives), thus (a) preventing attrition before the consummation of the Standalone Transaction or Third-Party Transaction and (b) aligning the KERP Participants' interests with those of the Debtors' stakeholders. Without the KERP, the Debtors fear that many of the KERP Participants very well may seek alternative career opportunities, which would impede the Debtors' ability to execute on critical business and restructuring initiatives. Put simply, the Debtors cannot afford to lose their most talented and valuable management-level corporate employees, who each possess unique and vital institutional knowledge that is critical to executing day-to-day business operations, during this crucial time. If the KERP Participants were to resign, the value and benefits of these employees' experience would be lost and would cause the Debtors to incur significant costs in recruiting and attracting similarly qualified replacements (if qualified replacements even exist). Relying on newly hired employees to perform the KERP Participants' crucial functions would severely hinder the Debtors' operations and training and utilizing new employees would also come at a huge expense, in terms of both actual cost and unquantifiable damage to the Debtors' business.

51. In addition, the scope of the KERP is reasonable and appropriate as it applies only to the most vital of the Debtors' non-insider employees serving a wide range of functions. Furthermore, the KERP's expense is eminently reasonable in light of the size of the Debtors' business, the KERP Participants' base salaries, and the proposed payouts under the KERP. The Debtors believe that the proposed investment in human capital is particularly warranted for the

KERP Participants as the Debtors do not anticipate that such employees will be eligible to participate in the MIP for fiscal year 2012.

52. For the foregoing reasons, the Debtors respectfully submit that, in consideration of the facts and circumstances of these cases, implementation of the KERP is an exercise of their sound business judgment and would be in the best interests of the Debtors, their estates, employees, and stakeholders.

B. The KEIP Satisfies the Requirements of Section 503(c) of the Bankruptcy Code.

53. Each member of the SLT is an insider of the Debtors, therefore, the KEIP implicates section 503(c) of the Bankruptcy Code. Section 503(c) of the Bankruptcy Code contains three subsections: (a) section 503(c)(1) of the Bankruptcy Code contains a general prohibition of retention plans; (b) section 503(c)(2) of the Bankruptcy Code places limitations on severance payments; and (c) section 503(c)(3) of the Bankruptcy Code sets forth standards governing other transfers to managers. *See* 11 U.S.C. § 503(c). The Debtors submit that neither sections 503(c)(1) nor 503(c)(2) of the Bankruptcy Code are applicable to evaluating the KEIP. In addition, while section 503(c)(3) of the Bankruptcy Code may be applicable to the KEIP, that section mirrors section 363(b) of the Bankruptcy Code, and the standard for evaluating the KEIP under section 503(c)(3) of the Bankruptcy Code is consistent with, and based upon, the standard for section 363(b) discussed above. *See Dana Corp.*, 358 B.R. at 576 (applying business judgment test to evaluate incentive plan). Accordingly, the Debtors' implementation of the KEIP should be authorized as a sound exercise of the Debtors' business judgment.

1. The KEIP is Not a Retention Plan Governed by Section 503(c)(1) or a Severance Plan Governed by Section 503(c)(2).

54. Section 503(c)(1) of the Bankruptcy Code pertains solely to retention plans. *See* 11 U.S.C. § 503(c)(1). Section 503(c)(2) provides for restrictions applicable only to severance

plans. *See* 11 U.S.C. § 503(c)(2). Neither provision applies to performance-based incentive plans. *See, e.g. Velo Holding*, 2012 WL 2015870, at *6 (finding that an incentive-based plan alleviated the need for a section 503(c)(1) analysis); *Borders Grp.*, 453 B.R. at 471 (finding that “the Debtors [had] met their burden of establishing that the KEIP [was] incentivizing, thereby alleviating the need for a section 503(c)(1) analysis”); *Dana Corp.*, 358 B.R. at 584 (concluding that sections 503(c)(1) and 503(c)(2) did not apply to incentive plans); Transcript of Hearing at 67, *In re Nobex Corp.*, Case No. 05-20050 (CSS) (Bankr. D. Del. Jan. 12, 2006) (explaining that section 503(c)(1) does not apply to incentive programs); *In re Musicland Holding Corp.*, Case No. 06-10064 (SMB) (Bankr. S.D.N.Y. Feb. 1, 2006) (finding that debtor continuing to provide incentive bonuses under management incentive plan did not violate section 503(c)); Transcript of Hearing at 84–85, *In re Calpine Corp.*, Case No. 05-60200 (BRL) (Bankr. S.D.N.Y. Apr. 26, 2006) (stating that sections 503(c)(1) and 503(c)(2) of the Bankruptcy Code do not apply to incentive programs).

55. The KEIP contains neither retention nor severance components. Participating employees are not paid in the event their employment is terminated for cause, nor are they paid for merely maintaining their employment for a certain time period. Rather, awards under the KEIP are paid only upon the Debtors’ achieving certain goals as described above.

56. Moreover, the Consummation Award and the Financial Performance Award under the Standalone Transaction Award and Court approval of a Third-Party Transaction under the Third-Party Transaction Award constitute targeted incentive payments. These incentive payments are based upon the consummation of a Standalone Transaction and achievement of certain cash flow goals or consummation of a Third-Party Transaction, each of which are very important to the Debtors’ restructuring efforts in the chapter 11 cases. Furthermore, there is no

guarantee that the participating employees will receive any payments under the KEIP. If the Debtors do not meet the milestone required for payment of the Consummation Award or the cash flow target required for payment of the Financial Performance Award, and if no Third-Party Transaction meeting the above purchase price requirements is approved by the Court and consummated, no payments will be made under the KEIP. Therefore, the Debtors respectfully submit that sections 503(c)(1) and 503(c)(2) do not apply to the KEIP or to this Motion.

2. The KEIP Satisfies the Requirements of Section 503(c)(3) of the Bankruptcy Code.

57. The Debtors' implementation of the KEIP is authorized under section 503(c)(3) of the Bankruptcy Code. *See* 11 U.S.C. § 503(c)(3). Section 503(c)(3) prohibits certain transfers made to officers, managers, consultants, and others that are both outside the ordinary course of business and not justified by the facts and circumstances of the case. *See id.* In applying section 503(c)(3), the court in *Dana Corp.* noted that the "test in section 503(c)(3) appears to be no more stringent a test than the one courts must apply in approving any administrative expense under section 503(b)(1)(A) . . . [an] expense must be an actual, necessary cost, or expense of preserving the estate." *Dana Corp.*, 358 B.R. at 576.

58. Further, courts that have analyzed the section's prohibition on "other transfers" have applied a standard based upon the standard applied under section 363(b)—specifically, transfers are approved if made as a sound exercise of a debtor's business judgment and warranted by the facts and circumstance of the case. *See Velo Holdings*, 2012 WL 2015870, at *9 ("Courts have held that the 'facts and circumstances' language of section 503(c)(3) creates a standard no different than the business judgment standard under section 363(b)."); *Dana Corp.*, 358 B.R. at 576; *In re Global Home Prods.*, 369 B.R. 778, 783 (Bankr. D. Del. 2007) ("If [the proposed plans are] intended to incentivize management, the analysis utilizes the more liberal

business judgment review under § 363.”); *In re Mesa Air Grp.*, No. 10-10018, 2010 WL 3810899, at * 4 (Bankr. S.D.N.Y. Sept. 24, 2010); *In re Nobex Corp.*, No. 05-20050, 2006 WL 4063024, at *2 (Bankr. D. Del. Jan. 19, 2006).

59. The *Dana* court set forth six factors to consider in determining whether an incentive plan is appropriate: (a) whether the plan is calculated to achieve the desired performance; (b) whether the cost of the plan is reasonable in the context of a debtor’s assets, liabilities and earning potential; (c) whether the scope of the plan is fair and reasonable or discriminates unfairly among employees; (d) whether the plan is consistent with industry standards; (e) whether the debtor performed due diligence in investigating the need for the plan; and (f) whether the debtor received independent counsel in performing due diligence, creating, and authorizing the plan. Further, the oft-cited factors set forth by the court in *Dana* support approval of the KEIP. *See* 358 B.R. at 576-77. These factors are not exhaustive elements required for approval of an incentive plan; rather, they are factors to be considered as a court evaluates the totality of the facts and circumstances related to an incentive plan. *See id.* at 576.

60. The KEIP is fully justified by the facts and circumstances of these chapter 11 cases and, therefore, satisfies the requirements of section 503(c)(3) of the Bankruptcy Code. First, the KEIP is calculated to achieve the desired performance — specifically, as mentioned above, the KEIP is tailored to motivate the SLT to consummate the Standalone Transaction or the Third-Party Transaction expeditiously and attain cash flow targets that are critical to the Debtors’ business. By so linking the SLT’s increased compensation opportunities to enhanced value for the Debtors’ estates, the KEIP is designed to “achieve the desired performance.” Further, the scope of the KEIP is fair and reasonable as it includes those employees who continue to make significant contributions to the Debtors’ restructuring efforts and financial

achievement; both onerous tasks given the Debtors' expedited dual-track restructuring efforts. Additionally, as set forth in detail in the Bubnovich Declaration, the Debtors, in connection with their advisors, conducted due diligence in determining the need for and scope of the KEIP and determined that (a) there was a need for the KEIP because compensation levels for the SLT are below-market, especially in light of the SLT's significantly increased job responsibilities resulting from the Debtors' restructuring efforts, (b) the KEIP is fair and reasonable to all stakeholders and consistent with market practice and industry standards, and (c) the KEIP is appropriately tailored to the Debtors' critical bankruptcy objectives of achieving a successful, expedited reorganization, maximizing creditor recovery, and positioning the post-emergence company for long term viability and success. Finally, the cost of the KEIP is reasonable as evidenced by the support of the Consenting Creditors and the Committee, whose support also indicates that the KEIP is justified by the facts and circumstances.

61. Based on the foregoing, the Debtors respectfully submit that the KEIP is a proper exercise of the Debtors' business judgment and resources, is justified by the facts and circumstances of the chapter 11 cases and, therefore, satisfies the requirements of section 503(c)(3) of the Bankruptcy Code. The Debtors respectfully submit that the KEIP will truly incentivize the Debtors' senior management to the ultimate the benefit of all parties in interest in the chapter 11 cases and should be approved.

C. The KERP is Not Prohibited by Section 503(c) of the Bankruptcy Code.

62. Because the KERP applies only to non-insiders of the Debtors, the only section 503 inquiry for the Court is simply whether the KERP satisfies section 503(c)(3) of the

Bankruptcy Code.¹⁵ As set forth in detail above, the facts and circumstances of these cases justify implementation of the KERP, which constitutes a sound exercise of the Debtors' business judgment and therefore satisfies section 503(c)(3) of the Bankruptcy Code.

D. The Promotion is an Exercise of the Debtors' Sound Business Judgment.

63. The Debtors' decision to promote the General Counsel is an exercise of their sound business judgment. As described above, the General Counsel has years of experience with the Debtors and has provided outstanding services and leadership throughout his employment. In addition, the General Counsel has become responsible for additional job duties as a result of the Promotion, including responsibility for the Debtors' fifteen-person import-export team and the additional duties required of the General Counsel as a result of the Debtors' restructuring efforts. Therefore, the Debtors respectfully submit that the Promotion is an exercise of their sound business judgment and request that the Court approve the Promotion, effective as of June 30, 2012, pursuant to section 363(b) of the Bankruptcy Code.

Waiver of Bankruptcy Rule 6004(h)

64. To implement the foregoing successfully, the Debtors seek a waiver of 14-day stay of an order authorizing the use, sale, or lease of property under Bankruptcy Rule 6004(h).

Motion Practice

65. This Motion includes citations to the applicable rules and statutory authorities upon which the relief requested herein is predicated, and a discussion of their application to this Motion. Accordingly, the Debtors submit that this Motion satisfies Rule 9013-1(a) of the Local Bankruptcy Rules for the Southern District of New York.

¹⁵ Sections 503(c)(1) and (c)(2) of the Bankruptcy Code are inapplicable to non-insider retention payments. Thus, neither section 503(c)(1) nor 503(c)(2) apply to the KERP because only non-Insider employees are covered by the KERP.

Notice

66. The Debtors have provided notice of this Motion to the following parties: (a) the Office of the U.S. Trustee; (b) counsel for the Committee; (c) counsel to the administrative agent under the Debtors' prepetition secured credit agreement (the "Credit Agreement"); (d) counsel to the ad hoc committee of lenders under the Credit Agreement; (e) counsel to Deutsche Bank National Trust Company in its capacity as the indenture trustee for the Debtors' 8.500% senior notes and 8.875% / 9.625% senior PIK election notes (the "Senior Notes"); (f) counsel to Wilmington Trust, N.A. in its capacity as the indenture trustee for the Debtors' 9.750% senior subordinated notes; (g) counsel to the ad hoc committee of the Debtors' Senior Notes; (h) Brown Rudnick LLP, as counsel to certain lenders under the Credit Agreement; (i) the United States Securities and Exchange Commission; (j) the Internal Revenue Service; and (k) all entities that have filed a request for service of filings in the above captioned chapter 11 cases pursuant to Bankruptcy Rule 2002.

No Prior Request

67. No prior request for the relief sought in this Motion has been made to this or any other court.

WHEREFORE, the Debtors respectfully request that the Court enter an order, substantially in the form attached hereto as **Exhibit A**, (a) approving and authorizing the KEIP and the KERP, (b) authorizing the Debtors to make payments to the participating employees under the KEIP and the KERP, (c) granting certain related relief, and (d) granting such other relief as is just and proper.

Dated: July 13, 2012
New York, New York

/s/ Ross M. Kwasteniet
James H.M. Sprayregen, P.C.
Paul M. Basta
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, New York 10022
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

- and -

Patrick J. Nash, Jr. (admitted *pro hac vice*)
Ross M. Kwasteniet (admitted *pro hac vice*)
KIRKLAND & ELLIS LLP
300 N. LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

Counsel to the Debtors and Debtors in
Possession

EXHIBIT A

Proposed Order

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)
) Chapter 11
)
HAWKER BEECHCRAFT, INC., *et al.*,¹) Case No. 12-11873 (SMB)
)
)
Debtors.) (Jointly Administered)
)

**ORDER APPROVING THE DEBTORS' KEY EMPLOYEE INCENTIVE PLAN AND
KEY EMPLOYEE RETENTION PLAN AND GRANTING RELATED RELIEF**

Upon the motion (the "Motion")² of the above-captioned debtors (collectively, the "Debtors") for the entry of an order (this "Order") (a) approving and authorizing the Debtors' proposed key employee incentive plan (the "KEIP") and Key Employee Retention Plan (the "KERP"), (b) authorizing the Debtors to make payments to certain management employees under the KEIP and certain non-insider employees under the KERP, and (c) granting certain related relief; all as more fully set forth in the Motion; and upon the Miller Declaration and the Bubnovich Declaration, and the Court having jurisdiction to consider this Motion and the relief requested therein in accordance with 28 U.S.C. §§ 157 and 1334; and consideration of the Motion and the relief requested therein being a core proceeding pursuant to 28 U.S.C. § 157(b)(2); and venue being proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409; and

1 The Debtors in the chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: Hawker Beechcraft, Inc. (2598); Arkansas Aerospace, Inc. (7496); Beech Aircraft Corporation (0487); Beechcraft Aviation Company (3548); Hawker Beechcraft Acquisition Company, LLC (8770); Hawker Beechcraft Corporation (5770); Hawker Beechcraft Defense Company, LLC (5891); Hawker Beechcraft Finance Corporation (8763); Hawker Beechcraft Global Customer Support Corporation (7338); Hawker Beechcraft Holding, Inc. (6044); Hawker Beechcraft International Delivery Corporation (6640); Hawker Beechcraft International Holding LLC (6757); Hawker Beechcraft International Service Company (9173); Hawker Beechcraft Notes Company (0498); Hawker Beechcraft Quality Support Company (7800); Hawker Beechcraft Regional Offices, Inc. (3889); HBC, LLC (N/A); and Rapid Aircraft Parts Inventory and Distribution Company, LLC (N/A). The location of the Debtors' corporate headquarters and the Debtors' service address is: 10511 East Central, Wichita, Kansas 67206.

2 Capitalized terms used but otherwise not defined herein shall have the meanings set forth in the Motion.

due and proper notice of the Motion being adequate and appropriate under the particular circumstances; and a hearing having been held to consider the relief requested in the Motion (“the “Hearing”); and upon consideration of the Miller Declaration and the Bubnovich Declaration, the record of the Hearing, and all proceedings had before the Court; and the Court having found and determined that the relief sought in the Motion is in the best interests of the Debtors’ estates, their creditors, and other parties in interest, and that the legal and factual bases set forth in the Motion and at the Hearing establish just cause for the relief granted herein; and upon all of the proceedings had before the Court; and any objections to the relief requested herein having been withdrawn or overruled on the merits; and after due deliberation and sufficient cause appearing therefor, it is HEREBY ORDERED THAT:

1. The Motion is granted as set forth herein.
2. The KEIP is approved in its entirety.
3. The KERP is approved in its entirety.
4. The Debtors are authorized to take all actions necessary to implement the KEIP and the KERP on the terms and conditions set forth in the Motion, including making any payments pursuant to the terms of the KEIP and the KERP.
5. The Debtors shall be authorized to extend the milestones set forth in the KEIP and the KERP with the written consent of the Consenting Creditors and the Committee, without further approval of the Court.
6. The Promotion of the General Counsel is hereby approved as of June 30, 2012.
7. Notice of the Motion as provided therein shall be deemed good and sufficient notice of such motion and the requirements of Bankruptcy Rule 6004(a) and the Local Bankruptcy Rules for the Southern District of New York are satisfied by such notice.

8. Notwithstanding Bankruptcy Rule 6004(h), the terms and conditions of this Order shall be immediately effective and enforceable upon its entry.

9. The Court retains exclusive jurisdiction with respect to all matters arising from or related to the implementation of this Order.

Dated: _____, 2012
New York, New York

Stuart M. Bernstein
United States Bankruptcy Judge

EXHIBIT B

Miller Declaration

I, Robert S. Miller, declare as follows under penalty of perjury under 28 U.S.C. § 1746:

1. I serve as the Chief Executive Officer of Hawker Beechcraft Corporation. I am intimately familiar with the above-captioned debtors and debtors in possession's (collectively, the "Debtors") day-to-day operations, business affairs, financial performance, and restructuring efforts.

2. I submit this declaration to support the relief requested in the *Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Incentive Plan and Key Employee Retention Plan and Granting Related Relief* (the "Motion"). Unless otherwise indicated, all facts set forth in this declaration are based upon (a) my personal knowledge of the Debtors' current operations and financial performance, (b) information learned from my review of relevant documents and (c) information I have received from members of the Debtors' management or advisors. I am not a participant in either the Debtors' key employee incentive plan (the "KEIP") or the Debtors' non-insider employee retention plan (the "KERP") and I will receive no payments under either plan. In addition, I am not being compensated for this testimony other than through payments made to me in the ordinary course of business in my position as Chief Executive Officer of Hawker Beechcraft Corporation.

3. I am authorized to submit this declaration on behalf of the Debtors, and, if I were called upon to testify, I could and would testify competently to the facts set forth herein.

Restructuring Support Agreement and the Debtors' Marketing Process

4. As the Debtors have previously disclosed, they filed these chapter 11 cases to implement a consensual debt-to-equity recapitalization transaction (the "Standalone

Distribution Company, LLC (N/A). The location of the Debtors' corporate headquarters and the Debtors' service address is: 10511 East Central, Wichita, Kansas 67206.

Transaction”) that has been agreed to by holders of a majority of the Debtors’ prepetition secured debt (the “Consenting Lenders”) and prepetition senior bond debt (the “Consenting Bondholders,” and together with the Consenting Lenders, the “Consenting Creditors”). The terms of the Standalone Transaction were set forth in a restructuring term sheet and a related restructuring support agreement (collectively, the “RSA”).² In furtherance of the Standalone Transaction, on June 30, 2012, the Debtors filed their proposed chapter 11 plan [Docket No. 304] (the “Plan”) and disclosure statement [Docket No. 305] (the “Disclosure Statement”), which implement the terms contained in the RSA.

5. The RSA also provided that the Debtors and their advisors would engage in a marketing process to determine whether a third-party sale or plan sponsorship transaction might be more attractive than the Standalone Transaction (the “Third-Party Transaction”). The Debtors and their advisors, in consultation with the Consenting Creditors and the official committee of unsecured creditors (the “Committee”), conducted a thorough marketing process. After evaluating several rounds of “stalking horse” proposals, the Debtors, after consultation with and the Consenting Creditors and the Committee, determined that the final proposal from Superior Aviation Beijing, Co., Ltd. (“Superior”) was the most attractive and most viable stalking horse proposal (the “Superior Proposal”).³ However, because the Superior Proposal is non-binding and remains subject to ongoing due diligence, definitive documentation, regulatory approvals, and

² The RSA was attached as an exhibit to the *Declaration of Robert S. Miller (I) in Support of Debtors’ Chapter 11 Petitions and First Day Motions and (II) Pursuant to Local Bankruptcy Rule 1007-2*, filed on May 4, 2012 [Docket No. 22].

³ On July 10, 2012, the Debtors filed the *Debtors’ Motion for the Entry of an Order Authorizing the Debtors to Enter Into an Exclusive Negotiations Agreement and a Refund Agreement* [Docket No. 324] (the “Superior Motion”), in furtherance of the Superior Proposal.

certain other conditions, the Debtors and the Consenting Creditors intend to continue to pursue the Standalone Transaction on a parallel path.

6. I believe the Debtors' senior management team will play an indispensable role in the performance of the business over the next few months, which will drive the overall outcome of the Standalone Transaction or the Third-Party Transaction. I also believe it is essential that the Debtors retain approximately 31 non-insider employees (the "KERP Participants") that the Debtors have determined are vital to the Debtors' business and reorganization efforts. Accordingly, I believe the Debtors have an immediate need to (a) implement the KEIP and provide incentive opportunities that will enable the Debtors to achieve their near-term business and restructuring goals and (b) implement the KERP to retain the KERP Participants by providing them with job security and appropriate compensation commensurate with the Debtors' historical practices.

Overview of the KEIP

I. Necessity for and Development of the KEIP

7. Because the Debtors' senior management team has been, and must continue to, actively pursue two alternative restructuring transactions, the Standalone Transaction and the Third-Party Transaction, on an accelerated timeline in addition to running the Debtors' day-to-day affairs, the Debtors have an immediate need to implement the KEIP and provide incentive opportunities for the Debtors' eight-person senior leadership team (the "SLT"). I believe providing incentive opportunities for the SLT, such as those contemplated in the KEIP, will enable the Debtors to achieve their near-term operating performance and restructuring goals, which are all the more challenging to achieve given the Debtors' accelerated dual-track restructuring process.

8. Immediately prior to and since the commencement of the chapter 11 cases, individual members of the SLT have worked around the clock (sometimes literally), shouldering responsibilities that are well above and beyond their day-to-day duties outside of chapter 11. The SLT has, among other things, been called upon to respond to myriad complex issues to ensure the continued viability of their businesses, including negotiating the RSA, negotiating and finalizing their \$400 million postpetition debtor-in-possession financing facility (the “DIP Facility”) and the cash flow projections and required budgets related thereto, responding to and communicating with their numerous creditors including the Debtors’ valuable trade partners, and expending significant time and resources complying with bankruptcy-related reporting obligations. In addition, in connection the Third-Party Transaction, the Debtors, with the assistance of their advisors, have engaged in an extensive marketing process in an effort to determine whether an alternative transaction may provide more value to their estates than the Standalone Transaction. In the months leading up to the commencement of these chapter 11 cases, the Debtors and advisors developed a comprehensive list of potential buyers and investors and identified and vetted over 35 potential buyers. Since the commencement of these chapter 11 cases, the Debtors and their advisors have conducted several rounds of bidding and ultimately selected the Superior Proposal as the most attractive and most viable potential stalking horse proposal.

9. In addition to serving as the primary points of contact for (a) the Consenting Creditors and (b) the Committee, the SLT must also manage the Debtors’ businesses to optimize financial performance and continue to, among other things, foster the supplier, employee, and customer relationships that support the Debtors’ businesses. Indeed, the proposed timeline for

consummation of either the Standalone Transaction or the Third-Party Transaction lead up to and will coincide with the Debtors' most significant sales period.

10. At the same time, the SLT, consisting of those employees that have the greatest ability to influence the Debtors' financial performance, have no clarity regarding their post-emergence employment status or even who the future owners of the business will be. These employees have already experienced dramatically increased workloads as a result of operating in chapter 11 and the Debtors' related restructuring efforts, and have no short- or long-term cash or equity compensation incentives in place. As a result, I believe there is an urgent need to act now to appropriately align the interests of the Debtors, the SLT, and the Debtors' stakeholders.

11. Historically, in addition to base salary, the Debtors have compensated a core team of key employees through an annual cash incentive program based on attainment of certain cash and percentage profit goals (the "MIP") and through certain equity-based awards (the "Equity Investment Plan"). The Debtors developed the MIP to attract and motivate talented executives to achieve certain financial and operational results. MIP participants included both employees who I am advised would qualify as "insiders" (as defined in section 101(31) of the Bankruptcy Code) as well as non-insider employees. Incentive payments under the MIP consisted of a percentage of participants' respective base salaries. On February 10, 2011, for fiscal year 2010, the Debtors paid approximately \$10.25 million in incentive payments under the MIP. Because the applicable performance metrics were not achieved in fiscal year 2011, the Debtors paid no incentive awards under the MIP for fiscal year 2011. To date, the board of directors of parent Debtor Hawker Beechcraft, Inc. (the "Board") has not adopted a MIP for fiscal year 2012, and no payments were made to the SLT under the MIP or any other alternative bonus plan, including the Equity Investment Plan, since February 10, 2011. Therefore, notwithstanding the significant increase in

their work load as a result of the Debtors' chapter 11 cases, the only compensation provided to the Debtors' senior management team for fiscal year 2012, as of the date hereof, is their base salary.

12. Recognizing that achieving a successful reorganization would require appropriately incentivizing the Debtors' senior management, prior to the Petition Date, the Debtors retained Towers Watson ("Towers") to assist the Debtors' management and the Board in designing a management incentive plan to provide employees instrumental to the success of the Debtors' restructuring efforts and operational performance with appropriate compensation. The findings contained in the Towers report are discussed in the Motion and are the subject of the *Declaration of Neil Bubnovich in Support of the Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Incentive Plan and Key Employee Retention Plan and Granting Related Relief*, annexed to the Motion as **Exhibit C**.

13. In addition, I am not a participant in the KEIP and I played a pivotal role in formulating and negotiating its terms on behalf of the Debtors. I believe that the development of an effective management incentive plan is essential under the circumstances to improve the Debtors' financial and operational performance and achieve a value-maximizing restructuring transaction on an accelerated timeline.

14. The Debtors, in consultation with Towers and the Debtors' other advisers, carefully considered compensation components that would appropriately incentivize and reward employees for maximizing value while ensuring that the terms of any proposed incentive plan were competitive and market-driven. Specifically, the Debtors, in consultation with Towers and the Debtors' other advisers, and through discussions with their major creditor constituents, including the Consenting Creditors and the Committee, structured the KEIP to (a)(i) reward

strong financial and operational performance and (ii) reward the successful and expeditious conclusion of the Standalone Transaction, or (b) reward the successful conclusion of a Third-Party Transaction.

15. Recognizing the importance of incentivizing the SLT to expeditiously consummate a value-maximizing restructuring transaction, enhance earnings, and maximize value to these estates, the Consenting Creditors and the Committee support the KEIP and the relief requested in the Motion. I believe this support clearly indicates that the KEIP offers considerable benefits for the Debtors' estates, appropriately incentivizes the SLT and will ensure the ongoing viability of the Debtors' businesses.

II. Terms of the KEIP.

16. The KEIP provides for cash incentives to those key employees who possess significant knowledge of the industry and the Debtors' businesses and who drive the high-level operations that dictate the Debtors' financial performance as they enter a critical sales period of their fiscal year. The participants in the KEIP, all of whom are "insiders" (as I am advised that term is defined in section 101(31) of the Bankruptcy Code include the following:

- The Chairman of Hawker Beechcraft Corporation;
- The Executive Vice President of Operations;
- The Vice President of Human Resources;
- The Vice President of Engineering;
- The Executive Vice President and General Counsel;⁴
- The Senior Vice President of Global Customer Support;
- The Chief Financial Officer; and
- The Executive Vice President of Customers.

⁴ Effective as of June 30, 2012, the Debtors' Vice President and General Counsel was promoted to Executive Vice President and General Counsel.

17. In light of the fact that the outcome of a Third-Party Transaction is currently unknown, the KEIP consists of two potential (but exclusive) methods of receiving compensation: (a) the Standalone Transaction incentive (the “Standalone Transaction Award”) and (b) an incentive which is based upon Court approval and consummation of a Third-Party Transaction (the “Third-Party Transaction Award”). To be clear, participating employees will only be eligible to receive incentive compensation under either the Standalone Transaction Award or the Third-Party Transaction Award, but not both, depending upon the outcome of the Standalone Transaction or the Third-Party Transaction.

18. In addition, in order for a member of the SLT to receive a KEIP award payment, (a) except as set forth below, the SLT member must waive all prepetition unsecured claims, including prepetition unsecured claims for severance, bonus or incentive awards, and any right to payment upon a change of control triggered by the Standalone Transaction or Third-Party Transaction (excluding accrued vacation time), whether arising under such member’s prepetition employment agreement, the Debtors’ organizational documents, or other agreements and (b) the economic distributions to creditors, whether in the form of cash, equity in the reorganized Debtors, or other form of consideration, in the Standalone Transaction or Third-Party Transaction must be consistent with the distribution formula set forth in the RSA (unless otherwise agreed to by the Consenting Creditors and the Committee). For the avoidance of doubt, the SLT is not waiving any claims for indemnification, contribution, reimbursement, or any right to payment under the Debtors’ director and officer insurance policies and the Debtors’ organizational documents.

a. The Standalone Transaction Award.

19. Under the Standalone Transaction Award, the Debtors, with input from Towers, have set individual cash award opportunities based upon a percentage of each individual’s base

compensation. As described in further detail in the Motion, the Standalone Transaction Award would be paid for achieving expedited consummation of a standalone chapter 11 plan of reorganization (including, but not limited to, the Plan) and for achieving certain financial performance goals. Specifically, 50 percent of an eligible employee's total target award opportunity is based upon the date of plan consummation (the "Consummation Award") and the remaining 50 percent of an eligible employee's total target award opportunity is based upon the Debtors' achieving a target level of Cumulative Net Cash Flow (as defined below) (the "Financial Performance Award").

1. The Consummation Award.

20. The Consummation Award is designed to incentivize the SLT to consummate a value-maximizing restructuring transaction on an accelerated timeline. The Consummation Award for each SLT member is based on a specified percentage of each participant's base salary, with a target goal award of 50 percent of base salary, a maximum "stretch goal" award of 100 percent of base salary, and a minimum award of 0 percent in the event that the Debtors do not achieve plan consummation on or before December 15, 2012. The maximum payouts under the Consummation Award, payable only if the Debtors achieve their stretch goal and confirm and consummate a plan on or prior to November 17, 2012, is \$2,664,000.

21. I believe the Consummation Award recognizes the value-preserving benefits of an expeditious and coordinated trip through chapter 11. The aggressive plan consummation targets are consistent with, and directly support the achievement of, the Debtors' goal to consummate a value-maximizing restructuring transaction in advance of the end of the calendar year. I also believe providing such targeted incentives helps maximize the likelihood that the Debtors will adhere to their desired accelerated timeline for the chapter 11 cases. In addition, I believe consummating a plan of reorganization within the short timeframe provided by the

Consummation Award is critical to the Debtors' financial restructuring and important to their maintaining a competitive, successful business. Indeed, I believe the Debtors' timely consummation of a plan will allow their creditors to more quickly realize value and receive recoveries accorded them under such plan. Furthermore, the time frame set forth in the Consummation Award was extensively negotiated and is supported by the Debtors' major creditor constituents, including the Consenting Creditors and the Committee.

2. The Financial Performance Award.

22. The Financial Performance Award is based on the Debtors achieving a certain target level of cumulative Net Cash Flow (as defined in the DIP Facility, with additional disbursement exclusions including, (a) interest and fees under the DIP Facility, (b) adequate protection payments made on account of prepetition secured debt, (c) any disbursements related to pension obligations, and (d) receipt exclusions including the Payments as defined in the Superior Motion) for the period from July 9, 2012, through the week of plan consummation (the "Cumulative Net Cash Flow"). Similar to the Consummation Award, the Financial Performance Award for each SLT member is based on a percentage of each member's base salary. If the Debtors achieve the target Cumulative Net Cash Flow goal, payments on account the Financial Performance Award would be 50 percent of each participant's base salary, resulting in a total target payout of \$1,332,000 to the SLT. To the extent that the Debtors exceed this target, payments on account of the Financial Performance Award can reach up to 100 percent of each participant's base salary, resulting in a total maximum payout of \$2,664,000. If performance is below the minimum threshold level, no payments will be made. To the extent the Cumulative Net Cash Flow falls between two payout levels, award amounts would be prorated as described in the Motion. To the extent the effective date of the Standalone Transaction occurs after January 15, 2013, the Debtors agree to provide an updated Cumulative Net Cash Flow forecast

for purposes of calculating the Cumulative Net Cash Flow test to the Consenting Creditors and the Committee covering the period from December 28, 2012 through the effective date of the Standalone Transaction, which shall be subject to the consents of the Consenting Creditors and the Committee, which consent will not be unreasonably withheld. The Financial Performance Award shall be earned after operating results are finalized for July 9, 2012, through the week in which a chapter 11 plan of reorganization is consummated.⁵

23. Because the proposed timeline for consummation of either the Standalone Transaction or the Third-Party Transaction lead up to and will coincide with the Debtors' most significant sales period, I believe there is an urgent need to implement an appropriate incentive structure based on operating performance. I believe tying 50 percent of the total Standalone Transaction Award to financial targets based on Cumulative Net Cash Flow will ensure that the SLT is appropriately incentivized to achieve operational success during the Debtors' most significant sales periods. Additionally, I believe that the Financial Performance Award appropriately aligns the interests of the Debtors, the SLT, and the Debtors' stakeholders.

24. I also believe the earnings targets set forth in the KEIP are reasonable, appropriate and necessary to incentivize the participants to achieve targeted earnings performance that will inure for the benefit of all stakeholders. Prior to the Petition Date, after extensive due diligence and financial and operational analysis, the Debtors, in consultation with their advisers, developed a long-term business plan that includes certain adjusted operating income targets, discussed the Debtors' aircraft product lines and various business plan considerations. The Financial

⁵ I understand that the Debtors agree that they will make payments on account of all postpetition trade accounts payable and other obligations in the ordinary course and as payments become due.

Performance Award payments require the Debtors to achieve those operating targets set forth in this long-term business plan.

25. Further, the Debtors face material risks and uncertainties with respect to their attaining the operating income targets. The Debtors' financial performance and their ability to meet the operating targets are affected by their customers' demand for aircraft. Indeed, given the long lead time associated with manufacturing an aircraft and the large number of vendors who supply parts to the Debtors' aircraft, there is considerable lag time associated with any decision to adjust production. Furthermore, the long lead time on production of an aircraft makes it inherently difficult to predict what macro economic conditions will be and the level of customer demand by the time an aircraft that the Debtors decide to build is ultimately manufactured and ready for delivery. Therefore, I believe the Financial Performance Award establishes reasonable operating targets that will appropriately incentivize the SLT.

3. Payment of Standalone Transaction Award.

26. Each of the SLT member's allocation of the cash available under the Standalone Transaction Award is based upon (a) a percentage of the employee's base salary, (b) the date of plan consummation, and (c) the cash flow savings achieved by the Debtors. If target goals are reached under both the Consummation Award and the Financial Performance Award, the Standalone Transaction Award provides for a target payout totaling 100 percent of base salary for each participant. In such a scenario, the total aggregate Standalone Transaction Award payout would be \$2,664,000. The total maximum aggregate payout under the Standalone Transaction Award, payable only if "stretch" goals are achieved under both the Consummation Award and the Financial Performance Award, is 200 percent of each participant's base salary, which aggregates to total incentive payments of \$5,328,000.

27. I believe that the payments contemplated under the Standalone Transaction Award are reasonable and will adequately and fairly incentivize the SLT. The Debtors, in consultation with Towers and their other advisors, conducted extensive due diligence and invested a great deal of thought into the best way to structure the Standalone Transaction Award to ensure that it is competitive, market-based, and, above all, effective.

b. The Third-Party Transaction Award.

28. As described in the Motion, the Debtors and their advisors are actively pursuing a Third-Party Transaction. In an effort to continue to incentivize the SLT's efforts in connection with the Debtors' Third-Party Transaction—both directly as well as indirectly by ensuring the Debtors' key employees are focused on operations and near-term results as they enter the back end of the calendar year (which is their most significant sale period)—the Debtors propose to offer the SLT a bonus if a Third-Party Transaction is approved by the Court and closes before certain defined outside dates. Accordingly, if the Debtors obtain Court approval and ultimately consummate of a Third-Party Transaction, the Third-Party Transaction Award will replace the Standalone Transaction Award. If the Debtors pursue a Third-Party Transaction that is ultimately unsuccessful, the Debtors would toggle to pursue emergence through a standalone plan and the Standalone Transaction Award will replace the Third-Party Transaction Award, with certain modifications set forth in the KEIP/KERP Motion.

29. Under the Third-Party Transaction Award, each member of the SLT would receive a sale bonus of 200 percent of their base salary upon Court approval of a Third-Party Transaction prior to December 15, 2012 that (a) results in a purchase price of at least \$1.79

billion and (b) closes no later than January 15, 2013.⁶ In addition, if the Court-approved Third-Party Transaction results in a purchase price of less than \$1.79 billion, the Third-Party Transaction Award opportunity would decrease by 25 percent of each SLT member's base salary for each \$100 million in purchase price below \$1.79 billion;⁷ *provided, however*, that such downward adjustment will not apply if (a) the decrease in purchase price is the result of a purchase price adjustment triggered by the assumption of certain liabilities (which are not currently contemplated) and (b) the assumption of such liabilities is supported by the Committee. Total payouts under the Third-Party Transaction Award in the event of the timely approval and consummation of a Third-Party Transaction, that results in a purchase price of at least \$1.79 billion, would be \$5,328,000.

30. I believe that the Third-Party Transaction Award payments are reasonable and will ensure the participants are appropriately motivated during this critical stage of the chapter 11 cases. As the Debtors are entering into their most critical sales period with dramatically increased workloads and no short- or long-term cash or equity compensation incentives, the SLT – those employees with the most direct line of sight to and influence over the Debtors' financial performance – have no clarity regarding their post-emergence employment status or even who the future owners of the business will be. I believe implementing the KEIP, including the Third-Party Transaction Award aligns the interests of the SLT with the Debtors, their estates and their stakeholders by ensuring the SLT remains focused on achieving targeted cash flow goals and committed to consummating the Standalone Transaction or the Third-Party Transaction, which

⁶ These dates may be extended by agreement of both the Consenting Creditors and the Committee.

⁷ To the extent the purchase price falls between two \$100 million increments, award amounts would be prorated.

will inure to the benefit of the Debtors, their estates and their stakeholders. Absent the Third-Party Transaction Award, I believe the SLT could seek alternative employment opportunities and, as a result, immediately undermine the Debtors' restructuring efforts at a critical juncture of the Debtors' chapter 11 cases and in the Debtors' business cycle.

31. Recognizing the importance of keeping the SLT focused on maximizing value for the Debtors' estates, the Consenting Creditors and the Committee support the payments under the Third-Party Transaction Award upon the consummation of a Third-Party Transaction.

Overview of the KERP

I. Necessity and Development of the KERP.

32. As part of the Debtors' changing business environment and ongoing restructuring efforts, the KERP participants, which consist of approximately 31 of the Debtors' management-level non-insider employees that are vital to the Debtors' business and reorganization (the "KERP Participants"), have been called upon to undertake additional responsibilities and expend significantly more working-hours than contemplated by the normal terms of their employment. The KERP Participants' additional responsibilities include, among other things, assisting with Third-Party Transaction negotiations and due diligence, negotiating with suppliers and vendors, participating in contract assumption and rejection analysis, reviewing sale solicitation materials, preparing business plans, cash flow projections, and related budgets required under the DIP Facility, gathering and coordinating the dissemination of due diligence information, and complying with the various reporting requirements for debtors operating in chapter 11.

33. Prior to the Petition Date, most of the KERP Participants were eligible to participate in the MIP and some also participated in the Equity Investment Plan. The KERP Participants who were not eligible to participate in the MIP earned commissions in addition to

their base salary. Because the Debtors did not meet the applicable performance metrics in fiscal year 2011, however, no MIP bonuses were paid for fiscal year 2011, and the MIP has not been adopted by the Board for the fiscal year 2012. In addition, due to a decrease in airplane sales, those KERP Participants receiving commissions were paid less than in previous years. Therefore, no MIP payments have been made to the KERP Participants in recent years, no MIP payments will be made to KERP Participants for fiscal year 2012, and certain KERP Participants have seen a decrease in their earned commissions. I believe the KERP will aid the Debtors' retention of the KERP Participants and will incentivize them to expend the additional efforts and time necessary to maximize the value of the Debtors' assets.

II. The KERP Is Necessary to Maintain Employee Focus and Morale and Complete a Successful Chapter 11 Restructuring.

34. The KERP Participants have been carefully selected by certain members of the SLT as persons that are critical to (a) maximizing the value of the Debtors' assets leading up to consummation of a stand-alone plan of reorganization and/or (b) obtaining court approval for, participating in, and closing a Third-Party Transaction. The KERP Participants generally include management employees at the following levels: manager, senior manager, general manager, vice president, senior vice president, and director. Though work performed by the KERP Participants is integral to the Debtors' businesses, none of the KERP Participants have a degree of control over the Debtors such that they can be considered a "person in control." Moreover, none of the Participants are insiders as defined in section 101(31) of the Bankruptcy Code; no KERP Participant falls into any of the categories defined therein.

35. I believe that each of the KERP Participants is necessary to their restructuring efforts and that such participants possess important experience, relationships, and familiarity with the Debtors' operations and infrastructure that would be incredibly costly to replace.

Indeed, defections among the KERP Participants would cause the Debtors to incur significant costs in recruiting and attracting similarly qualified replacements, and there is a real risk that similarly qualified replacements may not exist. Loss of any of the KERP Participants would therefore likely negatively impact the value of the Debtors' assets.

36. Because the KERP Participants provide essential services to the Debtors that are necessary both during and after the Debtors' reorganization, I believe the KERP is necessary and appropriate to improve morale, prevent attrition and maximize enterprise value. The KERP which will go effective immediately upon (and subject to) Court approval, is a short-term plan designed to incentivize and retain the Participants during the chapter 11 cases and through emergence or the consummation of a Third-Party Transaction.

37. The total aggregate payout under the KERP to the KERP Participants will be no more than \$1.9 million (the "KERP Pool").⁸ The KERP Participants have been divided into six groups according to each participant's department, and each departmental group is entitled to a fixed percentage of the KERP Pool. Individual award amounts will be allocated on a discretionary basis by the department leader based on each participant's contribution to the Debtors' restructuring efforts and ongoing operational success, *provided, however* that, without the consent of the Committee, no KERP Participant shall be entitled to receive an award payment that is greater than 50 percent of such participant's base salary. Payment of KERP awards is conditioned only on continued employment with the Debtors through actual receipt of payment

⁸ The Debtors reserve the right to add additional non-insider employees to the pool of KERP Participants *provided, that* (a) the Committee consents to such addition and (b) the Debtors shall not make payments under the KERP in excess of \$1.9 million, in the aggregate.

(unless a KERP Participant is terminated without cause or resigns for good reason prior to payment).

38. I believe the KERP is necessary to maintain employee focus and morale and complete a successful restructuring. The KERP Participants possess indispensable institutional knowledge, experience and relationships and have been identified as critical to the Debtors' operations and a successful restructuring. I also believe that the KERP payments are reasonable, fully warranted and necessary to the success of these chapter 11 cases and consummation of a value-maximizing restructuring transaction. The payments contemplated by the KERP will be key to preserving and bolstering employee morale and loyalty at a time when employee support is critical and certain employees may seek alternative employment, perhaps with the Debtors' competitors. The loss of valuable employees, with the resulting loss of institutional knowledge and the need to identify and recruit new employees, would be distracting and costly at this critical juncture.

39. Furthermore, the amount of the incentive payments under the KERP is, in the aggregate, insignificant in comparison to the expected benefits making these payments will afford the Debtors. Indeed, the bonus payments on an individual basis are relatively de minimis, but are significant to the KERP Participants. I believe this investment in human capital is particularly warranted for the Participants as the Debtors do not anticipate such employees will be eligible to participate in any other bonus or incentive plans for fiscal year 2012.

40. For all of these reasons, I believe that approving the KERP and the payments thereunder will benefit the Debtors' estates and their creditors by allowing the Debtors' business operations to continue without interruption, engendering the Debtors' employees and encouraging their continued participation in the Debtors' restructuring efforts.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Dated: July 13, 2012
New York, New York

/s/ Robert S. Miller

Robert S. Miller
Chief Executive Officer
Hawker Beechcraft, Inc.
10511 East Central
Wichita, Kansas 67206

EXHIBIT C

Bubnovich Declaration

James H.M. Sprayregen, P.C.
Paul M. Basta
KIRKLAND & ELLIS LLP
601 Lexington Avenue
New York, New York 10022
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

- and -

Patrick J. Nash, Jr. (admitted *pro hac vice*)
Ross M. Kwasteniet (admitted *pro hac vice*)
KIRKLAND & ELLIS LLP
300 N. LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

Counsel to the Debtors and Debtors in Possession

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

In re:)	Chapter 11
HAWKER BEECHCRAFT, INC., <i>et al.</i> , ¹)	Case No. 12-11873 (SMB)
Debtors.)	(Jointly Administered)

**DECLARATION OF NICK BUBNOVICH IN SUPPORT
OF THE DEBTORS' MOTION FOR ENTRY OF AN
ORDER APPROVING THE DEBTORS' KEY EMPLOYEE
INCENTIVE PLAN AND THE KEY EMPLOYEE RETENTION
PLAN AND GRANTING RELATED RELIEF**

¹ The Debtors in the chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: Hawker Beechcraft, Inc. (2598); Arkansas Aerospace, Inc. (7496); Beech Aircraft Corporation (0487); Beechcraft Aviation Company (3548); Hawker Beechcraft Acquisition Company, LLC (8770); Hawker Beechcraft Corporation (5770); Hawker Beechcraft Defense Company, LLC (5891); Hawker Beechcraft Finance Corporation (8763); Hawker Beechcraft Global Customer Support Corporation (7338); Hawker Beechcraft Holding, Inc. (6044); Hawker Beechcraft International Delivery Corporation (6640); Hawker Beechcraft International Holding LLC (6757); Hawker Beechcraft International Service Company (9173); Hawker Beechcraft Notes Company (0498); Hawker Beechcraft Quality Support Company (7800); Hawker Beechcraft Regional Offices, Inc. (3889); HBC, LLC (N/A); and Rapid Aircraft Parts Inventory and Distribution Company, LLC (N/A). The location of the Debtors' corporate headquarters and the Debtors' service address is: 10511 East Central, Wichita, Kansas 67206.

I, Nick Bubnovich, declare as follows under penalty of perjury under 28 U.S.C. § 1746:

1. From January 3, 2005, until July 2, 2012, I was a Director in the Chicago Office of Towers Watson Delaware Inc. ("Towers"), which maintains an office at 71 South Wacker Drive, Suite 2600, Chicago, Illinois 60606-4637. I retired on July 2, 2012, and as of July 3, 2012, entered into a contractual agreement with Towers to continue to provide services to the firm and its clients as an independent contractor. I submit this declaration (this "Declaration") to support the relief requested in the *Debtors' Motion for Entry of an Order Approving the Debtors' Key Employee Incentive Plan and Key Employee Retention Plan and Granting Related Relief* (the "KEIP and KERP Motion").² Unless otherwise indicated, all facts set forth in this Declaration are based upon (a) my personal knowledge of the current compensation structure of the above-captioned debtors and debtors in possession (collectively, the "Debtors") and the KEIP and KERP (each as defined herein), (b) information learned from my review of relevant documents, (c) information learned from my research into market practices for similar companies and for companies in chapter 11, and (d) information I have received from members of the Debtors' management and the Debtors' other advisors. I am authorized to submit this declaration on behalf of the Debtors, and, if I were called upon to testify, I could and would testify competently to the facts set forth herein.

Qualifications

2. Towers is a global consulting firm focused on human capital and financial management and specializes in four areas: employee benefits, talent and rewards, exchange solutions, and risk and financial services. Towers combines human capital and financial expertise to deliver business solutions that drive value. Towers employs approximately 14,000

² Capitalized terms used but not defined herein shall have the meanings ascribed to them in the KEIP/KERP Motion.

associates in 37 countries. Towers' talent and rewards group of over 500 associates helps clients achieve competitive advantage by aligning their workforce with their business strategy, and it assists clients in developing and implementing strategies for attracting, retaining, and motivating their employees.

3. I have worked in executive compensation consulting for nearly 30 years. I consult and advise companies on a variety of compensation and benefit issues. I work with companies on salary administration and incentive compensation design, annual incentive plans, and long-term incentive plans. I also assist clients in developing severance programs, negotiating employment agreements, and designing bankruptcy compensation programs.

4. As noted earlier, I held the position of Director at Towers for approximately 7 and one half years, ending on July 2, 2012. Before then, I was a partner at Deloitte & Touche LLP ("Deloitte & Touche") for approximately two and one-half years. Before joining Deloitte & Touche, I was a partner in the Human Capital Group at Arthur Andersen LLP. I have served as the compensation consultant on numerous large and complex restructurings and have provided services for numerous large multinational companies in and outside of Chapter 11, including, without limitation, Delphi Corporation, Bethlehem Steel Co., Delta Air Lines, Inc., Dura Automotive, Federal Mogul Corp., Frontier Airlines, Fibermark, Inc., Hayes Lemmerz International, Inc., NRG Energy, Inc., and Winn-Dixie, Inc.

5. I have published a number of articles on executive compensation issues, the most recent being "Compensation Apples and Option Pricing Oranges," World at Work Journal (December 2005), and I have co-authored three of the seven chapters in the National Center for Employee Ownership's 2003 book, Beyond Stock Options. In addition, I was a member of the Executive Compensation Committee of the American College of Bankruptcy, which prepared in

2007 the “Best Practices Report for Debtor Employee Retention and Incentive Compensation Programs in Light of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.”

I have also been a featured speaker on executive compensation for the American Bar Association, ALI-ABA, National Center for Employee Ownership, Executive Enterprise, Inc., Corporate Counsel Center, American Society of Corporate Secretaries (Chicago Chapter), Chicago Compensation Association, National Association of Stock Plan Professionals (Chicago Chapter), and Chicago-Kent College of Law.

KEIP Overview

6. Prior to the commencement of the above-captioned chapter 11 cases in the United States Bankruptcy Court for the Southern District of New York (the “Court”) on May 3, 2012 (the “Petition Date”), the Debtors commissioned Towers to provide a report on the competitiveness of the Debtors’ executive compensation structure, and to assist the Debtors in developing an overall incentive compensation strategy. As part of this process, I have consulted with the Debtors and their other advisors regarding the Debtors’ executive compensation structure and the implementation of the Debtors’ proposed key employee incentive plan (the “KEIP”). I have also gathered relevant market comparison data and analyzed whether the KEIP design is consistent with typical market practice. Based on this research and analysis, I am intimately familiar with the Debtors’ current compensation structure and the KEIP.

7. In developing the KEIP, I worked with the Debtors’ management and other advisors to provide counsel with respect to typical KEIP design practice in light of competitive data and my experience in designing programs for similarly-situated companies. As part of this process, I worked with my colleagues at Towers to undertake an analysis of the Debtors’ prepetition management compensation program and to create an initial KEIP design that strikes a balance between (a) motivating the Debtors’ eight-person senior leadership team (the “SLT”),

who are eligible to participate in the KEIP, to achieve the desired financial performance and expedited exit from chapter 11 and (b) recognizing the financial constraints of the Debtors' businesses and the interests of their creditor constituencies and other stakeholders. I understand the KEIP design has been further refined based on the facts and circumstances of these cases and through negotiations with the holders of a majority of the Debtors' prepetition secured debt (the "Consenting Lenders") and prepetition senior bond debt (the "Consenting Bondholders", and together with the Consenting Lenders, the "Consenting Creditors"), and the official committee of unsecured creditors (the "Committee").

8. The KEIP consists of two potential (but exclusive) methods of receiving compensation: (a) an award based on the timing of consummation of the Debtors' proposed standalone chapter 11 plan (the "Standalone Transaction Award") and (b) an award based upon Court approval and consummation of an alternative third-party sale or plan sponsorship transaction (the "Third-Party Transaction Award"). Participating employees will only be eligible to receive incentive compensation under either the Standalone Transaction Award or the Third-Party Transaction Award, but not both, depending upon the outcome of the Debtors' third party marketing process. If the Debtors obtain Court approval of, and ultimately consummate, an alternative third-party sale or plan sponsorship transaction (a "Third Party Transaction") consistent with the terms set forth in the KEIP/KERP Motion, the Third-Party Transaction Award will replace the Standalone Transaction Award. However, if the Debtors pursue a Third-Party Transaction that is ultimately unsuccessful, the Debtors would toggle to pursue emergence through a standalone plan and the Standalone Transaction Award will replace the Third-Party Transaction Award, with certain modifications set forth in the KEIP/KERP Motion.

9. In addition, I understand that, in order for a member of the SLT to receive a KEIP award payment, (a) except as set forth below, the SLT member must waive all prepetition unsecured claims, including prepetition unsecured claims for severance, bonus or incentive awards, and any right to payment upon a change of control triggered by the Standalone Transaction or Third Party Transaction (excluding accrued vacation time), whether arising under such member's prepetition employment agreement, the Debtors' organizational documents, or other agreements and (b) the economic distributions to creditors, whether in the form of cash, equity in the reorganized Debtors, or other form of consideration, in the Standalone Transaction or Third-Party Transaction must be consistent with the distribution formula set forth in the RSA (unless otherwise agreed to by the Consenting Creditors and the Committee). For the avoidance of doubt, the SLT is not waiving any claims for indemnification, contribution, reimbursement, or any right to payment under the Debtors' director and officer insurance policies and the Debtors' organizational documents.

10. Under the Standalone Transaction Award, individual cash award opportunities for each SLT member are based upon a percentage of each individual's base compensation. 50 percent of an eligible employee's total target Standalone Transaction Award opportunity is based on achievement of expedited consummation of a standalone chapter 11 plan of reorganization and the remaining 50 percent of an eligible employee's total target award opportunity is based upon the Debtors' achieving a target level of Cumulative Net Cash Flow. If target goals are reached under both metrics, the Standalone Transaction Award provides for a target payout totaling 100 percent of base salary for each participant. The total maximum aggregate payout under the Standalone Transaction Award, payable only if "stretch" goals are achieved under both metrics, is 200 percent of each participant's base salary. The Standalone Transaction Award, to

the extent earned, would be paid on the effective date of the confirmed chapter 11 plan, or as soon as practicable thereafter, after consultation with the Committee. I understand that, to be eligible to receive payment of a Standalone Transaction Award, SLT members must be employed on the date of payment unless an SLT member is terminated without cause or resigns for good reason prior to payment.

11. Similar to the Standalone Transaction Award, individual cash award opportunities under the Third-Party Transaction Award are based upon a percentage of each SLT member's base compensation. Under the Third-Party Transaction Award, each member of the SLT would receive a sale bonus of 200 percent of their base salary upon Court approval of a Third Party Transaction prior to December 15, 2012 that (a) results in a purchase price of at least \$1.79 billion and (b) closes no later than January 15, 2013.³ In addition, if the Court-approved Third-Party Transaction results in a purchase price of less than \$1.79 billion, the Third-Party Transaction Award opportunity would decrease by 25 percent of each SLT member's base salary for each \$100 million in purchase price below \$1.79 billion;⁴ *provided, however*, that such downward adjustment will not apply if (a) the decrease in purchase price is the result of a purchase price adjustment triggered by the assumption of certain liabilities (which are not currently contemplated) and (b) the assumption of such liabilities is supported by the Committee. Payment of the Third-Party Transaction Award to all SLT members would be made on the effective date of a plan for the Third Party Transaction, or as soon as reasonably practicable thereafter, after consultation with the Committee, provided that consummation of such Third-Party Transaction occurs on or before January 15, 2013 (except as provided above). To be

³ I understand that these dates may be extended by agreement of both the Consenting Creditors and the Committee.

⁴ To the extent the purchase price falls between two \$100 million increments, award amounts would be prorated.

eligible to receive payment of a Third-Party Transaction Award, I understand that SLT members must be employed on the date of payment unless an SLT member is terminated without cause or resigns for good reason prior to payment.

Towers' Independent Review of the Reasonableness of the KEIP

12. At the start of our engagement, Towers discussed the Debtors' operational history and challenges with the SLT and the Debtors' advisors. Towers then reviewed the Debtors' existing base salary and annual and long-term incentive compensation programs. Towers also discussed performance goals, and actual performance against those goals, established under historical incentive plans. Through this review, Towers was able to understand the Debtors' recent compensation history and evaluate the proposed KEIP with appropriate consideration for the specific and reasonable objectives of the Debtors in this instance. In assessing the reasonableness of the KEIP, Towers conducted two primary analyses: (a) a review of competitive compensation data for the SLT, and (b) a review of market practices relative to KEIP designs, based on approved cases at similarly-situated companies.

13. Through my review of the Debtors' compensation structure, I learned that, historically, in addition to base salary, the Debtors have compensated a core team of key employees, including the SLT, through an annual cash incentive program based on attainment of certain cash and percentage profit goals (the "MIP") and through certain equity-based awards (the "Equity Investment Plan"). I am advised that the Debtors developed the MIP to attract and motivate talented executives to achieve certain financial and operational results. Incentive payments under the MIP consisted of a percentage of participants' respective base salaries. I understand that, on February 10, 2011, for fiscal year 2010, the Debtors paid approximately \$10.25 million in incentive payments under the MIP. Because the applicable performance metrics were not achieved in fiscal year 2011, I understand that the Debtors paid no incentive

awards under the MIP for fiscal year 2011. I also understand that, as of the date hereof, the Board has not adopted a MIP for fiscal year 2012, and no payments were made to the SLT under the MIP or any other alternative bonus plan, including the Equity Investment Plan, since the payments for fiscal year 2010 described above. Therefore, notwithstanding the significant increase in their work load that I understand has occurred as a result of the Debtors' chapter 11 cases, the only compensation provided to the Debtors' senior management team for fiscal year 2012, as of the date hereof, is their base salary.

14. Based on the foregoing, I have determined that the total compensation levels for the SLT are materially below the industry median, principally due to the fact that the SLT will receive no bonus or other incentive opportunity for fiscal year 2012.⁵ The Debtors, with my assistance, structured the KEIP to alleviate this compensation gap and to ensure that the SLT is motivated to assist in expeditiously implementing a value-maximizing restructuring transaction and focus on operations and near-term results as the Debtors enter into what I am told is their most important sales period (the back-half of the calendar year).

15. To evaluate the competitiveness of the KEIP, external market compensation data was gathered from several survey sources, averaging approximately 550 participants each and encompassing a large and diverse database of compensation information. These data sources were selected because we believe they reflect pay practices for the Debtors' relevant labor market for executives. Data was gathered for the following elements of compensation: (a) base salary; (b) target annual incentive as a percentage of base salary; (c) target total cash

⁵ I am advised that, during the first quarter 2012, the Debtors increased compensation for certain members of the SLT by approximately four percent of base salary. In addition, the Debtors restored to prior levels the compensation for certain SLT members who had previously consented to voluntary pay reductions. My conclusion that total compensation levels for the SLT are below-market takes into consideration these prepetition pay increases.

compensation (i.e., base salary plus target annual incentive); (d) annualized expected grant value of long-term incentives; and (e) target total compensation (i.e., target total cash compensation plus long-term incentives). Additionally, target KEIP opportunities, expressed as a percent of base salary, were reviewed in other approved chapter 11 cases. The survey data reflected the pay practices at a broad cross-section of companies, and I believe it is representative of market compensation for comparable roles to the SLT.

16. In assessing the reasonableness of the Standalone Transaction Award component of the KEIP, in particular, I concluded that Standalone Transaction Award payouts at target levels (100% of salary opportunity) are 13% above the median for target total cash compensation and 16% below the median for target total compensation at comparable companies. I also concluded that Standalone Transaction Award payouts at “stretch” levels (200% of salary opportunity) are 26% above the 75th percentile for target total cash compensation and 24% below the 75th percentile for target total compensation. I believe that the target total compensation benchmark (rather than target total cash compensation) is the better metric for comparison because members of the SLT will be comparing their pay opportunities under the KEIP to their peers’ opportunities at other companies, as well as to potential opportunities for themselves at other employers.

17. In addition, through my review of Towers’ proprietary database of companies that have filed for chapter 11, I identified approximately 25 other companies for which Towers had data on key employee incentive plan opportunities. These companies had a median revenue of \$1.84 billion and a median number of employees of 5,450. Thus, the each company’s size, whether measured by revenue or number of employees, is an appropriate comparison for the Debtors. Approximately 10 of those companies provided opportunities that were at, near, or

above the Standalone Transaction Award payouts at target levels. Overall, that data indicates that the target Standalone Transaction Award opportunities are within the range of competitive practice on a total compensation basis and are within the range of reasonableness of incentive programs at similarly structured companies. In addition, I also concluded that base salaries plus maximum Standalone Transaction Award award opportunities are also within the range of competitive practice on a total compensation basis.

18. Finally, the maximum award opportunity under the Third-Party Transaction Award provides for the same award as the award opportunity earned if “stretch” goals are achieved under the Standalone Transaction Award. Based on my experience and the work I have done in this case, I concluded that this award opportunity is also consistent with market practice. Specifically, Third-Party Transaction Award payouts at the maximum level (200% of salary opportunity) are 26% above the 75th percentile for target total cash compensation and 24% below the 75th percentile for target total compensation.

19. I, together with my colleagues at Towers, also reviewed the proposed structure of the KEIP, i.e., the restructuring milestone and performance metrics, participants, payout frequency and target payouts. Based upon our analysis, I believe the overall design and structure of the KEIP, along with the proposed target incentive opportunities, are generally consistent with market practice and properly align the SLT’s incentives with the Debtors’ operating goals and desire to achieve successful and expedited plan consummation or a value-maximizing Third Party Transaction. Specifically, Cumulative Net Cash Flow and similar operating profit or cash flow metrics are common performance measures used in KEIPs. Cumulative Net Cash Flow is also a common incentive plan performance measure within the Debtors’ industry. In addition, many KEIPs provide for awards that vary in size between different levels of performance (i.e.,

threshold, target and maximum). Finally, the use of chapter 11 milestone metrics, such as plan consummation or consummation of an alternative Third Party Transaction, was also found to be a common design feature, especially where, as in the KEIP, the timeliness of such chapter 11 milestone was considered as a factor.

20. As mentioned above, Towers' analysis of the appropriate market data and the information supplied by the Debtors revealed that total compensation opportunities for the SLT were below-market. The absence of any meaningful incentive opportunity for the SLT significantly erodes the current competitiveness of the Debtors' compensation programs, which could impact the Debtors' ability to motivate the SLT to achieve the desired business and restructuring objectives. Moreover, these findings do not take into account the increased responsibilities that I understand the SLT has taken on since the commencement of these chapter 11 cases to stabilize the Debtors' operations and pursue the Debtors' expedited dual-track restructuring goals.

21. As a result of the foregoing, and based on my experience and the work I have done in this case, it is my opinion that the proposed KEIP is designed to be consistent with market practice, the payouts thereunder are reasonable given the facts and circumstances of these chapter 11 cases, the KEIP provides anticipated value that is appropriate to competitively motivate the SLT and is required to maximize the value of the Debtors' estates for all parties in interest.

KERP Overview

22. The Debtors also seek approval of a non-insider employee retention plan (the "KERP") for approximately 31 of the Debtors' management-level employees that I understand are vital to the Debtors' business and reorganization (the "KERP Participants"). The total aggregate payout under the KERP to the KERP Participants will be no more than \$1.9 million

(the “KERP Pool”).⁶ The KERP Participants have been divided into six groups according to each participant’s department, and each departmental group is entitled to a fixed percentage of the KERP Pool. Individual award amounts will be allocated on a discretionary basis by the department leader based on each participant’s contribution to the Debtors’ restructuring efforts and ongoing operational success, *provided, however* that, without the consent of the Committee, no KERP Participant shall be entitled to receive an award payment that is greater than 50 percent of such participant’s base salary. KERP awards will be paid upon either (a) the effective date of a plan of reorganization, or (b) the consummation of a Third-Party Transaction. To be eligible to receive a KERP payment KERP Participants I understand that members must be employed on the date of payment unless a KERP Participant is terminated without cause or resigns for good reason prior to payment.

Towers’ Independent Review of the Reasonableness of the KERP

23. I am told that, as a result of the Debtors’ chapter 11 filing, the KERP Participants have been called upon to undertake additional responsibilities and expend significantly more working-hours than contemplated by the normal terms of their employment. Prior to the Petition Date, most of the KERP Participants were eligible to participate in the MIP and some also participated in the Equity Investment Plan. The KERP Participants who were not eligible to participate in the MIP earned commissions in addition to their base salary. As mentioned above, however, because the Debtors did not meet the applicable performance metrics in fiscal year 2011, no MIP bonuses were paid for fiscal year 2011, and the MIP has not been adopted by the Board for the fiscal year 2012. In addition, due to a decrease in airplane sales, those KERP

⁶ I understand that the Debtors reserve the right to add additional non-insider employees to the pool of KERP Participants *provided, that* (a) the Committee consents to such addition and (b) the Debtors shall not make payments under the KERP in excess of \$1.9 million, in the aggregate.

Participants receiving commissions were paid less than in previous years. Therefore, I have determined that current compensation levels for each of the KERP Participants are below market levels largely because no MIP or Equity Investment Plan bonuses have been paid in recent years and also due to a decrease in earned commissions. I believe that the KERP will aid the Debtors' retention of the KERP Participants and will motivate them to expend the additional efforts and time necessary to maximize the value of the Debtors' assets.

24. Based upon my experience and the work I have done in this case, it is my opinion that the overall design and structure of the KERP, along with the proposed award opportunities, are generally consistent with market practice and properly align the KERP Participants' incentives with the Debtors' restructuring goals and operating success. Therefore, I believe that the KERP is both reasonable and appropriate and will aid the debtors in retaining employees that are essential to maximizing value during their chapter 11 cases.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct.

Dated: July 13, 2012
New York, New York

/s/ Nick Bubnovich

Nick Bubnovich
Towers Watson Delaware, Inc.
71 South Wacker Drive, Suite 2600,
Chicago, Illinois 60606-4637