

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 29549

FORM 8-K

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

Date of Report (date of earliest event reported)

July 24, 2000

Commission File Number 1-3229

NORTHROP GRUMMAN CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

No. 95-1055798
(I.R.S. Employer
Identification No.)

1840 Century Park East, Los Angeles, California 90067
(address of principal executive offices)

(310) 553-6262

(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Item 2. Acquisition or Disposition of Assets

Effective July 24, 2000, Northrop Grumman Corporation ("Northrop Grumman" or "Registrant") completed the sale of its commercial aerostructures business ("Aerostructures") to The Carlyle Group, pursuant to an Asset Purchase Agreement dated as of June 9, 2000 between Northrop Grumman and Vought Aircraft Industries, Inc., an entity owned by The Carlyle Group.

Aerostructures is a unit of Northrop Grumman Corporation (Northrop) and is not a separate legal entity. Aerostructures is a major producer of commercial and military aircraft subassemblies. The majority of Aerostructures products are sold to The Boeing Company (Boeing) and, for military contracts, ultimately to the U.S. Government.

Aerostructures manufactures portions of the Boeing 737, 747, 757, 767 and 777 jetliners, of the Gulfstream IV and V business jets, and of the Boeing C-17 military transport. Aerostructures produces the fuselage and aft body section for the 747 as well as cargo and passenger doors, the vertical and horizontal body stabilizers, floor beams and other structural components. The majority of the Boeing jetliner work is performed at production sites in Hawthorne, California; Grand Prairie, Texas; Perry and Milledgeville, Georgia; and Stuart, Florida.

Aerostructures manufactures engine nacelles for the Gulfstream IV and other business jets and produces the integrated wings for Gulfstream's newest business jet, the Gulfstream V. Aerostructures also produces the empennage, engine nacelles, and control surfaces for the C-17, the U.S. Airforce's most advanced airlifter. This work is primarily performed at the Grand Prairie, Texas, and Stuart, Florida facilities. The assets sold include real property, plant and equipment as well as inventory on hand, work in process and accounts receivable.

The purchase price was composed of \$667.7 million in cash and a promissory note for \$175 million, maturing in nine years, with interest payable in kind for four years and interest payable in kind or cash thereafter. The purchase price and form of consideration were negotiated between the parties and their independent advisors at arms' length.

Registrant is informed and believes that The Carlyle Group, founded in 1987, is a private global investment firm based in Washington, D.C. that originates, structures and acts as lead equity investor in management-led buyouts, private placements and venture capital transactions.

The Carlyle Group and Northrop Grumman may enter into bonafide arm's length agreements to purchase or sell businesses or assets to each other or affiliates. Northrop Grumman acquired an interest in the Grand Prairie, Texas facility, including the C-17 business, from The Carlyle Group in 1994. There are no material relationships between The Carlyle Group and Registrant, its affiliates, any director or officer of Registrant, or to the best of Registrant's knowledge, any associate of any such director or officer.

Item 5. Other Events

Effective July 24, 2000, Northrop Grumman Corporation completed the sale of its Aerostructures business. Northrop Grumman's consolidated financial statements have been restated to reflect the Aerostructures business as discontinued operations and are included as Exhibits 99 and 99.1 to this Form 8-K.

Item 7. Financial Statements and Exhibits

(c) Exhibits

- 99 Unaudited consolidated financial statements of Northrop Grumman Corporation as of March 31, 2000 and for the quarter then ended and Management's Discussion and Analysis of the Company's Financial Condition and the Results of Operations.
- 99.1 Audited consolidated financial statements of Northrop Grumman Corporation as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999 and Management's Discussion and Analysis of the Company's Financial Condition and the Results of Operations and Financial Statement Schedule.
- 99.2 Asset Purchase Agreement dated as of June 9, 2000 between Northrop Grumman Corporation and Vought Aircraft Industries, Inc.
- 99.3 Employee Matters Agreement
- 99.4 Promissory Note for \$175 million from Vought Aircraft Industries, Inc.
- 15 Letter from Independent Accountants Regarding Unaudited Interim Financial Information
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- 27 Financial Data Schedule
- 27 Financial Data Schedule

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SIGNATURES

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

NORTHROP GRUMMAN CORPORATION
(Registrant)

Date: August 8, 2000 By _____
R. B. Waugh, Jr.
Corporate Vice President and Chief
Financial Officer

Date: August 8, 2000 By _____
John H. Mullan
Corporate Vice President and Secretary

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NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF FINANCIAL POSITION

Dollars in millions	March 31, 2000	December 31, 1999

Assets:		
Cash and cash equivalents	\$ 41	\$ 142
Accounts receivable, net of progress payments of \$1,724 in 2000 and \$1,714 in 1999	1,450	1,402
Inventoried costs, net of progress payments of \$596 in 2000 and \$521 in 1999	1,240	1,190
Deferred income taxes	22	23
Prepaid expenses	50	36

Total current assets	2,803	2,793

Property, plant and equipment	2,854	2,895
Accumulated depreciation	(1,630)	(1,655)

	1,224	1,240

Goodwill, net of accumulated amortization of \$468 in 2000 and \$441 in 1999	3,445	3,469
Other purchased intangibles, net of accumulated amortization of \$406 in 2000 and \$388 in 1999	736	761
Prepaid pension cost, intangible pension asset and benefit trust fund	1,106	946
Assets available for sale	26	26
Investments in and advances to affiliates and sundry assets	49	50

	5,362	5,252

	\$ 9,389	\$ 9,285
=====		

NORTHROP GRUMMAN CORPORATION

Dollars in millions	March 31, 2000	December 31, 1999

Liabilities and Shareholders' Equity:		
Notes payable to banks	\$ 95	\$ 25
Current portion of long-term debt	200	200
Trade accounts payable	436	490
Accrued employees' compensation	326	366
Advances on contracts	347	316
Income taxes payable including deferred		
income taxes of \$561 in 2000 and \$550 in 1999	641	608
Other current liabilities	489	459

Total current liabilities	2,534	2,464

Long-term debt	1,800	2,000
Accrued retiree benefits	1,468	1,458
Other long-term liabilities	41	42
Deferred income taxes	137	64
Paid-in capital		
Preferred stock, 10,000,000 shares authorized; none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding:		
2000 - 69,805,396; 1999 - 69,719,164	1,035	1,028
Retained earnings	2,393	2,248
Accumulated other comprehensive loss	(19)	(19)

	3,409	3,257

	\$ 9,389	\$ 9,285
=====		

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

Dollars in millions, except per share	Three months ended March 31,	
	2000	1999
Net sales	\$1,802	\$1,710
Cost of sales		
Operating costs	1,302	1,297
Administrative and general expenses	213	210
Operating margin	287	203
Interest expense	(46)	(55)
Other, net	2	4
Income from continuing operations before income taxes and cumulative effect of accounting change	243	152
Federal and foreign income taxes	87	56
Income from continuing operations before cumulative effect of accounting change	156	96
Income from discontinued operations, net of tax	17	8
Income before cumulative effect of accounting change	173	104
Cumulative effect of change in accounting for start-up costs, net of income tax benefit of \$11 in 1999		(16)
Net income	\$ 173	\$ 88
Weighted average shares outstanding, in millions	69.9	68.9
Basic earnings per share:		
Continuing operations	\$ 2.23	\$ 1.39
Discontinued operations	.24	.12
Cumulative effect of accounting change		(.24)
Basic earnings per share	\$ 2.47	\$ 1.27
Diluted earnings per share:		
Continuing operations	\$ 2.23	\$ 1.38
Discontinued operations	.24	.12
Cumulative effect of accounting change		(.24)
Diluted earnings per share	\$ 2.47	\$ 1.26
Dividends per share	\$.40	\$.40

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS
OF CHANGES IN SHAREHOLDERS' EQUITY

Dollars in millions	Three months ended March 31,		1999
	2000		

Paid-in Capital			
At beginning of year	\$1,028	\$ 989	
Employee stock awards and options exercised	7	1	

	1,035	990	

Retained Earnings			
At beginning of year	2,248	1,892	
Net income	173	88	
Cash dividends	(28)	(28)	

	2,393	1,952	

Accumulated Other Comprehensive Loss	(19)	(31)	

Total shareholders' equity	\$3,409	\$2,911	
=====			

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

Dollars in millions	Three months ended March 31,	
	2000	1999

Operating Activities		
Sources of Cash		
Cash received from customers		
Progress payments	\$ 380	\$ 786
Other collections	1,763	1,367
Income tax refunds received	7	22
Interest received	2	
Other cash receipts	1	3

Cash provided by operating activities	2,153	2,178

Uses of Cash		
Cash paid to suppliers and employees	2,009	1,967
Interest paid	50	59
Income taxes paid	2	8
Other cash disbursements	1	1

Cash used in operating activities	2,062	2,035

Net cash provided by operating activities	91	143

Investing Activities		
Additions to property, plant and equipment	(36)	(42)
Payment for businesses purchased	(3)	
Proceeds from sale of property, plant and equipment	7	9
Other investing activities	(3)	4

Net cash used in investing activities	(35)	(29)

Financing Activities		
Repayment of borrowings under lines of credit	(80)	(53)
Principal payments of long-term debt	(50)	(50)
Proceeds from issuance of stock	1	2
Dividends paid	(28)	(28)

Net cash used in financing activities	(157)	(129)

Decrease in cash and cash equivalents	(101)	(15)

Cash and cash equivalents balance at beginning of period	142	44

Cash and cash equivalents balance at end of period	\$ 41	\$ 29
=====		

Dollars in millions	Three months ended March 31,	
	2000	1999

Reconciliation of Net Income to Net Cash		
Provided by Operating Activities		
Net income	\$ 173	\$ 88
Adjustments to reconcile net income to net cash provided		
Depreciation	45	43
Amortization of intangible assets	50	47
Common stock issued to employees	7	
Retiree benefits income	(133)	(57)
Decrease(increase) in		
Accounts receivable	(53)	(50)
Inventoried costs	(127)	(122)
Prepaid expenses	(15)	20
Increase(decrease) in		
Progress payments	85	136
Accounts payable and accruals	1	10
Provisions for contract losses	(20)	4
Deferred income taxes	84	43
Income taxes payable	23	23
Retiree benefits	(33)	(45)
Other transactions	4	3

Net cash provided by operating activities	\$ 91	\$ 143
=====		

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

NORTHROP GRUMMAN CORPORATION

SELECTED INDUSTRY SEGMENT INFORMATION

Dollars in millions	Three months ended March 31,	
	2000	1999

Net Sales		
Integrated Systems	\$ 856	\$ 791
Electronic Sensors & Systems	601	615
Logicon	378	353
Intersegment sales	(33)	(49)
	-----	-----
	\$ 1,802	\$ 1,710
=====		
Operating Margin		
Integrated Systems	\$ 100	\$ 70
Electronic Sensors & Systems	34	45
Logicon	31	19
	-----	-----
Total	165	134
Other items included in operating margin:		
Corporate expenses	(7)	(8)
Deferred state tax provision	(11)	(5)
Pension income	140	82
	-----	-----
Operating margin	\$ 287	\$ 203
=====		
Contract Acquisitions		
Integrated Systems	\$ 462	\$ 1,058
Electronic Sensors & Systems	595	575
Logicon	437	409
Intersegment acquisitions	(35)	(29)
	-----	-----
	\$ 1,459	\$ 2,013
=====		
Funded Order Backlog		
Integrated Systems	\$ 4,057	\$ 5,166
Electronic Sensors & Systems	3,518	3,079
Logicon	668	622
Intersegment backlog	(87)	(149)
	-----	-----
	\$ 8,156	\$ 8,718
=====		

NOTES TO CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS

Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission. They do not include all information and notes necessary for a complete presentation of financial position, results of operations, changes in shareholders' equity, and cash flows in conformity with generally accepted accounting principles. They do, however, in the opinion of management, include all adjustments necessary for a fair statement of the results for the periods presented. The financial statements should be read in conjunction with the Notes and Independent Auditors' Report contained in the company's 1999 annual report as restated for discontinued operations in Exhibit 99.1 to this Form 8-K.

Discontinued Operations

Effective July 24, 2000, the company completed the sale of its commercial aerostructures ("Aerostructures") business to The Carlyle Group, pursuant to an Asset Purchase Agreement dated as of June 9, 2000 between Northrop Grumman and Vought Aircraft Industries, Inc., an entity owned by The Carlyle Group. The purchase price was composed of \$667.7 million in cash and a promissory note for \$175 million, maturing in nine years, with interest payable in kind for four years and interest payable in kind or cash thereafter. An estimated loss on the sale of \$15 million will be recorded in the second quarter of 2000. Aerostructures is a major producer of commercial and military aircraft subassemblies, the majority of which are sold to The Boeing Company and, for military contracts, ultimately to the U.S. Government.

The company's Consolidated Statements of Income and related footnote disclosures have been restated to reflect Aerostructures as discontinued operations for all periods presented. Balance sheet and cash flow data have not been restated.

Operating results of the discontinued Aerostructures business are as follows:

\$ in millions	Three months ended March 31,	
	2000	1999
Net Sales	\$ 278	\$ 383
Income before income taxes	\$ 27	\$ 12
Federal and foreign income taxes	10	4
Net income from discontinued operations	\$ 17	\$ 8

Earnings per Share

Basic earnings per share are calculated using the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans.

Basic and diluted earnings per share are calculated as follows:

Three months ended March 31, 2000	Net Income ----- (millions)	Shares ----- (millions)	Earnings per share -----
Basic earnings per share from continuing operations	\$ 156 =====	69.9	\$ 2.23 =====
Dilutive effect of stock options and awards		-----	
Diluted earnings per share from continuing operations	\$ 156 =====	69.9 =====	\$ 2.23 =====
Basic earnings per share from discontinued operations	\$ 17 =====	69.9	\$.24 =====
Dilutive effect of stock options and awards		-----	
Diluted earnings per share from discontinued operations	\$ 17 =====	69.9 =====	\$.24 =====
Basic earnings per share	\$ 173 =====	69.9	\$ 2.47 =====
Dilutive effect of stock options and awards		-----	
Diluted earnings per share	\$ 173 =====	69.9 =====	\$ 2.47 =====

Three months ended March 31, 1999	Net Income ----- (millions)	Shares ----- (millions)	Earnings per share -----
Basic earnings per share from continuing operations	\$ 96 =====	68.9	\$ 1.39 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share from continuing operations	\$ 96 =====	69.3 -----	\$ 1.38 =====
Basic earnings per share from discontinued operations	\$ 8 =====	68.9	\$.12 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share from discontinued operations	\$ 8 =====	69.3 -----	\$.12 =====
Basic earnings per share before cumulative effect of accounting change	\$ 104 =====	68.9	\$ 1.51 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share before cumulative effect of accounting change	\$ 104 =====	69.3 -----	\$ 1.50 =====
Basic earnings per share	\$ 88 =====	68.9	\$ 1.27 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share	\$ 88 =====	69.3 -----	\$ 1.26 =====

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE COMPANY'S FINANCIAL
CONDITION AND THE RESULTS OF ITS OPERATIONS

Sales for the first quarter of 2000 were \$1.8 billion, up five percent from the year ago period. Increases in Integrated Systems (ISS) segment and Logicon segment sales were offset slightly by a decrease in Electronic Sensors and Systems (ESS) segment sales.

ISS sales increased by 8 percent in the first quarter of 2000 compared with the first quarter of 1999, primarily due to increased Air Combat Systems(ACS) sales. The ACS increase reflects increased F/A-18E/F sales, as this program transitioned from the development phase in early 1999 to the current production phase, partially offset by lower B-2 and F/A-18C/D sales.

ESS sales for the quarter ended March 31, 2000, were 2 percent lower than the same period a year ago. The Command, Control, Communications, Intelligence and Naval Systems (C3I&N) business area decrease is primarily attributable to lower air defense and air traffic control radar systems sales for international customers.

Logicon sales were 7 percent higher in the first quarter of 2000 versus the same period in 1999, with all three business areas reporting increased sales.

NORTHROP GRUMMAN CORPORATION

Sales by business area and units delivered in the first quarter were:

\$ in millions	Three months ended March 31,	
	2000	1999

Integrated Systems		
Air Combat Systems (ACS)	\$ 502	\$ 451
Airborne Early Warning and Electronic Warfare (AEW/EW)	183	192
Airborne Ground Surveillance and Battle Management (AGS/BM)	176	161
Intrasegment Eliminations	(5)	(13)

	856	791

Electronic Sensors & Systems		
Aerospace Electronic Systems	257	254
Command, Control, Communications, Intelligence and Naval Systems (C3I&N)	177	214
Defensive Electronic Systems	96	111
Other	71	36

	601	615

Logicon		
Government Information Technology	253	241
Technology Services	92	83
Commercial Information Technology	33	29

	378	353

Intersegment eliminations	(33)	(49)

Total sales	\$ 1,802	\$ 1,710
=====		

Units		

B-2	1	1
F/A-18 C/D		9
F/A-18 E/F	7	

Operating margin includes pension income of \$140 million in the first quarter of 2000, a \$58 million increase from the first quarter of 1999. Pension income for 2000 is expected to be approximately \$560 million.

ISS operating margin for the quarter was \$100 million, up 43 percent from the \$70 million reported for the first quarter of 1999. The 2000 results reflect the return to profitability on the Joint STARS production contracts as well as an upward cumulative margin rate adjustment of \$8 million on the F/A-18E/F program.

ESS operating margin in the first quarter of 2000 was \$34 million as compared with \$45 million in last year's first quarter. The decrease is primarily the result of the July 1999 merger of three of the company's pension plans into one.

Logicon operating margin for the quarter was \$31 million as compared with \$19 million for the first quarter of 1999. The increase is attributable in part to increased sales volume and improved performance in all three business areas. Logicon also benefited from replacing several defined-contribution employee benefit plans with a defined-benefit type pension plan in the first quarter of 2000. While the total cash cost remains the same, the cost is now included in net pension income, in accordance with company policy. As a result, pension income is lower than it otherwise would have been and Logicon's reported operating margin is higher by \$5 million for the quarter, with an additional \$5 million expected to be recorded in each of the remaining quarters of this year.

Interest expense for this year's first quarter was \$46 million, a \$9 million decrease from the \$55 million reported in the first quarter of 1999. The decrease resulted principally from a lower level of average borrowings in the quarter compared with the first quarter of 1999.

The company's effective tax rate was 36 percent for the first quarter of 2000, down slightly from 37 percent reported for the same period in 1999.

Aerostructures, reported as discontinued operations, had net income of \$17 million and \$8 million in the first quarter of 2000 and 1999, respectively. Included in these amounts are related pretax pension income of \$10 million and \$2 million in the first quarter of 2000 and 1999, respectively.

Effective January 1, 1999, the company adopted the new accounting standard, SOP 98-5 - Reporting on the Costs of Start-Up Activities, which requires that certain costs that previously had been deferred be expensed and reported as a cumulative effect of a change in accounting principle. In 1999, the company reported a \$16 million after-tax charge, or \$.24 per share, to write off the previously deferred start-up costs. All such costs incurred after January 1, 1999, are expensed as incurred.

During the first quarter of 2000, \$91 million of cash was generated by operating activities versus the \$143 million generated in the same period last year. The decline is attributable in part to accelerated cash collections in 1999 due to customers' Year 2000 concerns. The decline is somewhat mitigated by improved operating margin and lower pension plan contributions as a result of the July 1999 pension plan merger. For

the remainder of 2000, cash generated from operations, supplemented by borrowings under the credit agreement, are expected to be more than sufficient to service debt, finance capital expenditures, and continue paying dividends to the shareholders. The company's liquidity and financial flexibility will continue to be provided by cash flow generated by operating activities, supplemented by the unused borrowing capacity available under the company's credit agreement and other short-term credit facilities.

Forward-Looking Information

Certain statements and assumptions in Management's Discussion and Analysis and elsewhere in this quarterly report on Form 8-K contain or are based on "forward-looking" information (that the company believes to be within the definition in the Private Securities Litigation and Reform Act of 1995) that involves risk and uncertainties, including statements and assumptions with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. The company's operations are necessarily subject to various risks and uncertainties; actual outcomes are dependent upon factors, including, without limitation, the company's successful performance of internal plans; government customers' budgetary restraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft and electronic systems and support; as well as other economic, political and technological risks and uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

The company has fixed-rate long-term debt obligations, most of which are not callable until maturity. The company also has financial instruments that are subject to interest rate risk, principally variable-rate short-term debt outstanding under the Credit Agreement. The company may enter into interest rate swap agreements to offset the variable-rate characteristics of these loans. At March 31, 2000, no interest rate swap agreements were in effect.

Only a small portion of the company's transactions are contracted in foreign currencies. The company does not consider the market risk exposure relating to foreign currency exchange to be material.

NORTHROP GRUMMAN CORPORATION

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Shareholders
Northrop Grumman Corporation
Los Angeles, California

We have reviewed the accompanying condensed consolidated balance sheet of Northrop Grumman Corporation and Subsidiaries as of March 31, 2000, and the related condensed consolidated statements of income and cash flows for the three-month periods ending March 31, 2000 and 1999. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Northrop Grumman Corporation and Subsidiaries as of December 31, 1999, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 26, 2000, except for discontinued operations footnote, as to which the date is July 24, 2000, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 1999 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Los Angeles, California
April 24, 2000,
except for discontinued operations footnote,
as to which the date is July 24, 2000.

Management's Discussion and Analysis of the Company's
Financial Condition and Results of Operations

BUSINESS CONDITIONS

Northrop Grumman is one of the major companies that competes in both the domestic and international markets of the aerospace and defense industry. While Northrop Grumman is subject to the usual vagaries of the marketplace, it is also affected by the unique characteristics of the aerospace and defense industry and by certain elements peculiar to its own business mix. It is common in this industry for work on major programs to be shared among a number of companies. A company competing to be a prime contractor can turn out to be a subcontractor. It is not uncommon to compete with customers, and simultaneously on other contracts, to be either a supplier to or a customer of such competitor. The nature of major aerospace programs, conducted under binding contracts, allows companies that perform well to benefit from a level of program continuity unknown in many industries. While Northrop Grumman conducts most of its business with the U.S. Government, principally the Department of Defense, domestic and international commercial sales still represent a significant portion of total revenue.

The collapse of communism and the subsequent reductions in the U.S. defense budget have fundamentally altered the landscape of the global aerospace and defense industry. Since the early 1990's the industry has been going through a consolidation process and, along with it, significant downsizing. These actions, in which Northrop Grumman has participated, have made competition even more intense than in the past. Lockheed Martin Corporation, The Boeing Company, and Raytheon Company are the largest companies in the aerospace and defense industry at this time. Northrop Grumman competes against these and other companies for a number of large and smaller programs. Intense competition and long operating cycles are both characteristics of the industry's - and Northrop Grumman's - business.

The current composition of Northrop Grumman resulted from a series of strategic acquisitions and mergers by the former Northrop Corporation beginning in 1992, when the company acquired a 49 percent interest in the Vought Aircraft Company, a designer and builder of commercial and military aerostructures. The remaining 51 percent interest in Vought Aircraft was purchased in 1994. Also in 1994, the company purchased the outstanding common stock of Grumman Corporation and the company was renamed Northrop Grumman Corporation. In 1996, Northrop Grumman acquired the defense electronic systems group of Westinghouse Electric Corporation. Effective August 1, 1997, the company consummated its merger with Logicon, Inc. (Logicon), a leading defense information technology company.

On July 3, 1997, the company announced that it had entered into a definitive agreement with Lockheed Martin Corporation to combine the companies. On February 26, 1998, shareholders of Northrop Grumman approved the merger. On March 23, 1998, the U.S. Government filed suit to block the merger and on July 16, 1998, Lockheed Martin notified the company that it was terminating its merger agreement with the company pursuant to the terms of the agreement. The company recorded charges totaling \$186 million in 1998 for costs related to the terminated merger. The charges cover vesting of restricted stock which became issuable following shareholder approval of the merger and other costs associated with the terminated merger, including investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information.

In 1998 and 1999 the company acquired several businesses. International Research Institute Inc. (INRI) was acquired in 1998 and the Information Systems Division of California Microwave, Inc., Data Procurement Corporation (DPC), and Ryan Aeronautical, an operating unit of Allegheny Teledyne Incorporated, were all acquired in 1999.

Effective July 24, 2000, the company completed the sale of its commercial aerostructures ("Aerostructures") business to The Carlyle Group, pursuant to an Asset Purchase Agreement dated as of June 9, 2000 between Northrop Grumman and Vought Aircraft Industries, Inc., an entity owned by The Carlyle Group. Aerostructures is a major producer of commercial and military aircraft subassemblies, the majority of which are sold to The Boeing Company and, for military contracts, ultimately to the U. S. Government. The company's Consolidated Statements of Income and related disclosures have been restated to reflect Aerostructures as discontinued operations for all periods presented. See the footnote titled "Discontinued Operations" for additional information.

Northrop Grumman's three reportable segments are its three operating units: Integrated Systems (ISS), Electronic Sensors and Systems (ESS) and Logicon, the company's information technology sector.

Integrated Systems Segment

Air Combat Systems (ACS), Airborne Early Warning and Electronics Warfare (AEW/EW), and Airborne Ground Surveillance and Battle Management (AGS/BM) are the three major business areas within the ISS segment.

The ACS business area includes Northrop Grumman's largest program, the B-2 bomber, for which the company is the prime contractor. The company continues to perform modifications to Block 20 aircraft to bring them to the fully operational Block 30 configuration. The U.S. Air Force currently plans to operate two B-2 bomber squadrons of eight aircraft each with an additional five aircraft available to fill in for those in depot for periodic maintenance. The B-2 work is performed at the ISS segment's California facilities in Palmdale and Pico Rivera.

The company is the principal subcontractor to The Boeing Company on the F/A-18 program, which is also included in the ACS business area. The F/A-18 is a fighter/ground-attack aircraft with configurations equipped for either one or two crew members. Principally deployed by the U.S. Navy on aircraft carriers, it also has been purchased by several other nations as a land-based combat aircraft. The company builds approximately 40 percent of the aircraft including the center and aft fuselage, vertical tails, and associated subsystems. The F/A-18 single-seat E and two-seat F, enhanced versions of the F/A-18C and D models, are currently in production and will serve as the U.S. Navy's next-generation multi-mission aircraft. The F/A-18 work is performed at the company's facility in El Segundo, California.

In July 1999, the company purchased Ryan Aeronautical and combined its products with the existing sub-scale targets programs to form the unmanned systems business element reported in the ACS business area. The purchase included two major development projects, Global Hawk and the Miniature Air Launched Decoy (MALD). Global Hawk is being developed for the U.S. Air Force to provide battlefield commanders with intelligence imagery from high altitudes for long periods of time. MALD is a small jet powered aerial vehicle designed to imitate manned jet fighters in radar images and confuse enemy air defense systems.

The AEW/EW business area produces the E-2C Hawkeye and performs upgrades to EA-6B aircraft. Northrop Grumman is a major producer of airborne early warning and control systems, including the all-weather E-2C Hawkeye aircraft. The E-2C has been in active service with the U.S. Navy since 1973 and is employed by the air forces of five other nations. The EA-6B is the armed services only offensive tactical radar jamming aircraft. Manufacturing for both aircraft is performed at Northrop Grumman's St. Augustine, Florida site while engineering, program management and product development is performed in Bethpage, New York.

The company is the prime contractor for the E-8 Joint Surveillance Target Attack Radar System (Joint STARS), which is included in the AGS/BM business area. Joint STARS detects, locates, classifies, tracks and targets potentially hostile ground movement in all weather conditions. It is designed to operate around the clock in constant communication through secure data links with Air Force command posts, Army mobile ground stations or centers of military analysis far from the point of conflict. The Joint STARS platform is a Boeing 707-300 airframe that is remanufactured at Northrop Grumman's Lake Charles, Louisiana site. Final installation of electronics and testing are performed at the company's test facility in Melbourne, Florida.

Electronic Sensors and Systems Segment

The ESS segment comprises four business areas: Aerospace Electronic Systems; Command, Control, Communications, Intelligence and Naval Systems (C3I&N); Defensive Electronic Systems; and several smaller business elements referred to as "Other". The segment's primary expertise is the ability to conceive, design, produce and support high performance sensors and intelligence systems operating in all environments from underseas to outer space.

Aerospace Electronic Systems includes four business elements: combat avionics systems, land combat systems, airborne surveillance systems, and space systems. Combat avionics systems is focused on providing radar and electro-optic-based avionics systems to meet the needs for targeting and strike missions for armed forces worldwide. The AN/APG-66/68 airborne fire control radar series aboard F-16 fighters throughout the world has set a new standard for performance and reliability over the last two decades. More than six thousand AN/APG-66/68 radars have been produced since 1976. The basic radar, with multiple variants, is currently on 16 airborne platforms deployed in 20 countries. Northrop Grumman currently is leading a team developing the next-generation air-dominance radar (AN/APG-77) featuring a low observable, active electronically scanned array with multiple target, all-weather capability for the U. S. Air Force's F-22 aircraft. Advanced radar concepts for the next generation Joint Strike Fighter have been developed and flown aboard Northrop Grumman flight test aircraft. These radar systems are produced at the company's Linthicum, Maryland facility.

Northrop Grumman's land combat systems business element, teamed with Lockheed Martin, is producing the Longbow APG-78 fire control radar and the Longbow Hellfire missile for the U. S. Army's AH-64 Apache attack helicopter and the British WAH-64 Westland Apache. There is extensive international interest in the Apache Longbow battlefield tactical weapon system. Longbow fire control radar work is performed at the ESS segment's Linthicum facility and the Longbow missile work is performed in Huntsville, Alabama. Additionally, Northrop Grumman is currently in Low Rate Initial Production (LRIP) for the BAT "brilliant" anti-armor submunition at the company's new BAT production facility at Huntsville. BAT is an autonomous submunition that uses passive acoustic and infrared sensors to find, attack and destroy moving tanks and other armored vehicles in hostile territory. BAT is designed to be carried and dispensed by the U. S. Army's TACMS (Tactical Missile System) Block II surface-to-surface missile with potential application for ground-, air-, and sea-launched cruise missiles, artillery rockets, and munitions dispensers.

Airborne surveillance systems products include the Airborne Warning and Control System (AWACS) radar (AN/APY-1, APY-2), which, integrated in the highly reliable Boeing 707 and 767 aircraft, has been the surveillance system of choice for U.S. and allied forces worldwide. The AWACS Radar System Improvement Program (RSIP) is currently in production for the U.S. Air Force, the United Kingdom and NATO. RSIP will enhance the performance of the AWACS radar against smaller cross section targets. A new surveillance product, the Multirole Electronically Scanned Array (MESA), is currently being developed for installation on seven Boeing 737 aircraft for the Royal Australian Air Force. These systems are produced at the Linthicum, Maryland facility. The E-8 Joint STARS is equipped with the Northrop Grumman Norden Systems AN/APY-3 air-to-ground surveillance system, which provides long-range, standoff, real-time surveillance of the battlefield. An advanced Radar Technology Insertion Program (RTIP) is currently under development. With its advanced active aperture, the RTIP will provide significant performance upgrades on Joint STARS for its current mission and opens the way for incorporation of new missions. These systems are produced at the company's Norwalk, Connecticut facility. The space systems business element develops space sensors and systems, with subsegments of military and civil/commercial space, and intelligence, surveillance, reconnaissance ground-based processing systems.

The C/3/I&N business area produces air defense and air traffic control radar systems for domestic and international customers. The new highly mobile, solid-state AN/TPS-70 family of radars and U. S. Air Force AN/TPS-75 are among the products in this business area. They have been the front line U.S. Air Force air defense system standard since 1968. These systems currently operate in more than 30 countries, supporting air defense, air sovereignty, air traffic control, and counter-narcotics needs. The ASR-12, a solid-state, new generation derivative of the company's FAA standard ASR-9 terminal radar is now in full production, with 12 systems on order and three systems operational in Peru, Mexico, and El Salvador.

C/3/I&N is also a leader in producing marine machinery and advanced propulsion systems, missile launchers, shipboard electronics and control systems, mine countermeasures, and underseas vehicles. Every Nimitz-class aircraft carrier is fitted with eight turbine generator sets. The company produces these generators as well as the main propulsion system for the U.S. Navy's Seawolf- and Virginia-class attack submarines at its Sunnyvale, California site. Late in 1999, the company was one of two selected by the Navy to develop the next generation Electro-Magnetic Launcher (EMALS), which could ultimately replace the steam catapult. The Sunnyvale facility also has responsibility for integration of the intercooled recuperated (ICR) gas turbine engine, which is a candidate for the DD-21 next generation

destroyer. The company's Annapolis, Maryland facility has responsibility for the Advanced SEAL Delivery System (ASDS) mini-submarine and the SPQ-9B shipboard radar, and is a significant participant in the DD-21 competition.

The Defensive Electronic Systems business area includes radio frequency and infrared countermeasures equipment. The company's Rolling Meadows, Illinois site produces the AN/ALQ-135, an internally mounted radar jammer deployed on F-15 fighter aircraft as part of that aircraft's tactical electronic warfare system. The AN/ALQ-162 Shadowbox, a jammer built specifically to counter continuous wave radars, has been installed on the AV-8B and certain foreign owned F/A-18 aircraft. It also is being deployed on U.S. Army helicopters and special mission aircraft and has been sold to the air forces of three other nations. The company is currently producing a directional infrared countermeasures (DIRCM) system for the United Kingdom and the U.S. Special Operations Command. DIRCM is slated for use on British helicopters and transports and U.S. Special Operations Command C-130 transports to protect the aircraft from heat-seeking missiles. DIRCM is the first infrared countermeasures system of its kind and was developed to accommodate laser capabilities currently in development. The company's Linthicum, Maryland site produces the AN/ALQ-165 airborne self-protection jammer in a joint venture with ITT Avionics. The AN/ALQ-165 is an internally mounted system that protects tactical aircraft against numerous radar-guided threats. It currently is installed on U. S. and international F/A-18 and F-14 aircraft.

Included in the business area labeled "Other" is California Microwave Systems, which was acquired by Northrop Grumman in April 1999. This unit specializes in airborne reconnaissance and surveillance systems, government ground-based satellite communications systems, communications gateway systems, and mission planning. California Microwave Systems' customers include the U.S. military services, other U.S. government agencies, and international defense organizations. Other elements included in "Other" are systems development and technology and automation and information systems.

Logicon Segment

The three major business areas reported in Logicon, the company's information technology sector, are: Government Information Technology, Technology Services, and Commercial Information Technology.

Logicon is a leading provider of advanced information technologies, systems and services. Its areas of expertise include: command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR); weapon systems; information systems; training and simulation; science and technology; base and range support; and systems support services. Customers include the U.S.

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Government, both Department of Defense(DoD) and non-DoD Federal agencies, state and local governments, and commercial enterprises. Contracts with the U.S. Government account for most of the segment's revenues.

In the following table of segment and major customer data, revenue from the United States Government includes revenue from contracts on which Northrop Grumman is the prime contractor as well as those on which the company is a subcontractor and the ultimate customer is the U.S. Government.

RESULTS OF OPERATIONS BY SEGMENT AND MAJOR CUSTOMER

Year ended December 31, \$ in millions	1999	1998	1997
Net Sales			
Integrated Systems			
United States Government	\$ 3,574	\$ 3,464	\$ 3,643
Other customers	38	94	269
Intersegment sales	6	5	13
	3,618	3,563	3,925
Electronic Sensors & Systems			
United States Government	1,894	2,014	2,394
Other customers	673	708	490
Intersegment sales	146	177	180
	2,713	2,899	3,064
Logicon			
United States Government	1,248	948	884
Other customers	189	139	118
Intersegment sales	22	20	20
	1,459	1,107	1,022
Intersegment eliminations	(174)	(202)	(213)
Total net sales	\$ 7,616	\$ 7,367	\$ 7,798
Operating Margin			
Integrated Systems	\$ 387	\$ 272	\$ 343
Electronic Sensors & Systems	199	218	248
Logicon	80	60	67
	666	550	658
Adjustments to reconcile to total operating margin:			
Corporate expenses	(26)	(58)	(30)
Deferred state tax (provision)benefit	(29)	(10)	8
Mark-to-market restricted stock rights			(39)
Pension income	343	270	144
Total operating margin	\$ 954	\$ 752	\$ 741

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Year ended December 31, \$ in millions	1999	1998	1997
Contract Acquisitions			
Integrated Systems	\$ 3,164	\$ 2,489	\$ 3,126
Electronic Sensors & Systems	3,055	2,388	2,983
Logicon	1,481	1,205	938
Total acquisitions	\$ 7,700	\$ 6,082	\$ 7,047
Funded Order Backlog			
Integrated Systems	\$ 4,451	\$ 4,899	\$ 5,968
Electronic Sensors & Systems	3,439	2,951	3,285
Logicon	609	565	447
Total backlog	\$ 8,499	\$ 8,415	\$ 9,700
Assets			
Integrated Systems	\$ 3,497	\$ 3,797	\$ 3,847
Electronic Sensors & Systems	3,883	3,913	3,990
Logicon	618	618	559
Segment assets	7,998	8,328	8,396
General corporate	1,287	1,208	1,281
Total assets	\$ 9,285	\$ 9,536	\$ 9,677
Capital Expenditures			
Integrated Systems	\$ 85	\$ 110	\$ 125
Electronic Sensors & Systems	97	82	94
Logicon	19	19	17
General corporate			2
Total expenditures	\$ 201	\$ 211	\$ 238
Depreciation and Amortization			
Integrated Systems	\$ 133	\$ 142	\$ 173
Electronic Sensors & Systems	222	211	208
Logicon	32	38	35
General corporate	2	2	2
Total depreciation and amortization	\$ 389	\$ 393	\$ 418

An individual company's success in the competitive aerospace/defense environment depends upon its ability to develop and market its products, as well as, its ability to provide the people, facilities, equipment and financial capacity needed to deliver those products with maximum efficiency. It is necessary to maintain, as the company has, sources for raw materials, fabricated parts, electronic components and major subassemblies. In this manufacturing and systems integration environment, effective oversight of subcontractors and suppliers is as vital to success as managing internal operations. Northrop Grumman's operating policies are designed to enhance these capabilities. The company also believes that it maintains good relations with its employees, approximately 16 percent of whom are covered by collective bargaining agreements.

U.S. Government programs in which Northrop Grumman either participates, or strives to participate, must compete with other programs for consideration during our nation's budget formulation and appropriation processes. Budget decisions made in this environment will have long-term consequences for the size and structure of Northrop Grumman and the entire defense industry. An important factor in determining Northrop Grumman's ability to compete successfully for future contracts will be its cost structure vis-a-vis other bidders.

Although the ultimate size of future defense budgets remains uncertain, the defense needs of the nation are expected to provide substantial research and development (R&D) funding and other business for the company to pursue well into the future.

Northrop Grumman has historically concentrated its efforts in such high technology areas as stealth, airborne surveillance, battle management, precision weapons, systems integration, defense electronics, and information technology. Even though a high priority has been assigned by the Department of Defense to the company's major programs, there remains the possibility that one or more of them may be reduced, extended or terminated.

Northrop Grumman pursues new business opportunities when justified by acceptable financial returns and technological risks. The company examines opportunities to acquire or invest in new businesses and technologies to strengthen its traditional business areas. Northrop Grumman continues to capitalize on its technologies and skills by entering into joint ventures, partnerships or associations with other companies.

In the event of termination for the government's convenience, contractors are normally protected by provisions covering reimbursement for costs incurred subsequent to termination. The company received a termination for convenience notice on the Tri-Service Standoff Attack Missile (TSSAM) program in February 1995. In December 1996, the company filed a lawsuit against the U.S. Government in the U.S. Court of Federal Claims seeking the recovery of approximately \$750 million for uncompensated performance costs, investments, and a reasonable profit on the program. In prior years,

the company had charged to operations in excess of \$600 million related to this program. Northrop Grumman is unable to predict whether it will realize some or all of its claims, none of which are recorded on the balance sheet, from the U.S. Government on the TSSAM contract.

Prime contracts with various agencies of the U.S. Government and subcontracts with other prime contractors are subject to a profusion of procurement regulations, including the International Traffic in Arms Regulations promulgated under the Arms Export Control Act, with noncompliance found by any one agency possibly resulting in fines, penalties, debarment or suspension from receiving additional contracts with all agencies. Given the company's dependence on U.S. Government business, suspension or debarment could have a material adverse effect on the company's future. Moreover, these contracts may be terminated at the U.S. Government's convenience.

Environmental Issues

Federal, state and local laws relating to the protection of the environment affect the company's manufacturing operations. The company has provided for the estimated cost to complete remediation where the company has determined that it is probable that the company will incur such costs in the future, including those for which it has been named a Potentially Responsible Party (PRP) by the Environmental Protection Agency or similarly designated by other environmental agencies. The company has been designated a PRP under federal Superfund laws at 13 hazardous waste sites and under state Superfund laws at eight sites. It is difficult to estimate the timing and ultimate amount of environmental cleanup costs to be incurred in the future due to the uncertainties regarding the extent of the required cleanup and the status of the law, regulations and their interpretations. Nonetheless, to assess the potential impact on the company's financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company. Such estimates take into consideration the professional judgment of the company's environmental engineers and, when necessary, consultation with outside environmental specialists. In most instances, only a range of reasonably possible costs can be estimated. However, in the determination of accruals, the most probable amount is used when determinable and the minimum is used when no single amount is more probable. The company records accruals for environmental cleanup costs in the accounting period in which the company's responsibility is established and the costs can be reasonably estimated. The company does not anticipate and record insurance recoveries before collection is probable. Management estimates that at December 31, 1999, the range of reasonably possible future costs for environmental remediation, including Superfund sites, is \$80 million to \$111 million, of which \$87 million has been accrued. Should other PRPs not pay their allocable share of remediation costs, the company may have to

incur costs in addition to those already estimated and accrued. The company is making the necessary investments to comply with environmental laws; the amounts, while not insignificant, are not considered material to the company's financial position, results of operations, or cash flows.

Year 2000 Issues

The company established and implemented its program to address the possibility of computer failure upon entering the year 2000 (Year 2000), beginning in 1996. The program encompassed the entire company and all aspects of Year 2000 compliance including software applications, mainframe environment, desktop equipment, networks, telecommunications, department supported systems, facilities systems, embedded systems in product deliverables, review of major suppliers and major customers' Year 2000 status, and development of contingency plans and year end support plans. All phases of the program were completed by the end of 1999.

The company has separately identified the costs of Year 2000 remedial efforts only for internal information services personnel, principally as a planning and control tool. The total cost of these efforts incurred during the years 1996 through 1999 was approximately \$41 million. Year 2000 costs are allowable costs under applicable government contracting regulations. Accordingly, the portion of Year 2000 costs allocable to contracts are charged as part of normal overhead pursuant to approved methods established for this purpose.

To date, the company has not experienced any major system failures or other adverse consequences due to Year 2000 noncompliance. While the possibility still exists for future computer failures, internally or among its customers and suppliers, management does not expect that these developments, should they occur, would have a material adverse impact on the financial position, results of operations, or cash flows of Northrop Grumman.

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MEASURES OF VOLUME

Contract Acquisitions

Contract acquisitions tend to fluctuate from year to year and are determined by the size and timing of new and add-on orders. The effects of multiyear orders and/or funding can be seen in the highs and lows shown in the following table.

Contract Acquisitions

\$ in millions	1999	1998	1997

Integrated Systems			
ACS	\$ 1,421	\$ 1,428	\$ 1,681
AEW/EW	1,106	679	728
AGS/BM	686	434	761
Intrasegment eliminations	(43)	(47)	(31)
	-----	-----	-----
	3,170	2,494	3,139

Electronic Sensors & Systems			
Aerospace Electronic Systems	1,375	1,047	1,496
C/3/I&N	727	907	964
Defensive Electronic Systems	708	311	508
Other	308	225	176
	-----	-----	-----
	3,118	2,490	3,144

Logicon			
Government Information Technology	1,015	813	711
Technology Services	347	300	150
Commercial Information Technology	140	113	97
	-----	-----	-----
	1,502	1,226	958
	-----	-----	-----
Intersegment eliminations	(90)	(128)	(194)
	-----	-----	-----
Total acquisitions	\$ 7,700	\$ 6,082	\$ 7,047
=====			

ISS acquisitions in 1999 were 27 percent higher than in 1998 reflecting increases in both the AEW/EW and AGS/BM business areas. Included in the AEW/EW business area in 1999 is funding for the multiyear buy for 25 E-2C aircraft. The AGS/BM business area received orders for two, one and two Joint STARS aircraft in 1999, 1998 and 1997, respectively.

The ACS business area recorded incremental B-2 funding for ongoing development work, spares and other customer support for the operational aircraft program in each of the last three years. The company still stands to gain future post production business, such as airframe depot maintenance, repair of components, operational software changes, and product improvement modifications. The company received orders for 30, 20 and 12 F/A-18E/F shipsets in 1999, 1998 and 1997, respectively. Acquisitions in 1998 included orders for 6 F/A-18C/D shipsets.

ESS acquisitions in 1999 were 25 percent higher than in 1998. The Aerospace Electronic Systems business area received funding in 1999 for the Longbow missile multiyear contract and the BAT LRIP contract. In the C/3/I&N business area, a lower level of international awards for air traffic control radar systems was posted in 1999 than in 1998. The Defensive Electronic Systems business area recorded increased orders in 1999 for the ALQ-135 and DIRCM programs.

Logicon acquisitions increased by 23 percent in 1999 over 1998, reflecting higher volume in all three business areas. The increase in Government Information Technology acquisitions is due to a higher win rate on contracts bid as well as the inclusion of two new businesses acquired: INRI, purchased in September 1998, and DPC, purchased in June 1999. In the third quarter of 1998, Logicon won the Joint Base Operations Support Contract (J-BOSC), which is reported in the Technology Services business area. Under this contract, which has a five-year basic performance period with a five-year option, the segment provides base operations support for NASA's Kennedy Space Center and the U.S. Air Force's 45th Space Wing, which includes Cape Canaveral Air Station and Patrick Air Force Base.

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Sales

Year-to-year sales vary less than contract acquisitions and reflect performance under new and ongoing contracts.

Net Sales

\$ in millions	1999	1998	1997
Integrated Systems			
ACS	\$ 2,059	\$ 2,114	\$ 2,586
AEW/EW	888	780	739
AGS/BM	714	716	631
Intrasegment Eliminations	(43)	(47)	(31)
	3,618	3,563	3,925
Electronic Sensors & Systems			
Aerospace Electronic Systems	1,105	1,265	1,240
C/3/I&N	843	904	887
Defensive Electronic Systems	536	544	656
Other	229	186	281
	2,713	2,899	3,064
Logicon			
Government Information Technology	971	787	770
Technology Services	346	213	156
Commercial Information Technology	142	107	96
	1,459	1,107	1,022
Intersegment eliminations	(174)	(202)	(213)
Total sales	\$ 7,616	\$ 7,367	\$ 7,798

ISS segment sales increased by 2 percent in 1999 as compared to 1998. The decreasing trend in ACS revenues is primarily attributable to the B-2 program, which decreased by \$86 million in 1999 as compared to 1998, following a \$291 million decrease in 1998 as compared to 1997. Current planning data indicate that the level of overall B-2 revenue for 2000, when production is expected to be substantially completed, will decline by approximately 40 percent from the 1999 level. Sales on the F/A-18 program increased by \$74 million in 1999 as compared to 1998. The last 17 shipsets of the C/D version of the F/A-18 were delivered in 1999; shipsets delivered in 1998 and 1997 were 34 and 35, respectively. In 1999 the

company delivered the first twelve shipsets under the F/A-18E/F production contract and the last five shipsets under the F/A-18E/F LRIP contract. The production contract is accounted for under the units-of-delivery method, which results in revenue being recorded as deliveries are made. The LRIP contract, which began in 1996 and was completed in 1999, is accounted for under the cost-to-cost type of percentage-of-completion method, resulting in revenue being recorded as costs are incurred. In 2000 the company plans to deliver 28 F/A-18E/F shipsets under production contracts. Sales on the Kistler K-1 program were recorded on a cost recovery basis as cash was received. Such sales declined \$10 million in 1998 from the \$63 million recorded in 1997. Work on this program was discontinued in December 1998 due to difficulties encountered by Kistler Aerospace Corporation in obtaining financing. No operating margin was recorded on this program.

AEW/EW sales increased in 1999 over 1998 primarily due to increased EA-6B revenue. AGS/BM sales in 1999 were unchanged from the level reported in 1998. Overall ISS revenue for 2000 is expected to be approximately 12 percent to 15 percent lower than 1999.

ESS segment sales declined by 6 percent in 1999 as compared to 1998. Lower Aerospace Electronic Systems business area sales are attributable to lower space systems and combat avionics systems sales. The C3I&N business area reflects lower marine volume. The improvement in the "Other" business area is due to the inclusion of California Microwave Systems, which was acquired by Northrop Grumman in April 1999. ESS segment sales for 1998 declined 5 percent as compared to 1997 due to lower Defensive Electronic Systems volume as well as lower revenues on a number of programs included in the "Other" business area. Within the C/3/I&N business area, increased 1998 airspace management sales more than offset lower marine sales. For 2000, the company expects ESS segment sales to be between \$2.8 billion and \$3.1 billion.

Logicon sales in 1999 increased by 32 percent over 1998 sales, which follows an 8 percent increase in 1998 sales over 1997. All three business areas improved in both 1999 and 1998 over prior year sales.

The Government Information Technology and Commercial Information Technology business area improvements in 1999 reflect the higher level of acquisitions and higher win rate on contracts bid. Most of the additional sales generated in the Technology Services business area, in both 1999 and 1998, is attributable to the commencement of work in the fourth quarter of 1998 on the J-BOSC contract, which was won earlier in that year. The company expects Logicon sales to increase by approximately ten percent in 2000 over 1999.

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Funded Order Backlog

The year-end funded order backlog is the sum of the previous year-end backlog plus the year's contract acquisitions minus the year's sales. Backlog is converted into the following years' sales as costs are incurred or deliveries are made. It is expected that approximately 60 percent of the 1999 year-end backlog will be converted into sales in 2000.

Funded Order Backlog

\$ in millions	1999	1998	1997

Integrated Systems			
ACS	\$ 2,360	\$2,998	\$3,684
AEW/EW	1,209	991	1,092
AGS/BM	882	910	1,192
	-----	-----	-----
	4,451	4,899	5,968

Electronic Sensors & Systems			
Aerospace Electronic Systems	1,761	1,491	1,709
C/3/I&N	775	891	888
Defensive Electronic Systems	789	617	850
Other	199	120	81
	-----	-----	-----
	3,524	3,119	3,528

Logicon			
Government Information Technology	412	368	342
Technology Services	149	148	61
Commercial Information Technology	48	50	44
	-----	-----	-----
	609	566	447

Intersegment Eliminations	(85)	(169)	(243)

Total backlog	\$ 8,499	\$8,415	\$9,700
=====			

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Total U.S. Government orders, including those made on behalf of foreign governments (FMS), comprised 86 percent of the backlog at the end of 1999 compared with 85 percent at the end of 1998 and 86 percent at the end of 1997. Total foreign customer orders, including FMS, accounted for 16 percent of the backlog at the end of 1999 compared with 17 percent in 1998 and 20 percent in 1997. Domestic commercial business in backlog was 3 percent at the end of both 1999 and 1998 and was 2 percent at the end of 1997.

MEASURES OF PERFORMANCE

The company's operating margin for 1999 was \$954 million compared to \$752 million for 1998, reflecting increases in the ISS and Logicon segments, as well as increased pension income.

ISS segment operating margin in 1999 was \$387 million as compared to \$272 million in 1998, reflecting increases in both the ACS and AGS/BM business areas. In 1999 the ACS business area benefited from upward cumulative margin rate adjustments totaling \$70 million on the B-2 program and \$11 million on the F/A-18E/F program. In 1997, ACS recorded a \$55 million cumulative margin rate adjustment on the B-2 production contract. In 1999, five B-2's were delivered under the production contract as compared to five in 1998 and four in 1997. Following the award of the last increment of production funding for the B-2, the company began recording future operating margin increases on all production aircraft as these units were delivered and accepted by the customer. At the time each unit is delivered, an assessment is made of the status of the production contract so as to estimate the amount of any probable additional margin available beyond that previously recognized. That unit's proportionate share of any such unrecognized remaining balance is then recorded. In this fashion it is believed that margin improvements will be recognized on a more demonstrable basis. All 15 production units have been initially delivered. Three units remain to be retrofitted and are scheduled for delivery in the first half of 2000.

Since the beginning of the Joint STARS program, the company (and prior to 1994, the Grumman Corporation) as of December 31, 1998 had incurred over \$100 million of costs in excess of revenues in the performance of the development and production phases of the program. Including support and other work, the company recorded on the Joint STARS program operating losses of \$25 million and \$29 million in 1998 and 1997, respectively. In 1998, the company submitted Requests for Equitable Adjustment (REAs) to the U.S. Air Force seeking adjustment to production contracts for cost increases incurred during the refurbishment and conversion of used Boeing 707 aircraft to Joint STARS platforms. The company and the U.S. Air Force executed an Alternate Dispute Resolution Agreement to attempt to resolve these REAs, and in April 1999 the company filed these REAs as certified claims. In December

1999, the company reached a settlement of these contract claims with the U.S. Air Force. The company is now able to recognize underlying improved performance on the production phase of this program. As a result, cumulative margin rate adjustments totaling \$37 million were recorded in the fourth quarter. The company expects to record margin on Joint STARS in 2000 and beyond. Revenue on the Joint STARS program is recognized using the cost-to-cost percentage-of-completion method of accounting.

ESS segment operating margin in 1999 was \$199 million, down from the \$218 million reported for 1998. The decrease is a result of lower sales volume as well as a reduction of approximately \$44 million resulting from the pension plan merger, which is described below. The decrease also reflects lower margins in the Defensive Electronic Systems business area, due in part to additional costs incurred in transitioning a development program to production. ESS segment 1998 operating margin was reduced by a \$21 million fourth quarter charge for estimated future costs not considered recoverable from future revenues on the DIRCM program. The charge resulted from increased costs associated with solving technical design issues as well as difficulties in achieving timely completion of the second series of live-fire tests on the large turret version. In 1997, increases in the cost estimate to complete the company's work on DIRCM resulted in cumulative margin rate adjustments totaling \$33 million. Partially offsetting these downward adjustments was the settlement of a claim involving work performed in the 1980's on the MX missile Interface Test Adapter (ITA), which resulted in an \$8 million increase in operating margin and \$12 million in interest income.

Logicon operating margin in 1999 was \$80 million, a 33 percent increase over the \$60 million recorded in 1998. The increase is attributable to increased sales volume in all business areas and improved performance in the Technology Services business area. These improvements were somewhat offset by \$4 million of nonrecurring charges related to employee termination costs and legal accruals. Logicon operating margin in 1998 was reduced by \$8 million for consolidation and reorganization charges.

Operating margin in 1999 included \$343 million of pension income compared with \$270 million in 1998 and \$144 million in 1997. The increases are primarily attributable to the high market returns on investments experienced over the last several years. Northrop Grumman has again experienced a high rate of return on plan assets in 1999, which in turn will affect 2000 pension income calculations. Additionally, the discount rate on obligations used to determine pension income for 2000 has been increased to 7.5 percent in order to reflect market conditions at December 31, 1999. For 2000, these two factors are expected to result in a significant increase in pension income and a small reduction to company contributions to the plans.

In July 1999, the company merged three of its retirement plans into one, to include the former Northrop Grumman Pension Plan, the Electronic Sensors and Systems Sector Employees Pension Plan (non-represented), and the Commercial Aircraft Employees Pension Plan (salaried). The pension plan merger does not result in any changes to any participant's existing pension benefits, nor does it alter individual plan designs. The retirement plan merger resulted in a reduction to 1999 net income of approximately \$16 million, or \$.24 per share.

Included in the 1998 results are pretax costs totaling \$58 million related to activities to realign operating units, consolidate facilities and laboratories and exit certain business areas, which reduced operating margin by \$43 million and other income by \$15 million. The operating margin amount was reflected in segment results as follows: ISS, \$6 million; ESS, \$13 million; and Logicon, \$8 million. The remaining \$16 million was included in Corporate expenses. The charge included \$20 million for employee termination costs, \$12 million for write-down to estimated fair value of assets available for sale, \$3 million for losses on disposals of assets, \$9 million for write-off of purchased intangible assets no longer considered recoverable from future revenues, \$9 million for loss on sale of a business, and \$5 million for excess capacity lease costs, net of estimated sublease income through 2008. The employee termination costs represent cash severance payments made to employees.

Capital assets are transferred to assets available for sale when a decision is made to sell the facility and selling efforts are actively underway. In some cases, operations continue and, when costs are allowable under government contracts, depreciation expense is recorded until the facility is vacated or sold. In 1999, \$2 million was transferred to assets available for sale and assets with a carrying value of \$13 million were sold. In 1998, \$37 million was transferred to assets available for sale, \$2 million in depreciation expense on these assets was recorded, and assets with a carrying value of \$46 million were sold. Assets available for sale are evaluated at least annually for recoverability and written down to estimated fair value as necessary. In 1998, a write down adjustment of \$12 million was recorded. In 1997, recovery of \$24 million of the 1996 write-down, related to the sale of the company's Perry, Georgia, facility, was included in Other Income(Deductions). The assets available for sale at the end of 1999 are expected to be sold in 2000.

Included in the 1998 results is a \$30 million write-off of an investment related to Kistler Aerospace Corporation's K-1 program. The investment consisted of advances on behalf of Kistler Aerospace that were made in 1998 to continue the company's efforts in support of the K-1. The write off resulted from the company's assessment that the near-term likelihood of Kistler obtaining additional financing made recovery of the investment uncertain.

NORTHROP GRUMMAN CORPORATION

Interest expense for 1999 was \$224 million, an \$8 million decrease from 1998, which in turn was down \$25 million from the 1997 level. The 1999 interest expense includes \$11 million related to settlement of various legal and tax issues. Total debt stood at \$2.2 billion at the end of 1999 compared to \$2.8 billion at the end of both 1998 and 1997.

The company's effective federal income tax rate was 36.5 percent in 1999, 37.5 percent in 1998, and 37.9 percent in 1997.

Aerostructures, reported as discontinued operations, had net income of \$9 million in 1999, \$1 million in 1998, and \$89 million in 1997. Included in these amounts are related pretax pension income(expense) of \$10 million, \$(4) million, and \$(11) million in 1999, 1998, and 1997, respectively.

Effective January 1, 1999, the company adopted the new accounting standard, SOP 98-5 - Reporting on the Costs of Start-Up Activities, which requires that certain costs that previously had been deferred be expensed and reported as a cumulative effect of a change in accounting principle. The company reported a \$16 million after-tax charge, or \$.24 per share, to write off the previously deferred start-up costs. All such costs incurred after January 1, 1999, approximately \$7 million before tax, were expensed as incurred and included in cost of sales.

MEASURES OF LIQUIDITY AND CAPITAL RESOURCES

In 1999 cash provided by operations was \$1,207 million, a record level and considerably more than the \$244 million generated in 1998 and the \$730 million generated in 1997. The improvement in 1999 cash from operations is attributable to many factors, the more significant of which are: increased operating margin, improved cash management of working capital, lower pension plan contributions as a result of the pension plan merger, and accelerated cash collections in part due to customers' Year 2000 concerns. The lower generation of cash from operations in 1998 was driven by expenses related to the terminated merger with Lockheed Martin Corporation, as well as, an increase in working capital for Boeing jetliners in support of increased production levels.

Cash generated from operating activities in 1999 was sufficient to finance capital expenditures, pay dividends to shareholders, acquire new businesses for approximately \$240 million in cash, and reduce

NORTHROP GRUMMAN CORPORATION

net debt (total debt less cash balances) by \$704 million. In 1998 additional borrowings under the revolving credit facility along with the cash generated by operating activities provided sufficient cash flows to service debt, finance capital expenditures, and pay dividends to shareholders.

The following table is a condensed summary of the detailed cash flow information contained in the Consolidated Statements of Cash Flows.

	1999	1998	1997

Cash came from			
Customers	98%	95%	94%
Lenders		3	4
Buyers of assets/other	2	2	2
	-----	-----	-----
	100%	100%	100%
=====			
Cash went to			
Employees and suppliers of services and materials	84%	90%	83%
Sellers of assets	5	3	2
Lenders	9	5	10
Suppliers of facilities/other	1	1	4
Shareholders	1	1	1
	-----	-----	-----
	100%	100%	100%
=====			

The company has a credit agreement with a group of domestic and foreign banks to provide for two credit facilities: \$1.8 billion available on a revolving credit basis through March 2002; and a variable interest rate \$450 million term loan payable in quarterly installments of \$50 million plus interest through March 2002.

To provide for long-term liquidity the company believes it can obtain additional capital from such sources as: the public or private capital markets; the further sale of assets; sale and leaseback of operating assets; and leasing rather than purchasing new assets.

Cash generated from operations, supplemented by borrowings under the credit agreement, are expected to be sufficient in 2000 to service debt, finance capital expansion projects, and continue paying dividends to the shareholders. With the completion of the B-2 EMD contract, federal and state income taxes that have been deferred since the inception of the contract in 1981, will become payable. The contract is expected to be completed in 2002 with taxes of approximately \$1 billion due, to be paid that year. The company plans to use cash generated from operations supplemented by additional borrowings under the credit agreement and/or additional borrowings from public or private capital markets to pay these taxes.

Capital expenditure commitments at December 31, 1999, were approximately \$145 million including \$20 million for Aerostructures and \$5 million for environmental control and compliance purposes. Capital expenditures for 1999

were \$201 million including \$29 million for Aerostructures and \$22 million for capitalized software costs. For 2000, capital expenditures are expected to be approximately \$250 to \$275 million, including approximately \$30 to \$40 million for Aerostructures and \$40 million for capitalized software costs.

The company will continue to provide the productive capacity to perform its existing contracts, prepare for future contracts, and conduct R&D in the pursuit of developing opportunities. While these expenditures tend to limit short-term liquidity, they are made with the intention of improving the long-term growth and profitability of the company.

FORWARD-LOOKING INFORMATION

Certain statements and assumptions in Management's Discussion and Analysis and elsewhere in of this Form 8-K contain or are based on "forward-looking" information (that the company believes to be within the definition in the Private Securities Litigation and Reform Act of 1995) that involves risk and uncertainties, including statements and assumptions with respect to future revenues, program performance and cash flows, the outcome of contingencies including litigation and environmental remediation, and anticipated costs of capital investments and planned dispositions. The company's operations are necessarily subject to various risks and uncertainties; actual outcomes are dependent upon many factors, including, without limitation, the company's successful performance of internal plans; government customers' budgetary restraints; customer changes in short-range and long-range plans; domestic and international competition in both the defense and commercial areas; product performance; continued development and acceptance of new products; performance issues with key suppliers and subcontractors; government import and export policies; termination of government contracts; the outcome of political and legal processes; legal, financial, and governmental risks related to international transactions and global needs for military and commercial aircraft and electronic systems and support; as well as other economic, political and technological risks and uncertainties.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The company has fixed-rate long-term debt obligations, most of which are not callable. The company also has financial instruments that are subject to interest rate risk, principally variable-rate short-term debt outstanding under the Credit Agreement. The company may enter into interest rate swap agreements to offset the variable-rate characteristics of these loans. At December 31, 1999, no interest rate swap agreements were in effect. The company does not hold or issue derivative financial instruments for trading purposes.

Only a small portion of the company's transactions are contracted in foreign currencies. The company does not consider the market risk exposure relating to foreign currency exchange to be material.

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, \$ in millions	1999	1998
Assets:		
Current assets		
Cash and cash equivalents	\$ 142	\$ 44
Accounts receivable	1,402	1,507
Inventoried costs	1,190	1,373
Deferred income taxes	23	24
Prepaid expenses	36	85
Total current assets	2,793	3,033
Property, plant and equipment at cost		
Land and land improvements	163	170
Buildings	777	785
Machinery and other equipment	1,860	2,014
Leasehold improvements	95	89
Accumulated depreciation	(1,655)	(1,784)
	1,240	1,274
Other assets		
Goodwill, net of accumulated amortization of \$441 in 1999 and \$338 in 1998	3,469	3,381
Other purchased intangibles, net of accumulated amortization of \$388 in 1999 and \$295 in 1998	761	795
Prepaid retiree benefits cost, intangible pension asset and benefit trust fund	946	787
Deferred income taxes		166
Assets available for sale	26	37
Investments in and advances to affiliates and sundry assets	50	63
	5,252	5,229
	\$ 9,285	\$ 9,536

NORTHROP GRUMMAN CORPORATION

December 31, \$ in millions	1999	1998

Liabilities and Shareholders' Equity:		
Current liabilities		
Notes payable to banks	\$ 25	\$ 69
Current portion of long-term debt	200	200
Trade accounts payable	490	416
Accrued employees' compensation	366	337
Advances on contracts	316	354
Income taxes payable	58	
Deferred income taxes	550	527
Other current liabilities	459	464

Total current liabilities	2,464	2,367

Long-term debt	2,000	2,562
Accrued retiree benefits	1,458	1,704
Other long-term liabilities	42	53
Deferred income taxes	64	
Shareholders' equity		
Paid-in capital		
Preferred stock, 10,000,000 shares authorized; none issued		
Common stock, 200,000,000 shares authorized; issued and outstanding:		
1999 - 69,719,164		
1998 - 68,836,810	1,028	989
Retained earnings	2,248	1,892
Accumulated other comprehensive loss	(19)	(31)

	3,257	2,850

	\$ 9,285	\$ 9,536
=====		

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

NORTHROP GRUMMAN CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31, \$ in millions, except per share	1999	1998	1997
Net sales	\$ 7,616	\$ 7,367	\$ 7,798
Cost of sales			
Operating costs	5,634	5,604	5,980
Administrative and general expenses	1,028	1,011	1,077
Operating margin	954	752	741
Other income (deductions)			
Interest income	18	11	17
Merger costs		(186)	(18)
Interest expense	(224)	(232)	(257)
Investment losses		(30)	
Other, net	(1)	(6)	29
Income from continuing operations before income taxes and cumulative effect of accounting change	747	309	512
Federal and foreign income taxes	273	116	194
Income from continuing operations before cumulative effect of accounting change	474	193	318
Income from discontinued operations, net of tax	9	1	89
Income before cumulative effect of accounting change	483	194	407
Cumulative effect of accounting change, net of income tax benefit of \$11 in 1999	(16)		
Net income	\$ 467	\$ 194	\$ 407
Weighted average common shares outstanding, in millions	69.3	68.5	66.7
Basic earnings per share:			
Continuing operations	\$ 6.84	\$ 2.82	\$ 4.76
Discontinued operations	.13	.01	1.34
Before cumulative effect of accounting change	6.97	2.83	6.10
Accounting change	(.24)		
Basic earnings per share	\$ 6.73	\$ 2.83	\$ 6.10
Diluted earnings per share:			
Continuing operations	\$ 6.80	\$ 2.78	\$ 4.67
Discontinued operations	.13	.01	1.31
Before cumulative effect of accounting change	6.93	2.79	5.98
Accounting change	(.24)		
Diluted earnings per share	\$ 6.69	\$ 2.79	\$ 5.98

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31, \$ in millions	1999	1998	1997
Net income	\$ 467	\$ 194	\$ 407
Other comprehensive income			
Minimum pension liability adjustments, before tax	19	(13)	(28)
Income tax expense(benefit)	7	(4)	(10)
Other comprehensive income(loss), net of tax	12	(9)	(18)
Comprehensive income	\$ 479	\$ 185	\$ 389

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

NORTHROP GRUMMAN CORPORATION

Year ended December 31, \$ in millions, except per share	1999	1998	1997
Paid-in Capital			
At beginning of year	\$ 989	\$ 838	\$ 784
Stock issued in purchase of business	30		
Employee stock awards and options exercised, net of forfeitures	9	151	60
Treasury stock transactions			(6)
At end of year	1,028	989	838
Retained Earnings			
At beginning of year	1,892	1,807	1,502
Net income	467	194	407
Cash dividends	(111)	(109)	(102)
At end of year	2,248	1,892	1,807
Accumulated Other Comprehensive Loss			
At beginning of year	(31)	(22)	(4)
Change in excess of additional minimum pension liability over unrecognized prior service costs, net of tax	12	(9)	(18)
At end of year	(19)	(31)	(22)
Total shareholders' equity	\$ 3,257	\$2,850	\$ 2,623
Book value per share	\$ 46.72	\$41.39	\$ 38.99
Cash dividends per share	\$ 1.60	\$ 1.60	\$ 1.60

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

NORTHROP GRUMMAN CORPORATION

Year ended December 31, \$ in millions	1999	1998	1997
Operating Activities			
Sources of Cash			
Cash received from customers			
Progress payments	\$ 1,691	\$1,844	\$ 2,264
Other collections	7,450	6,929	7,050
Interest received	18	11	17
Income tax refunds received	75	26	13
Other cash receipts	7	6	7
Cash provided by operating activities	9,241	8,816	9,351
Uses of Cash			
Cash paid to suppliers and employees	7,715	8,273	8,280
Interest paid	216	219	251
Income taxes paid	85	46	64
Other cash payments	18	34	26
Cash used in operating activities	8,034	8,572	8,621
Net cash provided by operating activities	1,207	244	730
Investing Activities			
Payment for businesses purchased, net of cash acquired	(232)	(50)	
Additions to property, plant and equipment	(201)	(211)	(238)
Proceeds from sale of property, plant and equipment	40	63	106
Proceeds from sale of affiliates/operations			19
Advances to affiliate		(30)	
Funding of retiree benefit trust		(2)	
Other investing activities	1	(5)	
Net cash used in investing activities	(392)	(235)	(113)
Financing Activities			
Borrowings under lines of credit	22	295	422
Repayment of borrowings under lines of credit	(434)	(55)	(808)
Principal payments of long-term debt/capital leases	(200)	(200)	(200)
Proceeds from issuance of stock	6	36	17
Dividends paid	(111)	(109)	(102)
Other financing activities		5	(6)
Net cash used in financing activities	(717)	(28)	(677)
Increase(decrease) in cash and cash equivalents	98	(19)	(60)
Cash and cash equivalents balance at beginning of year	44	63	123
Cash and cash equivalents balance at end of year	\$ 142	\$ 44	\$ 63

Year ended December 31, \$ in millions	1999	1998	1997

Reconciliation of Net Income to Net Cash			
Provided by Operating Activities:			
Net income	\$ 467	\$ 194	\$ 407
Adjustments to reconcile net income to net cash provided			
Depreciation	193	207	232
Amortization of intangible assets	196	186	186
Common stock issued to employees	2	88	24
Loss on disposals of property, plant and equipment	21	30	18
Loss(gain) on assets available for sale		15	(8)
Loss on investment		30	
Retiree benefits income	(249)	(194)	(44)
Decrease(increase) in			
Accounts receivable	170	1,212	(81)
Inventoried costs	172	(111)	(147)
Prepaid expenses	45	(18)	2
Increase(decrease) in			
Progress payments	21	(1,280)	66
Accounts payable and accruals	(2)	(115)	91
Provisions for contract losses	(8)	54	(30)
Deferred income taxes	230	112	188
Income taxes payable	58	(16)	(9)
Retiree benefits	(129)	(178)	(180)
Other noncash transactions	20	28	15

Net cash provided by operating activities	\$ 1,207	\$ 244	\$ 730
=====			
Noncash Investing and Financing Activities:			
Purchase of businesses			
Fair value of assets acquired	\$ 328	\$ 71	
Cash paid	(232)	(51)	
Stock issued	(30)		

Liabilities assumed	\$ 66	\$ 20	
=====			

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Significant Accounting Estimates

The consolidated financial statements include the accounts of the corporation and its subsidiaries. All material intercompany accounts, transactions and profits are eliminated in consolidation.

The company's financial statements are in conformity with generally accepted accounting principles. The preparation thereof requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ from those estimates.

Nature of Operations

Northrop Grumman is a major producer of military and commercial aircraft subassemblies and defense electronics and is the prime contractor on the U.S. Air Force B-2 Stealth Bomber. The company operates within the broadly defined aerospace industry. The majority of the company's products and services are ultimately sold to the U.S. Government and the company is therefore affected by, among other things, the federal budget process.

The company's three reportable segments are its three operating units: Integrated Systems (ISS), Electronic Sensors and Systems (ESS), and Logicon, the company's information technology sector. Included in the Management's Discussion and Analysis section of this report are general descriptions of the company's principal products and services under the titles Integrated Systems Segment, Electronic Sensors and Systems Segment, and Logicon Segment (see pages 2 through 6) and segment data in the table titled Results of Operations by Segment and Major Customer (see pages 7 and 8), which are considered to be an integral part of these financial statements. Only these portions of Management's Discussion and Analysis are incorporated by reference into these financial statements.

Sales to the U.S. Government (including foreign military sales) are reported within each segment and in total in the Selected Financial Data. The company does not conduct a significant volume of activity through foreign operations or in foreign currencies. Intersegment sales are transacted at cost incurred with no profit added. Management principally uses operating margin as the measure to evaluate segment profitability. The company does not allocate federal income tax expense, pension income, the deferred portion of state income tax expense, interest income, or interest expense to segments. General corporate assets include cash and cash equivalents, corporate office furnishings and equipment, other unallocable property, investments in affiliates, prepaid retiree benefits cost, intangible pension asset, benefit trust fund assets, deferred tax assets and certain assets available for sale.

Sales

Sales under cost-reimbursement, service, research and development, and construction-type contracts are recorded as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs (cost-to-cost type of percentage-of-completion method of accounting). Construction-type contracts embrace those fixed-price type contracts that provide for the delivery at a low volume per year or a small number of units after a lengthy period of time over which a significant amount of costs have been incurred. Sales under other types of contracts are recorded as deliveries are made and are computed on the basis of the estimated final average unit cost plus profit (units-of-delivery type of percentage-of-completion method of accounting).

Certain contracts contain provisions for price redetermination or for cost and/or performance incentives. Such redetermined amounts or incentives are included in sales when the amounts can reasonably be determined. In the case of the B-2 bomber production contract, future changes in operating margin will be recognized on a units-of-delivery basis and recorded as each equivalent production unit is delivered. Amounts representing contract change orders, claims or limitations in funding are included in sales only when they can be reliably estimated and realization is probable. In the period in which it is determined that a loss will result from the performance of a contract, the entire amount of the estimated ultimate loss is charged against income. Loss provisions are first offset against costs that are included in assets, with any remaining amount reflected in Other Current Liabilities. Other changes in estimates of sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes in the current period the cumulative effect of the changes on current and prior periods. Hence, the effect of the changes on future periods of contract performance is recognized as if the revised estimates had been the original estimates.

Contract Research and Development

Customer-sponsored research and development costs (direct and indirect costs incurred pursuant to contractual arrangements) are accounted for like other contracts.

Noncontract Research and Development

This category includes independent research and development costs and company-sponsored research and development costs (direct and indirect costs not recoverable under contractual arrangements). Independent research and development (IR&D) costs are included in administrative and general expenses (indirect costs allocable to U.S. Government contracts) whereas company-sponsored research and development costs are charged against income as incurred.

Environmental Costs

Environmental liabilities are accrued when the company determines it is responsible for remediation costs and such amounts are reasonably estimable. When only a range of amounts is established and no amount within the range is better than another, the minimum amount in the range is recorded. The company does not anticipate and record insurance recoveries before collection is probable.

Interest Rate Swap Agreements

The company may enter into interest rate swap agreements to offset the variable-rate characteristic of certain variable-rate term loans outstanding under the company's Credit Agreement. Interest on these interest rate swap agreements is recognized as an adjustment to interest expense in the period incurred.

Income Taxes

Provisions for federal, state and local income taxes are calculated on reported financial statement pretax income based on current tax law and also include, in the current period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions differ from the amounts currently payable because certain items of income and expense are recognized in different time periods for financial reporting purposes than for income tax purposes.

The company accounts for certain contracts in process using different methods of accounting for financial statements and tax reporting and thus provides deferred taxes on the difference between the financial and taxable income reported during the performance of such contracts.

In accordance with industry practice, state and local income and franchise tax provisions are included in administrative and general expenses.

Earnings per Share

Basic earnings per share is calculated using the weighted average number of shares of common stock outstanding during each period, after giving recognition to stock splits and stock dividends. Diluted earnings per share reflect the dilutive effect of stock options and other stock awards granted to employees under stock-based compensation plans.

Basic and diluted earnings per share are calculated as follows:

	Net Income ----- (millions)	Shares ----- (millions)	Earnings per share -----
1999			
Basic earnings per share from continuing operations	\$ 474 =====	69.3	\$ 6.84 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share from continuing operations	\$ 474 -----	69.7 =====	\$ 6.80 =====
Basic earnings per share from discontinued operations	\$ 9 =====	69.3	\$.13 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share from discontinued operations	\$ 9 =====	69.7 =====	\$.13 =====
Basic earnings per share before cumulative effect of accounting change	\$ 483 =====	69.3	\$ 6.97 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share before cumulative effect of accounting change	\$ 483 =====	69.7 =====	\$ 6.93 =====
Basic earnings per share	\$ 467 =====	69.3	\$ 6.73 =====
Dilutive effect of stock options and awards		.4	
Diluted earnings per share	\$ 467 =====	69.7 =====	\$ 6.69 =====

	Net Income ----- (millions)	Shares ----- (millions)	Earnings per share -----
1998			
Basic earnings per share from continuing operations	\$ 193 =====	68.5	\$ 2.82 =====
Dilutive effect of stock options and awards		1.0 -----	
Diluted earnings per share from continuing operations	\$ 193 =====	69.5 =====	\$ 2.78 =====
Basic earnings per share from discontinued operations	\$ 1 =====	68.5	\$.01 =====
Dilutive effect of stock options and awards		1.0 -----	
Diluted earnings per share from discontinued operations	\$ 1 =====	69.5 =====	\$.01 =====
Basic earnings per share	\$ 194 =====	68.5	\$ 2.83 =====
Dilutive effect of stock options and awards		1.0 -----	
Diluted earnings per share	\$ 194 =====	69.5 =====	\$ 2.79 =====
1997			
Basic earnings per share from continuing operations	\$ 318 =====	66.7	\$ 4.76 =====
Dilutive effect of stock options and awards		1.4 -----	
Diluted earnings per share from continuing operations	\$ 318 =====	68.1 =====	\$ 4.67 =====
Basic earnings per share from discontinued operations	\$ 89 =====	66.7	\$ 1.34 =====
Dilutive effect of stock options and awards		1.4 -----	
Diluted earnings per share from discontinued operations	\$ 89 =====	68.1 =====	\$ 1.31 =====
Basic earnings per share	\$ 407 =====	66.7	\$ 6.10 =====
Dilutive effect of stock options and awards		1.4 -----	
Diluted earnings per share	\$ 407 =====	68.1 =====	\$ 5.98 =====

NORTHROP GRUMMAN CORPORATION

Cash and Cash Equivalents

Cash and cash equivalents include interest-earning debt instruments that mature in three months or less from the date purchased.

Accounts Receivable

Accounts receivable include amounts billed and currently due from customers, amounts currently due but unbilled (primarily related to contracts accounted for under the cost-to-cost type of percentage-of-completion method of accounting), certain estimated contract changes, claims in negotiation that are probable of recovery, and amounts retained by the customer pending contract completion.

Inventoried Costs

Inventoried costs primarily relate to work in process under fixed-price type contracts (excluding those included in unbilled accounts receivable as previously described). They represent accumulated contract costs less the portion of such costs allocated to delivered items. Accumulated contract costs include direct production costs, factory and engineering overhead, production tooling costs, and allowable administrative and general expenses (except for general corporate expenses and IR&D allocable to commercial contracts, which are charged against income as incurred).

In accordance with industry practice, inventoried costs are classified as a current asset and include amounts related to contracts having production cycles longer than one year.

Depreciable Properties

Property, plant and equipment owned by the company are depreciated over the estimated useful lives of individual assets. Capital leases providing for the transfer of ownership upon their expiration or containing bargain purchase options are amortized over the estimated useful lives of individual assets. Most of these assets are depreciated using declining-balance methods, with the remainder using the straight-line method, with the following lives:

	Years
Land improvements	2-20
Buildings	3-45
Machinery and other equipment	2-33
Leasehold improvements	Length of lease

Goodwill and Other Purchased Intangible Assets

Goodwill and other purchased intangible assets are amortized on a straight-line basis over weighted average periods of 38 years and 15 years, respectively. Goodwill and other purchased intangibles balances are included in the identifiable assets of the industry segment to which they have been assigned and amortization is charged against the respective industry segment operating margin. The recoverability of goodwill and other

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purchased intangibles is evaluated at least annually considering the projected future profitability and cash flow of the operations to which they relate. When it is determined that an impairment has occurred, an appropriate charge to operations is recorded. Charges of \$7 million and \$9 million were recorded in 1999 and 1998, respectively, for purchased intangible assets no longer considered recoverable from future revenues.

Assets Available for Sale

Capital assets are transferred to assets available for sale when a decision is made to sell a facility and selling efforts are actively underway. In some cases, operations continue and, when costs are allowable under government contracts, depreciation expense is recorded until the facility is vacated or sold. Assets available for sale are evaluated at least annually for recoverability and written down to estimated fair value as necessary. When an asset is written down to estimated fair value, depreciation ceases.

Financial Statement Reclassification

To conform to the presentation in 1999, certain amounts for 1998 and 1997 have been reclassified in the Consolidated Financial Statements. The reclassifications had no effect on net income or earnings per share for any period presented.

DISCONTINUED OPERATIONS

Effective July 24, 2000, the company completed the sale of its commercial aerostructures (Aerostructures) business to The Carlyle Group, pursuant to an Asset Purchase Agreement dated as of June 9, 2000 between Northrop Grumman and Vought Aircraft Industries, Inc., an entity owned by The Carlyle Group. The purchase price was composed of \$667.7 million in cash and a promissory note for \$175 million, maturing in nine years, with interest payable in kind for four years and interest payable in kind or cash thereafter. An estimated loss on the sale of \$15 million will be recorded in the second quarter of 2000. Aerostructures is a major producer of commercial and military aircraft subassemblies, the majority of which are sold to The Boeing Company and, for military contracts, ultimately to the U.S. Government.

The company's Consolidated Statements of Income and related footnote disclosures have been restated to reflect Aerostructures as discontinued operations for all periods presented. Balance sheet and cash flow data have not been restated.

Operating results of the discontinued Aerostructures business are as follows:

\$ in millions	1999	1998	1997
Net Sales	\$ 1,379	\$ 1,535	\$ 1,355
Income before income taxes	\$ 15	\$ 3	\$ 139
Federal and foreign income taxes	6	2	50
Net income from discontinued operations	\$ 9	\$ 1	\$ 89

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BUSINESS COMBINATIONS

Effective August 1, 1997, the company consummated the merger of its wholly owned acquisition subsidiary with and into Logicon, Inc. a leading defense information technology and services company. Each share of Logicon's common stock was converted to .6161 of a share of the company's common stock. The merger was accounted for as a pooling of interests.

ACQUISITIONS

In 1998 the company acquired Inter-National Research Institute Inc. for \$55 million in cash. In 1999 the company acquired three businesses, the Information Systems Division of California Microwave, Inc., Data Procurement Corporation, and Ryan Aeronautical, an operating unit of Allegheny Teledyne Incorporated, for a total of \$271 million in cash and stock. The results of operations of the acquired companies were included in the consolidated results of Northrop Grumman Corporation from their respective acquisition dates.

The purchase method of accounting was used to record all four acquisitions with estimated fair values being assigned to assets and liabilities. The excess of the purchase price over the net tangible assets acquired was assigned to identifiable intangible assets and the remaining balance was assigned to goodwill.

Unaudited pro forma consolidated results, after giving effect to the businesses acquired in 1998 and 1999, would not have been materially different from the reported amounts for 1997, 1998 or 1999.

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TERMINATED MERGER AGREEMENT

On July 3, 1997, the company announced that it had entered into a definitive agreement with Lockheed Martin Corporation to combine the companies. On February 26, 1998, shareholders of Northrop Grumman approved the merger. On March 23, 1998, the U.S. Government filed suit to block the merger. On July 16, 1998, Lockheed Martin notified the company that it was terminating its merger agreement with the company pursuant to the terms of the agreement.

The company recorded charges totaling \$186 million in 1998 for costs related to the terminated merger. The charges cover vesting of restricted stock which became issuable following shareholder approval of the merger and other costs associated with the terminated merger, including investment banking fees, legal and accounting fees, and costs related to responding to the Government's request for information.

NEW ACCOUNTING STANDARDS

In January 1999, the company adopted Statement of Position (SOP) 98-1 - Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which requires capitalization of certain costs incurred after the date of adoption to develop or obtain software for internal use. Adoption of this standard had no material effect on the company's results of operations, financial position, or cash flows.

In January 1999, the company adopted SOP 98-5 - Reporting on the Costs of Start-Up Activities, which requires that certain costs, that previously had been deferred, be expensed and reported as a cumulative effect of a change in accounting principle, and all such future costs be expensed as incurred. In the first quarter of 1999, the company recorded a \$16 million after-tax charge, or \$.24 per share, as the cumulative effect of a change in accounting principle.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133- Accounting for Derivative Instruments and Hedging Activities, which becomes effective for fiscal years beginning after June 15, 2000. This standard provides authoritative guidance on accounting and financial reporting for derivative instruments. Management is currently evaluating the effect that adoption of this standard will have on the company's results of operations, financial position, and cash flows.

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ACCOUNTS RECEIVABLE

Unbilled amounts represent sales for which billings have not been presented to customers at year end, including differences between actual and estimated overhead and margin rates. These amounts are usually billed and collected within one year. Progress payments are, however, received on a number of fixed-price contracts accounted for using the cost-to-cost type percentage-of-completion method.

The claim receivable as of December 31, 1998, represents costs incurred to date on the Accurate Fuselage Assembly (AFA) program that the company expected to recover from The Boeing Company for out-of-scope work and related delay and disruption costs incurred on the program. In the second quarter of 1999, the company resolved its claims with Boeing. The settlement had no material effect on the company's financial results for 1999.

Accounts receivable were comprised of the following:

\$ in millions	1999	1998

Due from U.S. Government, long-term contracts		
Current accounts		
Billed	\$ 424	\$ 362
Unbilled	1,879	2,145
Progress payments received	(1,283)	(1,388)
	-----	-----
	1,020	1,119

Due from other customers, long-term contracts		
Current accounts		
Billed	122	141
Unbilled	165	137
Claim		29
	-----	-----
	287	307

Total due, long-term contracts	1,307	1,426

Trade and other accounts receivable		
Due from U.S. Government	57	63
Due from other customers	76	65
	-----	-----
Total due, trade and other	133	128

Allowances for doubtful amounts	1,440	1,554
	(38)	(47)
	-----	-----
	\$ 1,402	\$ 1,507
=====		

INVENTORIED COSTS

Inventoried costs were comprised of the following:

\$ in millions	1999	1998

Production costs of contracts in process	\$ 1,320	\$ 1,487
Excess of production cost of delivered items over the estimated average unit cost	161	162
Administrative and general expenses	230	245

	1,711	1,894
Progress payments received	(521)	(521)

	\$ 1,190	\$ 1,373
=====		

Inventoried costs relate to long-term contracts in process and include expenditures for raw materials and work in process beyond what is required for recorded orders. These expenditures are incurred to help maintain stable and efficient production schedules. The excess of production costs of delivered and in process items over the estimated average costs is carried in inventory under the learning curve concept. Under this concept, production costs per unit are expected to decrease over time due to efficiencies arising from continuous improvement in the performance of repetitive tasks.

The ratio of inventoried administrative and general expenses to total inventoried costs is estimated to be the same as the ratio of total administrative and general expenses incurred to total contract costs incurred.

According to the provisions of U.S. Government contracts, the customer has title to, or a security interest in, substantially all inventories related to such contracts.

INCOME TAXES

Income tax expense, both federal and foreign, was comprised of the following:

\$ in millions	1999	1998	1997
Currently payable			
Federal income taxes	\$ 77	\$ (13)	\$ 24
Foreign income taxes	4	5	3
	81	(8)	27
Change in deferred federal income taxes	192	124	167
	\$ 273	\$ 116	\$194

Income tax expense differs from the amount computed by multiplying the statutory federal income tax rate times the income before income taxes due to the following:

\$ in millions	1999	1998	1997
Income tax expense on continuing operations at statutory rate	\$ 261	\$ 108	\$ 179
Goodwill amortization	15	15	16
Benefit from ESOP dividends	(3)	(3)	(3)
Other, net		(4)	2
	\$ 273	\$ 116	\$ 194

Deferred income taxes arise because of differences in the treatment of income and expense items for financial reporting and income tax purposes. The principal type of temporary difference stems from the recognition of income on contracts being reported under different methods for tax purposes than for financial reporting.

The tax effects of significant temporary differences and carryforwards that gave rise to year-end deferred federal and state tax balances, as categorized in the Consolidated Statements of Financial Position, were as follows:

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\$ in millions	1999	1998

Deferred tax assets		
Deductible temporary differences		
Provision for estimated expenses	\$ 33	\$ 41
Retiree benefit plan expense		364
Other		12
	33	417

Taxable temporary differences		
Income on contracts	(10)	(12)
Purchased intangibles		(89)
Excess tax over book depreciation		(69)
Other		(57)
	(10)	(227)
	\$ 23	\$ 190
=====		
Deferred tax liabilities		
Taxable temporary differences		
Income on contracts	\$ 913	\$ 865
Goodwill amortization	95	
Purchased intangibles	89	
Excess tax over book depreciation	72	
Administrative and general expenses period costed for tax purposes		18
Other	14	
	1,197	883

Deductible temporary differences		
Provision for estimated expenses	(207)	(174)
Retiree benefit plan expense	(197)	(16)
Other	(50)	(30)
	(454)	(220)

Tax carryforwards		
Tax credits	(75)	(82)
Alternative minimum tax credit	(54)	(54)
	(129)	(136)
	\$ 614	\$ 527
=====		
Net deferred tax liability		
Total deferred tax liabilities (taxable temporary differences above)	\$1,207	\$ 1,110
Less total deferred tax assets (deductible temporary differences and tax carryforwards above)	616	773
	\$ 591	\$ 337
=====		

The tax carryforward benefits are expected to be used in the periods in which net deferred tax liabilities mature. These tax credit carryforwards are in various amounts and expire over the years 2001 through 2007. The alternative minimum tax credit can be carried forward indefinitely.

NOTES PAYABLE TO BANKS AND LONG-TERM DEBT

The company has available short-term credit lines in the form of money market facilities with several banks. The amount and conditions for borrowing under these credit lines depend on the availability and terms prevailing in the marketplace. No fees or compensating balances are required for these credit facilities. At December 31, 1999, \$25 million was outstanding at a weighted average interest rate of 6.75 percent. At December 31, 1998, \$67 million was outstanding at a weighted average interest rate of 5.60 percent.

Additionally, the company has a credit agreement with a group of domestic and foreign banks to provide for two credit facilities: \$1.8 billion available on a revolving credit basis through March 2002; and a term loan payable in nine quarterly installments of \$50 million plus interest through March 1, 2002. The company pays, at least quarterly, interest on the outstanding debt under the credit agreement at rates that vary based in part on the company's credit rating and leverage ratio.

At December 31, 1999, \$150 million at a weighted average interest rate of 6.76 percent was outstanding under the company's revolving credit facility. At December 31, 1998, \$512 million at a weighted average interest rate of 5.66 percent was outstanding. At December 31, 1999, the \$450 million term loan had a weighted average interest rate of 6.61 percent. At December 31, 1998, \$650 million was outstanding at a weighted average interest rate of 5.68 percent. Principal payments permanently reduce the amount available under this agreement as well as the debt outstanding. Under these agreements, in the event of a "change in control," the banks are relieved of their commitments. Compensating balances are not required under these agreements.

The company's credit agreements contain restrictions relating to the payment of dividends, acquisition of the company's stock, aggregate indebtedness for borrowed money and interest coverage. At December 31, 1999, \$880 million of retained earnings were unrestricted as to the payment of dividends.

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Long-term debt consisted of the following:

\$ in millions	1999	1998
Notes due 2004, 8.625%	\$ 350	\$ 350
Notes due 2006, 7%	400	400
Debentures due 2016, 7.75%	300	300
Debentures due 2024, 9.375%	250	250
Debentures due 2026, 7.875%	300	300
Revolving credit facility	150	512
Term loans payable to banks	450	650
	2,200	2,762
Less current portion	200	200
	\$2,000	\$2,562

The debt indenture contains restrictions relating to limitations on liens, sale and leaseback arrangements and funded debt of subsidiaries.

The principal amount of long-term debt outstanding at December 31, 1999, due in each of the years 2000 and 2001 is \$200 million, with \$50 million due in 2002, \$350 million due in 2004 and \$1,400 million due thereafter.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the company in estimating its fair value disclosures for financial instruments:

Due to the short-term nature of these items, the carrying amount reported in the Consolidated Statements of Financial Position for Cash and Cash Equivalents and amounts borrowed under the company's short-term credit lines are estimated to approximate fair value.

The fair value of the long-term debt at the respective year-ends was calculated based on interest rates available for debt with terms and due dates similar to the company's existing debt arrangements.

The company has limited involvement with derivative financial instruments and does not use them for trading purposes. To mitigate the variable rate characteristic of its term loans, the company has from time to time entered into interest rate swap agreements. No interest rate swap agreements were in effect at December 31, 1999, or December 31, 1998. If any interest rate swap agreements had existed, unrealized gains(losses) would be calculated based upon the amounts at which they could have been settled at then current interest rates.

Carrying amounts and the related estimated fair values of the company's financial instruments at December 31 of each year are as follows:

\$ in millions	1999	1998

Long-term debt		
Carrying amount	\$ 2,200	\$2,762
Fair value	2,154	2,914

RETIREMENT BENEFITS

The company sponsors several defined-benefit pension plans covering over 80 percent of employees. Pension benefits for most employees are based on the employee's years of service and compensation during the last ten years before retirement. It is the policy of the company to fund at least the minimum amount required for all qualified plans, using actuarial cost methods and assumptions acceptable under U.S. Government regulations, by making payments into a trust separate from the company. Five of the company's fourteen qualified plans, which cover more than 70 percent of all employees, were in a legally defined full-funding limitation status at December 31, 1999.

The company and subsidiaries also sponsor defined-contribution plans in which most employees are eligible to participate. Company contributions for most plans are based on a matching of employee contributions up to 4 percent of compensation.

In addition, the company and its subsidiaries provide certain health care and life insurance benefits for retired employees. Employees achieve eligibility to participate in these contributory plans upon retirement from active service and if they meet specified age and years of service requirements. Election to participate must be made at the date of retirement. Qualifying dependents are also eligible for medical coverage. Approximately 70 percent of the company's current retirees participate in the medical plans. Plan documents reserve the company's right to amend or terminate the plans at any time. Premiums charged retirees for medical coverage are based on years of service and are adjusted annually for changes in the cost of the plans as determined by an independent actuary. In addition to this medical inflation cost-sharing feature, the plans also have provisions for deductibles, copayments, coinsurance percentages, out-of-pocket limits, schedule of reasonable fees, managed care providers, maintenance of benefits with other plans, Medicare carve-out and a maximum lifetime benefit of from \$250,000 to \$1,000,000 per covered individual. It is the policy of the company to fund the maximum amount deductible for income taxes into the VEBA trust established for the Northrop Retiree Health Care Plan for Retired Employees for payment of benefits.

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The cost to the company of these plans in each of the last three years is shown in the following table.

\$ in millions	Pension Benefits			Medical and Life Benefits		
	1999	1998	1997	1999	1998	1997

Components of net periodic benefit cost(income)						
Service cost	\$ 200	\$ 187	\$ 162	\$ 34	\$ 27	\$ 27
Interest cost	659	642	618	102	95	98
Expected return on plan assets	(1,136)	(1,008)	(834)	(30)	(34)	(26)
Amortization of						
Prior service costs	35	35	34			
Transition assets, net	(42)	(42)	(42)			
Net gain from previous years	(69)	(80)	(71)	(2)	(16)	(10)

Net periodic benefit cost(income) including discontinued operations	(353)	(266)	(133)	104	72	89
Discontinued operations	10	(4)	(11)	(12)	(13)	(9)

Net periodic benefit cost(income) from continuing operations	\$ (343)	\$ (270)	\$ (144)	\$ 92	\$ 59	\$ 80
=====						
Defined contribution plans cost	\$ 92	\$ 89	\$ 84			
=====						

Major assumptions as of each year-end used in the accounting for the defined-benefit plans are shown in the following table. Pension cost is determined using all three factors as of the end of the preceding year, whereas the funded status of the plans, shown later, uses only the first two factors as of the end of each year.

	1999	1998	1997

Discount rate for obligations	7.50%	6.50%	7.00%
Rate of increase for compensation	5.00	4.00	4.50
Expected long-term rate of return on plan assets	9.50	9.50	9.50

These assumptions also were used in retiree health care and life insurance benefit calculations with one modification. Since, unlike the pension trust, the earnings of the VEBA trust are taxable, the above 9.5 percent expected rate of return on plan assets was reduced accordingly to 6 percent after taxes. A significant factor used in estimating future per capita cost of covered health care benefits for the company and its retirees is the health care cost trend rate assumption. The rate used was 10 percent for 1999 and is assumed to decrease gradually to 6 percent for 2006 and thereafter. A one-percentage-point change in that rate would have the following effects:

\$ in millions	1-Percentage-Point Increase	1-Percentage-Point Decrease

Effect on total of service and interest cost components	\$ 18	\$ (15)
Effect on postretirement benefit obligation	166	(146)

The following tables set forth the funded status and amounts recognized in the Consolidated Statements of Financial Position at each year-end for the company's defined-benefit pension and retiree health care and life insurance benefit plans. Pension benefits data includes the qualified plans as well as thirteen unfunded non-qualified plans for benefits provided to directors, officers and employees either beyond those provided by, or payable under, the company's main plans.

\$ in millions	Pension Benefits		Medical and Life Benefits	
	1999	1998	1999	1998

Change in benefit obligation				
Benefit obligation at beginning of year	\$ 10,164	\$ 9,056	\$ 1,559	\$ 1,443
Service cost	200	187	34	27
Interest cost	659	642	102	95
Plan participants' contributions	7	7	26	25
Amendments	4	3		
Actuarial loss(gain)	(771)	851	(72)	67
Benefits paid	(612)	(582)	(115)	(98)

Benefit obligation at end of year	9,651	10,164	1,534	1,559

Change in plan assets				
Fair value of plan assets at beginning of year	12,033	10,832	570	538
Actual return on plan assets	2,284	1,651	154	61
Employer contributions	80	125	58	44
Plan participants' contributions	7	7	26	25
Benefits paid	(612)	(582)	(115)	(98)

Fair value of plan assets at end of year	13,792	12,033	693	570

Funded status	4,141	1,869	(841)	(989)
Unrecognized prior service cost	169	200	2	2
Unrecognized net transition asset	(120)	(162)		
Unrecognized net gain	(3,573)	(1,723)	(319)	(125)

Net asset(liability) recognized	\$ 617	\$ 184	\$ (1,158)	\$ (1,112)

Amounts recognized in the statement of financial position				
Prepaid benefit cost	\$ 851	\$ 712	\$ 30	\$
Accrued benefit liability	(234)	(528)	(1,188)	(1,112)
Additional minimum liability	(36)	(64)		
Intangible asset	7	16		
Accumulated other comprehensive loss	29	48		

Net asset(liability) recognized	\$ 617	\$ 184	\$ (1,158)	\$ (1,112)

For pensions plans with benefit obligations in excess of assets as of December 31, 1999, the projected benefit obligation was \$224 million, the accumulated benefit obligation was \$203 million, and the

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fair value of assets was \$7 million. As of December 31, 1998, the projected benefit obligation was \$1,451 million, the accumulated benefit obligation was \$1,285 million, and the fair value of assets was \$784 million.

Pension plan assets at December 31, 1999, comprised 48 percent domestic equity investments in listed companies (including 2 percent in Northrop Grumman common stock); 14 percent equity investments listed on international exchanges; 22 percent in fixed income investments; 5 percent in venture capital and real estate investments; and 11 percent in cash and cash equivalents. The investment in Northrop Grumman represents 4,111,669 shares, or 6 percent of the company's total shares outstanding.

Retiree health care and life insurance plan assets at December 31, 1999, comprised 64 percent domestic equity investments in listed companies; 24 percent equity investments on international exchanges; and 12 percent in cash and equivalents.

COMMITMENTS AND CONTINGENCIES

The corporation and its subsidiaries have been named as defendants in various legal actions. Based upon available information, it is the company's expectation that those actions are either without merit or will have no material adverse effect on the company's results of operations or financial position.

In accordance with company policy on environmental remediation, the estimated cost to complete remediation has been accrued where it is probable that the company will incur such costs in the future, including those for which it has been named a Potentially Responsible Party by the Environmental Protection Agency or similarly designated by other environmental agencies. To assess the potential impact on the company's financial statements, management estimates the total reasonably possible remediation costs that could be incurred by the company, taking into account currently available facts on each site as well as the current state of technology and prior experience in remediating contaminated sites. These estimates are reviewed periodically and adjusted to reflect changes in facts and technical and legal circumstances. Management estimates that at December 31, 1999, the range of reasonably possible future costs for environmental remediation is \$80 million to \$111 million, of which \$87 million has been accrued. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's results of operations, financial position, or cash flows.

The company has entered into standby letter of credit agreements and other arrangements with financial institutions primarily relating to the guarantee of future performance on certain contracts. Contingent liabilities on these agreements aggregated approximately \$535 million at December 31, 1999.

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The company has agreed to invest an additional \$30 million in Kistler Aerospace Corporation preferred stock. This investment will only be made when Kistler Aerospace Corporation has obtained additional funding from other sources and will represent the last increment of funding required to complete and test the first K-1 vehicle, and is subject to the company's then determination that the K-1 is a viable launch system.

Minimum rental commitments under long-term noncancellable operating leases total \$394 million which is payable as follows: 2000 - \$93 million, 2001- \$70 million, 2002 - \$60 million, 2003 - \$51 million, 2004 - \$42 million, and 2005 and thereafter - \$78 million.

STOCK RIGHTS

The company has a Common Stock Purchase Rights plan with one right issued in tandem with each share of common stock. The rights will become exercisable on the tenth business day after a person or group has acquired 15 percent or more of the general voting power of the company, or announces an intention to make a tender offer for 30 percent or more of such voting power, without the prior consent of the Board of Directors. If the rights become exercisable, a holder will be entitled to purchase one share of common stock from the company at an initial exercise price of \$250.

If a person acquires more than 15 percent of the then outstanding voting power of the company or if the company is combined with an acquiror, each right will entitle its holder to receive, upon exercise, shares of the company's or the acquiror's (depending upon which is the surviving company) common stock having a value equal to two times the exercise price of the right.

The company will be entitled to redeem the rights at \$.01 per right at any time prior to the earlier of the date that a person has acquired or obtained the right to acquire 15 percent of the general voting power of the company or the expiration of the rights in October 2008. The rights are not exercisable until after the date on which the company's prerogative to redeem the rights has expired. The rights do not have voting or dividend privilege and cannot be traded independently from the company's common stock until such time as they become exercisable.

STOCK COMPENSATION PLANS

At December 31, 1999, Northrop Grumman had two stock-based compensation plans - the 1993 Long-Term Incentive Stock Plan (LTISP) applicable to employees and the 1995 Stock Option Plan for Non-Employee Directors (SOPND). The LTISP contains change in control provisions which were activated in February 1998 upon approval by the shareholders of the proposed merger of the company with Lockheed Martin Corporation, causing all then unvested stock awards to become immediately vested.

The LTISP permits grants to key employees of three general types of stock incentive awards: stock options, stock appreciation rights (SARs) and stock awards. Under the LTISP, each stock option grant is made with an exercise price either at the closing price of the stock on the date of grant (market options) or at a premium over the closing price of the stock on the date of grant (premium options). Options generally vest in 25 percent increments two, three, four and five years from the grant date and expire ten years after the grant date. No SARs have been granted under the LTISP. Stock awards, in the form of restricted performance stock rights, are granted to key employees without payment to the company. Recipients of the rights earn shares of stock based on a total-shareholder-return measure of performance over a five-year period with interim distributions three and four years after grant. If at the end of the five-year period the performance objectives have not been met, unearned rights up to 100 percent of the original grant for five elected officers and, up to 70 percent of the original grant for all other recipients, will be forfeited. Termination of employment can result in forfeiture of some or all of the benefits extended under the plan. Each year 1.5% of the company's total issued and outstanding common stock at the end of the preceding fiscal year become available for issuance pursuant to incentive awards. During 1998 and 1999, a number of awards granted under the LTISP contained terms, including limitations and conditions on exercisability and vesting, that took into account and were predicated upon future annual share availability.

The SOPND permits grants of stock options to nonemployee directors. Each grant of a stock option is made at the closing market price on the date of the grant, is immediately exercisable, and expires ten years after the grant date. At December 31, 1999, 244,500 shares were available for future grants under the SOPND.

The company applies Accounting Principles Board Opinion 25 - Accounting for Stock Issued to Employees and related Interpretations in accounting for awards made under the plans. When stock options are exercised, the amount of the cash proceeds to the company is recorded as an increase to paid-in capital. No compensation expense is recognized in connection with stock options. Compensation expense for restricted performance stock rights is estimated and accrued over the vesting period. The fixed 30 percent minimum distribution portion is recorded at grant value and the variable portion is recorded at market value. Compensation expense recognized for stock awards was \$15 million in 1999, \$163 million in 1998, and \$57 million in 1997.

Stock option activity for the last three years is summarized below:

	Shares Under Option	Weighted- Average Exercise Prices	Shares Exercisable

Outstanding at December 31, 1996	4,027,272	\$ 47	1,384,026
Granted, market options	15,000	85	
Cancelled	(100,932)	58	
Exercised	(570,182)	34	

Outstanding at December 31, 1997	3,371,158	49	1,556,475
Granted, market options	992,000	74	
Granted, premium options	1,986,450	95	
Cancelled	(5,700)	65	
Exercised	(766,182)	48	

Outstanding at December 31, 1998	5,577,726	70	2,624,276
Granted, market options	69,200	62	
Granted, premium options	106,800	93	
Cancelled	(221,015)	88	
Exercised	(702,628)	22	

Outstanding at December 31, 1999	4,830,083	76	1,926,899
=====			

Had compensation expense been determined based on the fair value at the grant dates for stock option awards granted in 1999, 1998 and 1997, consistent with the method of Financial Accounting Standards Board Statement 123 - Accounting for Stock Based Compensation, net income, basic earnings per share, and diluted earnings per share in 1999 would have been lower by \$11 million, seventeen cents and sixteen cents, respectively. For 1998 net income, basic earnings per share and diluted earnings per share would have been lower by \$5 million, seven cents and seven cents, respectively. For 1997 net income, basic earnings per share and diluted earnings per share would have been lower by \$5 million, eight cents, and eight cents, respectively. These amounts were determined using weighted-average per share fair values for premium options granted in 1999 of \$15 and 1998 of \$15 and for market options granted in 1999, 1998 and 1997 of \$18, \$20 and \$25 respectively. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model based on an expected life of six years and for 1999, 1998 and 1997, respectively, the following additional assumptions: dividend yield - 2.1 percent, 1.9 percent and 1.9 percent; expected volatility - 29 percent, 27 percent and 22 percent; and risk-free interest rate - 5.8 percent, 4.4 percent and 6.7 percent.

At December 31, 1999 the following stock options were outstanding:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Prices	Number Exercisable at 12/31/99	Weighted-Average Exercise Prices
\$ 16 to 35	123,458	2.8 years	\$ 25	123,458	\$ 25
36 to 55	580,619	5.0 years	41	552,119	41
56 to 75	1,490,122	7.9 years	68	531,622	59
76 to 95	1,599,459	8.1 years	85	674,700	81
96 to 118	1,036,425	9.0 years	101	45,000	105
	----- 4,830,083 =====			----- 1,926,899 =====	

Restricted performance stock rights were granted with weighted-average grant-date fair values per share as follows: 1999 - 75,300 at \$64; 1998 - 794,050 at \$73; and 1997 - 7,700 at \$80.

NORTHROP GRUMMAN CORPORATION

UNAUDITED SELECTED QUARTERLY DATA

Quarterly financial results are set forth in the following tables together with dividend and common stock price data.

1999 Quarters

\$ in millions, except per share	4	3	2	1
Net sales	\$ 2,180	\$ 1,805	\$ 1,921	\$ 1,710
Operating margin	255	242	254	203
Income from continuing operations	139	116	123	96
Income before cumulative effect of accounting change	138	128	113	104
Net income	138	128	113	88
Basic earnings per share from continuing operations	1.99	1.68	1.79	1.39
Basic earnings per share before cumulative effect of accounting change	1.97	1.84	1.65	1.51
Basic earnings per share	1.97	1.84	1.65	1.27
Diluted earnings per share from continuing operations	1.98	1.66	1.78	1.38
Diluted earnings per share before cumulative effect of accounting change	1.96	1.83	1.64	1.50
Diluted earnings per share	1.96	1.83	1.64	1.26
Dividend per share	.40	.40	.40	.40
Stock price:				
High	62 5/16	75 11/16	73 5/16	73 1/4
Low	49	59 15/16	57 3/4	57

In the fourth quarter of 1999 the company reached a settlement of its contract claims with the U.S. Air Force relating to the remanufacturing of Joint STARS aircraft. The company was able to recognize underlying improved performance on the production phase of the program and recorded upward cumulative margin rate adjustments totaling \$37 million. Operating margin includes positive cumulative margin rate adjustments on the B-2 program of \$23 million, \$11 million and \$36 million in the fourth, third and second quarters, respectively.

NORTHROP GRUMMAN CORPORATION

1998 Quarters

\$ in millions, except per share	4	3	2	1
Net sales	\$ 2,079	\$ 1,818	\$ 1,789	\$ 1,681
Operating margin	189	208	176	179
Income(loss) from continuing operations	54	97	73	(31)
Net income(loss)	(3)	116	93	(12)
Basic earnings(loss) per share from continuing operations	.78	1.40	1.07	(.44)
Basic earnings(loss) per share	(.04)	1.68	1.36	(.18)
Diluted earnings(loss) per share from continuing operations	.77	1.39	1.05	(.43)
Diluted earnings(loss) per share	(.04)	1.67	1.34	(.18)
Dividend per share	.40	.40	.40	.40
Stock price:				
High	84	108 5/8	110 3/4	139
Low	68 7/16	59 5/16	97 3/16	102 3/4

Operating margin in the fourth quarter of 1998 includes a \$21 million charge due to an increase in the cost estimate to complete work on the test phase of development for the Directional Infrared Countermeasures (DIRCM) program. Pretax costs of \$16 million and \$42 million are included in the third and fourth quarter, respectively, related to activities to realign operating units, consolidate facilities and exit certain business areas. Cumulative margin rate adjustments on the Joint STARS and E-2C programs reduced operating margin in the second quarter by \$25 million. Charges related to the company's terminated merger with Lockheed Martin Corporation of \$180 million and \$6 million were recorded in the first and second quarter, respectively. Included in the 1998 fourth quarter results is the write off of the company's \$30 million investment comprised of advances on behalf of the Kistler Aerospace Corporation. The write off resulted from the company's assessment that the near-term likelihood of Kistler obtaining additional financing made recovery of the investment uncertain.

The corporation's common stock is traded on the New York and Pacific Stock Exchanges (trading symbol NOC). The approximate number of holders of record of the corporation's common stock at February 14, 2000, was 11,135.

NORTHROP GRUMMAN CORPORATION

Item 14

I - VALUATION AND QUALIFYING ACCOUNTS

(Dollars in Thousands)

COL. A -----	COL. B -----	COL. C -----	COL. D -----	COL. E -----
Classification -----	Balance at Beginning of Period	Additions At Cost	Other Changes-- Add (Deduct)/(1)/	Balance at End of Period
Description:				
Year ended December 31, 1997				
Reserves and allowances deducted from asset accounts:				
Allowances for doubtful amounts	\$55,445	\$17,279	\$(17,746)	\$54,978
Year ended December 31, 1998				
Reserves and allowances deducted from asset accounts:				
Allowances for doubtful amounts	\$54,978	\$ 8,076	\$(16,013)	\$47,041
Year ended December 31, 1999				
Reserves and allowances deducted from asset accounts:				
Allowances for doubtful amounts	\$47,041	\$21,088	\$(30,455)	\$37,674

(1) Uncollectible amounts written off, net of recoveries.

NORTHROP GRUMMAN CORPORATION

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
Northrop Grumman Corporation
Los Angeles, California

We have audited the accompanying consolidated statements of financial position of Northrop Grumman Corporation and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audit also included the financial statement schedule listed in the Index at Item 14. These financial statements and financial statement schedule are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northrop Grumman Corporation and Subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in the footnotes to the consolidated financial statements, in 1999 the Company changed its method of accounting for start-up activities by adopting Statement of Position 98-5 -- Reporting on the Costs of Start-up Activities.

Deloitte & Touche LLP
Los Angeles, California
January 26, 2000,
except for discontinued operations footnote,
as to which the date is July 24, 2000.

ASSET PURCHASE AGREEMENT

by and between

NORTHROP GRUMMAN CORPORATION

and

VAC ACQUISITION CORP. II

Date as of June 9, 2000

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ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT dated as of June 9, 2000, among Northrop Grumman Corporation, a Delaware corporation ("Seller"), and VAC Acquisition Corp. II, a Delaware corporation ("Buyer").

Seller, through the Aerostructures Business Area of its Integrated Systems and Aerostructures Sector (the "Sector"), is engaged in the business of the manufacture and assembly of metal and composite components and structures for commercial and military aircraft, and certain machining and fabrication activities, substantially all of which business is conducted at its Hawthorne, California; Dallas and Grand Prairie, Texas; Perry and Milledgeville, Georgia; and Stuart, Florida sites (collectively, the "Business"). The parties hereto desire that Seller sell, transfer, convey and assign to Buyer substantially all of the assets, properties, interests in properties and rights used primarily in the Business, and that Buyer purchase and acquire the same, subject to the assumption by Buyer of the liabilities and obligations of Seller relating to the Business, upon the terms and subject to the conditions hereinafter set forth.

The parties also intend to enter into certain agreements governing their relationship and certain matters after the Closing Date as contemplated hereby.

AGREEMENT

NOW THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants and agreements hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Accounting Arbitrator" has the meaning set forth in Section 2.5(e).

"Affiliate" means, with respect to any entity, any other entity which directly or indirectly controls, is controlled by, or is under common control with, such entity, where the term "control" means the ownership, directly or indirectly, of more than fifty percent (50%) of the equity capital or power in fact to direct the management of such entity.

"Ancillary Agreements" has the meaning set forth in Section 2.4(c).

"Assets" has the meaning set forth in Section 2.1.

"Assigned Contracts" has the meaning set forth in Section 2.1(e).

"Assignment and Assumption Agreement" means an assignment and assumption agreement executed by Buyer and Seller in a form reasonably acceptable to Buyer and Seller.

"Assumed Liabilities" has the meaning set forth in Section 2.3.

"Base Net Working Capital" shall mean Net Working Capital as reflected on the Statement (\$572,149,000).

"Bill of Sale" means a bill of sale in a form reasonably acceptable to Buyer and Seller.

"Business" has the meaning set forth in the preamble.

"Business Day" means a day other than a Saturday or a Sunday or other day on which commercial banks in New York are authorized or required by law to close.

"Business Employee" means any individual who, at the Closing Date, is (i) employed by Seller or a Sold Subsidiary and assigned by Seller or a Sold Subsidiary pursuant to Seller's or such Sold Subsidiary's ongoing payroll practice to the Business, including any individual so employed who is on disability (but still on the payroll), and any individual so employed who is on an approved leave of absence or lay-off with recall rights and (ii) any Shared Service Employee.

"Business Property" has the meaning set forth in Section 4.5 hereto.

"Closing Date" means the day on which the Closing occurs pursuant to Section 2.4.

"Closing Date Net Working Capital" has the meaning set forth in Section 2.5(b).

"Closing Statement" has the meaning set forth in Section 2.5(a).

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Competitive Activities" has the meaning set forth in Section 6.8.

"Confidential Information" has the meaning set forth in Section 6.7.

"Contract" means any contract, agreement, license, lease, sales or purchase order or other legally binding commitment, whether written or oral.

"Contractual Obligation" means, as to any Person, any provision of any note, bond or security issued by such Person or of any mortgage, indenture, deed of trust, lease, license, franchise, contract, agreement, instrument or undertaking to which such Person is a party or to which it or any of its property or assets is subject.

"Cost Accounting Standards" means regulations promulgated by the Cost Accounting Standards Board set forth at 48 C.F.R. (S) 9901.301 et. seq. and any guidance, interpretations, or preambles to those regulations published by the Cost Accounting Standards Board in the Federal Register.

"Effective Time" has the meaning set forth in Section 2.4.

"Employee Benefit Arrangements" means each and all benefit plans and arrangements which are not Employee Benefit Plans, including, without limitation, each and all pension, supplemental pension, deferred compensation, option or other equity-based program, accidental death and dismemberment, life and health insurance and benefits (including medical, dental, vision and hospitalization), fringe benefit, flexible spending account programs and other employee benefit arrangements, plans, contracts, policies or practices providing employee or executive compensation or benefits.

"Employee Benefit Plans" means each and all "employee benefit plans," as defined in Section 3(3) of ERISA, maintained, sponsored or contributed to by Seller or any of its ERISA Affiliates or in which Seller or any of its ERISA Affiliates participates or participated or with respect to which Seller or any of its ERISA Affiliates has any obligation to contribute.

"Employee Matters Agreement" means an agreement substantially in the form of Exhibit D.

"Encumbrance" shall mean any claim, lien, pledge, option, charge, easement, security interest, deed of trust, mortgage, right-of-way, encroachment, covenant, condition, restriction, conditional sales agreement, encumbrance or other right of third parties, and includes, without limitation, any agreement to give any of the foregoing in the future, and any contingent or other title retention agreement or lease.

"Environmental Law" means collectively all applicable federal, state or local laws, statutes, regulations, rules, ordinances, codes or common law relating (i) to the protection of human health or the environment, or (ii) the handling, use, presence, disposal, release or threatened release of any Hazardous Material as in effect on the date hereof.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" of any Person means any other Person that, together with such Person as of the relevant measuring date under ERISA, is or was required to be treated as a single employer under Section 414 of the Code.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and the rules and regulations of the SEC promulgated from time to time thereunder.

"Excluded Assets" has the meaning set forth in Section 2.2.

"Excluded Liabilities" has the meaning set forth in Section 2.3.

"Excluded Other Intellectual Property" has the meaning set forth in Section 2.2(g).

"Excluded Trademarks and Trade Names" has the meaning set forth in Section 2.2(f).

"GAAP" means generally accepted accounting principles in the United States of America.

"Government Contract" means any Contract or other commitment listed on Schedule 4.7 that relates to the Business with i) the United States Government, ii) any prime contractor to the United States Government, or any subcontractor with respect to any contract described in clauses (i) or (ii).

"Governmental Authority" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Government-Furnished Property" has the meaning set forth in Section 4.16.

"Hazardous Material" means any substance which is defined as a hazardous waste, hazardous substance, pollutant or contaminant under any Environmental Law, including but not limited to, polychlorinated biphenyls ("PCBs"), petroleum or petroleum fractions, and asbestos.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Income Statements" has the meaning set forth in Section 4.2(a).

"Indemnified Person" means, with respect to any Loss, the Person seeking indemnification hereunder.

"Indemnifying Person" means, with respect to any Loss, the Person from whom indemnification is being sought hereunder.

"Intellectual Property" means know-how, trade secrets, processes, inventions, formulae, procedures, research records and test information, and all trademarks, trade names, patents, service marks, copyrights (whether registered or unregistered) and pending applications for the foregoing.

"Intellectual Property Agreement" means an agreement substantially in the form of Exhibit B.

"Interest Rate" has the meaning set forth in Section 2.5(g).

"Knowledge of Seller" with reference to any of the representations and warranties of Seller and except as specified in Section 4.10 means the actual knowledge of the Persons listed on Schedule 1.1, and does not refer to the knowledge of any other Person.

"Lien" means any mortgage, pledge, hypothecation, assignment, encumbrance, lien (statutory or other) or other security agreement of any kind or nature whatsoever.

"Loss" means any loss, liability, cost, deficiency, damage or expense (including reasonable attorneys' fees and disbursements and the costs of investigation) whether or not arising out of claims or lawsuits by third parties or otherwise and including the defense or settlement of any of the foregoing. Loss recoverable hereunder is subject to the limitations set forth in Section 9.4.

"Material Adverse Effect" means any circumstance, change or effect that is materially adverse to the business, assets, financial condition or results of operations of the Business taken as a whole, but excluding the effects of changes that are generally applicable to the industries and markets in which the Business operates unless such change relates solely to a material customer or supplier of the Business.

"Net Working Capital" has the meaning set forth in Section 2.5(b).

"Owned Property" has the meaning set forth in Section 2.1(a).

"PDC Plume" means the Hazardous Material in ground water, and only that Hazardous Material, present on and under the Hawthorne facility that emanated from the Product Development Center located at 12250 So. Crenshaw Boulevard and which has migrated to the Hawthorne facility.

"Permits" has the meaning set forth in Section 4.12.

"Person" means an individual, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Pre-Closing Environmental Condition" means: (1) the presence, disposal or release as of the Closing Date of Hazardous Material in, on, under or emanating from any facility (to the extent of the amounts of such Hazardous Material then present) regardless of how the Hazardous Material came to rest at, on, under or emanating from the facility, and (ii) any other act, omission or condition prior to the Closing Date which may give rise to liability under any Environmental Laws (to the extent of such act, omission or condition as of the Closing Date).

"Purchase Price Adjustment" has the meaning set forth in Section 2.5(b).

"Purchase Price Adjustment Schedule" has the meaning set forth in Section 2.5(b).

"Records" has the meaning set forth in Section 2.1(j).

"Remedial Action" means any response action, removal action, remedial action, corrective action, monitoring program, sampling program, investigation or other cleanup activity required by any Environmental Law to clean up, remove, remediate, treat or abate any Hazardous Material in the Environment and shall include: (i) obtaining any permits, consents, approvals, or authorizations of any Governmental Authority necessary to conduct any such work, (ii) preparing and implementing any plans or studies for such work, (iii) obtaining a written notice from a Governmental Authority with jurisdiction over the site in question or any portion thereof under Environmental Laws that material additional work is required by such Governmental Authority; and (iv) any other activities required under Environmental Laws to address the presence of Hazardous Material at the site in question or any portion thereof.

"Required Consents" has the meaning set forth in Section 3.1(d).

"Requirement of Law" means, as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, statute, treaty, rule, regulation, ordinance, order, decree, consent decree or similar instrument or determination or award of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"SEC" means the Securities and Exchange Commission.

"Sector" has the meaning set forth in the preamble hereto.

"Seller" has the meaning set forth in the preamble hereto.

"Seller Plans" means each and all Employee Benefit Plans and Employee Benefit Arrangements sponsored, maintained or contributed to by Seller, any of its ERISA Affiliates or any of the Sold Subsidiaries or to which any of such Persons has (or has had) any obligation to contribute and which covers (or has covered) Business Employees or former employees of Seller in the Business, in each case only while employed in the Business.

"Selling Subsidiary" has the meaning set forth in Section 2.1.

"Shared Service Employee" means any individual who is employed by Seller at the Closing Date but is not assigned to the Business, who provides support services to the Business principally in the areas of finance, human resources or procurement, and is listed on Schedule 1(a) to the Employee Matters Agreement.

"Sold Subsidiary" has the meaning set forth in Section 2.1(h).

"Statement" means the audited statement of assets and liabilities of the Business as of March 31, 2000, attached hereto as part of Schedule 4.2.

"Subsidiary" means any Person of which a majority of the outstanding equity interests or voting securities are owned, directly or indirectly by another person.

"Tax" or "Taxes" means, with respect to any Person, any federal, state, local or foreign net income, gross income, gross receipts, sales, use, ad valorem, value-added, capital, unitary, intangible, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, transfer, occupation, premium, property or windfall profit tax, custom, duty or other tax, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or penalty, addition to tax or additional amount imposed by any jurisdiction or other taxing authority, on such Person.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Transaction Documents" means (i) this Agreement, (ii) the Bill of Sale, (iii) the Assignment and Assumption Agreement, (iv) the deeds of conveyance of Owned Property and (v) the Ancillary Agreements.

"Transitional Services Agreement" means an agreement substantially in the form of Exhibit C.

"Transactions" means the transactions contemplated by the Transaction Documents.

1.2 Other Definitional Provisions.

(a) Terms defined in this Agreement in Sections other than Section 1.1 shall have the meanings as so defined when used in this Agreement.

(b) As used herein, accounting terms not defined or to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) Unless express reference is made to Business Days, references to days shall be to calendar days.

ARTICLE II

CLOSING; PURCHASE PRICE AND ADJUSTMENT

2.1 Sale and Transfer of the Assets. Subject to the terms and

conditions of this Agreement, except as otherwise specifically provided herein, on the Closing Date Seller will sell, convey, transfer, assign and deliver to Buyer all of Seller's right, title and interest in and to the following assets (collectively, the "Assets"): (i) the Intellectual Property of Seller assigned to Buyer under the Intellectual Property Agreement; and (ii) all of the properties, rights, claims and assets other than Intellectual Property (except the Excluded Assets), to the extent that they are used or held for use primarily in the operations of the Business and will cause any Subsidiary of Seller having any right, title or interest in or to any properties, rights, claims or assets primarily used or held for use in the Business (each such Subsidiary, a "Selling Subsidiary") to sell,

convey, transfer, assign and deliver to Buyer all of such Selling Subsidiary's right, title and interest in and to the Assets. Subject to the terms and conditions of this Agreement, on the Closing Date, Buyer will purchase, acquire and accept from Seller and each Selling Subsidiary (collectively, "Sellers") all of Sellers' right, title and interest in and to the Assets. The Assets include, but are not limited to, the following assets or rights of Sellers (in addition to the Intellectual Property of Seller assigned to Buyer under the Intellectual Property Agreement):

(a) the real property (including all buildings, improvements and structures located thereon and all rights, privileges, easements and appurtenances thereto) described on Schedule 2.1(a) hereto (the "Owned Property");

(b) the leasehold interests listed on Schedule 2.1(b) (the "Leased Property");

(c) tangible personal property, including, without limitation, the fixtures, furnishings, furniture, office supplies, vehicles, rolling stock, tools, machinery, equipment and computer equipment, located upon or affixed to or normally located in, at or upon, even if temporarily removed from, any of the Business Properties (collectively, the "Equipment");

(d) inventory, including without limitation, raw materials work-in-process, finished goods, spare parts and supplies;

(e) Contracts, including but not limited to all Contracts of Sellers listed on Schedule 4.7, and Contracts entered into by Sellers through the Closing Date (the "Assigned Contracts");

(f) transferable licenses, permits, approvals and authorizations by any Governmental Authority used primarily in or relating primarily to the Business or the Assets (the "Permits");

(g) bids, quotations and proposals for Contracts, whether oral or written;

(h) all capital stock, partnership interests and other equity interests in any Person listed in Schedule 2.1(h) (each, a "Sold Subsidiary");

(i) books and records (other than Tax records), or portions thereof, including plans and specifications, surveys and title policies relating to the Owned Property, sales literature, product information, employment records and files and other information and/or data located at the Business Properties (the "Records");

(j) insurance proceeds paid or payable by any insurance provider, other than Seller or any Affiliate of Seller, for any Asset that is destroyed or damaged after the date hereof and prior to the Closing;

(k) notes, drafts and accounts receivable, or portions thereof, arising exclusively out of the Business;

(l) all prepaid expenses, advances and deposits (including utility deposits), or portions thereof, arising exclusively out of the Business;

(m) causes of action, claims, demands, rights and privileges against third parties, including, without limitation, warranties and guaranties received from vendors, suppliers or manufacturers with respect to the Assets or the Business and, subject to Section 6.3, causes of action, claims and rights under insurance policies relating to the Assets or the Business;

(n) other intangible rights and assets of Seller (other than Intellectual Property of Seller) and goodwill; and

(o) assets reflected on the Statement (other than Assets disposed of since March 31, 2000 in accordance with Section 6.2).

2.2 Assets Not Transferred. Notwithstanding anything herein to the

contrary, the following assets are not included in the Assets and shall be retained by Seller (the "Excluded Assets"):

(a) all cash and cash equivalent items (except as described in Section 2.1(m)) including, without limitation, checking accounts, bank accounts, lock box numbers, certificates of deposit, time deposits, securities, and the proceeds of accounts receivable, including uncashed checks in payment thereof, received by Seller on or prior to the Closing Date;

(b) all rights, properties, and assets which have been used or held for use in connection with the Business and which shall have been transferred (including transfers by way of sale) or otherwise disposed of in the ordinary course of business prior to the Closing;

(c) prepaid Taxes and rights to or claims for refunds or rebates of Taxes and other governmental charges for periods ending on or prior to the Closing Date and the benefit of net operating loss carryforwards or carrybacks, or any other credits of Seller, whether or not attributable to the Business;

(d) claims or rights against third parties set forth on Schedule 2.2(d);

(e) proprietary or confidential business or technical information, records and policies that relate generally to Seller and are not used primarily in the Business, including, without limitation, organization manuals, strategic plans and Tax records and related information;

(f) subject to the limited rights granted to Buyer pursuant to the Intellectual Property Agreement, trademarks, trade names and service marks listed on Schedule 2.2(f) (the "Excluded Trademarks and Trade Names");

(g) subject to the rights granted to Buyer pursuant to the Intellectual Property Agreement, the know-how, trade secrets, processes, inventions, formulae, procedures, research records, test information, patents, copyrights, pending applications for patents and copyrights

and proprietary computer programs or other software and databases set forth on Schedule 2.2(g) (the "Excluded Intellectual Property");

(h) all notes, drafts and accounts receivable or other obligations for the payment of money made or owed by any Affiliate of Sellers;

(i) all Seller's rights in, to and under any commodity options, puts, calls, forwards or similar agreements with respect to commodities used by the Business;

(j) all causes of action, claims, demands, rights and privileges against third parties that relate to any of the Excluded Assets or Excluded Liabilities, including causes of actions, claims and rights under insurance policies relating thereto;

(k) Equipment used by administrative employees of Seller who are not assigned to the Business but who provide services to the Business;

(l) all other assets used primarily in connection with Seller's corporate functions (including but not limited to the corporate charter, taxpayer and other identification numbers, seals, minute books and stock transfer books), whether or not used for the benefit of the Business;

(m) all rights and assets which are used or held for use in connection with the B-2 program, the S-3 program (provided, however, that the current S-3 contract with Lockheed Martin at Closing will be converted to an intercompany contract on substantially the same terms), the A-7 program and classified programs, if any, not related to the C-17 or V-22 programs;

(n) the equipment, tooling and fixtures used or held for use in the premises to be leased back by the Seller from the Buyer which premises are identified on Schedule 8.12 as "Containing Excluded Assets" (none of which assets are reflected on the Statement);

(o) equipment or tooling to which the United States Government has contractual right to assert title as identified on Schedule 4.16 to the extent the Government's right to assert title does not arise out of the C-17 or V-22 programs;

(p) the reconfigureable tool developed under Cooperative Agreement N00014-95-2-0003 between The Office of Naval Research and Grumman Aerospace Corporation which was novated to Northrop Grumman Corporation; and

(q) any assets in any Seller rabbi trust or voluntary employee's beneficiaries association.

2.3 Assumed and Excluded Liabilities. On the Closing Date, Buyer

shall execute and deliver to Seller the Assignment and Assumption Agreement pursuant to which from and after the Closing Buyer shall assume and agree to pay, perform and discharge when due, and shall indemnify Seller and its Affiliates (including the Selling Subsidiaries) against and hold them harmless from, all the liabilities and obligations of Sellers relating primarily to the Business or

the Assets, of any kind or nature, whether absolute, contingent, accrued or otherwise, and whether arising before or after the Closing (collectively, the "Assumed Liabilities"); provided, however, that the Assumed Liabilities shall in no event include the following liabilities (the "Excluded Liabilities"):

(a) any liability, responsibility or obligation under any Seller Plan (including, without limitation, any liability, responsibility or obligation to any Governmental Authority with respect to the transfer of assets under Seller Plans), except as provided in the Employee Matters Agreement;

(b) any liability for Taxes of Seller, Taxes of the Sold Subsidiaries and Taxes arising out of and relating to the ownership of the Assets and the operation of the Business, in each case for any period or portion thereof ending on or prior to the Closing Date, excluding the Taxes that are the responsibility of Buyer pursuant to Section 2.7 or those reflected on the Closing Statement (other than any reserves for deferred Taxes established to reflect timing differences between book and Tax income);

(c) any obligation of Seller under and pursuant to any commodity options, puts, calls, forwards or similar agreements with respect to commodities used by the Business;

(d) any liability arising from or related to the Excluded Assets;

(e) all notes, drafts and accounts payable or other obligations for the payment of money made or owed to any Affiliate of Seller;

(f) all liabilities and obligations associated with (i) the pre-Closing offsite transportation and disposal of Hazardous Material, (ii) the presence or release of Hazardous Material either in, on, under or from any former facility, (iii) Remedial Action related solely to the PDC Plume and (iv) the regulatory closure of the two remaining solid waste management units at the Hawthorne facility;

(g) all (i) indebtedness of Sellers for borrowed money, (ii) obligations of Sellers evidenced by bonds, notes, debentures or similar instruments, (iii) obligations under conditional sale, title retention or similar agreements or arrangements creating an obligation of Sellers with respect to the deferred purchase price of property (other than customary trade credit), and (iv) all obligations of Sellers to guarantee any of the foregoing types of obligations on behalf of others, except any liabilities or obligations under any personal property leases or under any letters of credit outstanding as of the Closing and relating to any Contract being assumed under this Agreement (each a "Financing Obligation");

(h) all liabilities and obligations relating to the litigation and other matters disclosed on Schedule 2.3(h) (including all current and future claims relating to the subject matter of such litigation);

(i) claims covered under Seller's policies for workmen's compensation, except as provided in the Employee Matters Agreement;

(j) all liabilities related to any failure to obtain the required consents from Gulfstream or Alcoa or arising out of the alternative arrangements implemented in lieu thereof; and

(k) liabilities incurred prior to the Closing Date for employee payroll, payroll tax and payroll withholding liabilities.

2.4 Closing; Purchase Price.

(a) The closing (the "Closing") of the purchase and sale of the Assets and the assumption of the Assumed Liabilities shall be held at the offices of Gibson, Dunn & Crutcher LLP, 333 South Grand Avenue, Los Angeles, California, at 9:00 a.m. on June 30, 2000, or if the conditions to Closing set forth in Article III shall not have been satisfied or waived by such date, subject to Section 10.3, as soon as practicable after such conditions shall have been satisfied or waived. The date on which the Closing shall occur is hereinafter referred to as the "Closing Date." The Closing will be deemed effective at 12:01 a.m. on the Closing Date (the "Effective Time").

(b) The aggregate purchase price for the Assets shall be \$842,700,000, payable on the Closing Date (i) by wire transfer in immediately available funds to an account designated by Seller of \$667,700,000 and (ii) delivery of a subordinated note, in form and substance satisfactory to Buyer and Seller, having the terms and conditions set forth on Exhibit A, in the principal amount of \$175,000,000 (the "Seller Note"), subject to adjustment pursuant to Section 2.5 together with the assumption of the Assumed Liabilities as provided in Section 2.3 (the "Purchase Price").

(c) At the Closing, Seller shall deliver or cause to be delivered to Buyer (i) the Bill of Sale, (ii) certificates representing shares of capital stock of the Sold Subsidiaries accompanied by stock powers, duly executed in blank, (iii) limited warranty deeds (or the equivalent thereof in any jurisdiction in which limited warranty deeds may not be used) in recordable form for the Owned Property being conveyed, and (iv) such other instruments of transfer and documents (including assignments of the Intellectual Property) as Buyer may reasonably request, and Buyer shall deliver to Seller (i) the Assignment and Assumption Agreement (ii) such other instruments of assumption and documents as Seller may reasonably request and (iii) an affidavit in form and substance reasonably satisfactory to Buyer, duly executed and acknowledged, certifying that Seller is not a foreign person within the meaning of Section 1445(f)(3) of the Code. Not later than the Closing, the parties hereto shall also enter into agreements embodying certain relationships between Buyer and the Business, on the one hand, and Seller and its remaining businesses, on the other hand, after the Closing Date. These agreements will have terms as set forth in Exhibit A with respect to the Seller Note, and be in the forms set forth in Exhibit B with respect to Intellectual Property, Exhibit C with respect to the provision of certain transitional services and Exhibit D with respect to employee matters (Exhibits A through D, collectively, the "Ancillary Agreements"). Buyer and Seller have entered into the Employee Matters Agreement concurrently with the execution and delivery of this Agreement.

2.5 Purchase Price Adjustment.

(a) Within sixty (60) days after the Closing Date, Seller shall prepare and deliver to Buyer an audited statement of assets and liabilities of the Business as of the Effective Time. This statement will be in a format comparable to the Statement (such statement, the "Closing Statement"). The Closing Statement will be prepared using the same accounting methods, policies, practices and procedures, with consistent classifications, judgments and estimation methodology, as was used in the preparation of the Statement and as described in the notes to the Statement and Schedule 4.2(a), and will not include any changes in assets or liabilities as a result of purchase accounting adjustments arising from or resulting as a consequence of the transactions contemplated hereby. Buyer shall cause the employees of the Business to assist Seller in the preparation of the Closing Statement.

(b) The Closing Statement shall be accompanied by an additional schedule of information (the "Purchase Price Adjustment Schedule") which will identify the Purchase Price Adjustment. For purposes of this Section 2.5 the following definitions apply:

"Purchase Price Adjustment" shall mean (i) Closing Date Net Working Capital less (ii) Base Net Working Capital.

"Closing Date Net Working Capital" shall mean Net Working Capital as of the Effective Time.

"Net Working Capital" as of any date shall mean (i) total current assets of the Business as of such date, minus (ii) total current liabilities of the Business as of such date.

The Purchase Price will be increased on a dollar-for-dollar basis if the Purchase Price Adjustment is positive and decreased on a dollar-for-dollar basis if the Purchase Price Adjustment is negative. Schedule 2.5(b) shall set forth an example of the operation of the Purchase Price Adjustment.

(c) Buyer and Seller agree that the sole purpose of the Purchase Price Adjustment contemplated by this Section 2.5 is to measure the effect of operating activity and transactions that have occurred between March 31, 2000 and the Effective Time. The Purchase Price Adjustment is not intended to permit the introduction of different judgments, accounting methods, policies, practices, procedures, classifications or estimation methodology for purposes of determining the asset and liability balances from those used in the preparation of the Statement. Each party shall provide the other party and its representatives with reasonable access to books and records and relevant personnel during the preparation of the Purchase Price Adjustment Schedule referred to in paragraph (b) above and the resolution of any disputes that may arise under this Section 2.5.

(d) If Buyer disagrees with the determination of the Purchase Price Adjustment and the amount of such disagreement exceeds \$5,000,000, Buyer shall notify Seller in writing of such disagreement within thirty (30) days after delivery of the Purchase Price Adjustment Schedule, which notice shall describe the nature of any such disagreement in

reasonable detail, identify the specific items involved and the dollar amount of each such disagreement and provide reasonable supporting documentation for each such disagreement. If the total amount of all disagreements with the determination of the Purchase Price Adjustment is less than \$5,000,000, the Purchase Price Adjustment delivered by Seller shall be final for purposes of this Section 2.5. After the end of such 30-day period, Buyer may not introduce additional disagreements with respect to any item in the Purchase Price Adjustment Schedule or increase the amount of any disagreement, and any item not so identified shall be deemed to be agreed to by Buyer and will be final and binding upon the parties. Similarly, a disagreement by Buyer does not provide any right to Seller to introduce any changes to Purchase Price Adjustment Schedule not directly related to the disputed item. To the extent that a Buyer disagreement relates to an error in the Closing Statement and a similar error also exists in the Statement, then, to the extent that such disagreement is determined to be error, the error in the Closing Statement and the error in the Statement shall both be corrected in determining the Purchase Price Adjustment under this Section 2.5. Resolution of suspense amounts described in Note 1.F of Schedule 4.2(a)(iii) will be considered the correction of an error for the purposes of the foregoing sentence and reflected both in the Statement and in the Closing Statement and shall not result in a purchase price adjustment. During the 30-day period of its review, Buyer shall have reasonable access to any documents, schedules or workpapers used in the preparation of the Purchase Price Adjustment Schedule.

(e) Buyer and Seller agree to negotiate in good faith to resolve any such disagreement and any resolution agreed to in writing by Buyer and Seller shall be final and binding upon the parties. If Buyer and Seller are unable to resolve all disagreements properly identified by Buyer pursuant to Section 2.5(d) within thirty (30) days after delivery to Seller of written notice of such disagreement, then the disputed matters shall be referred to the Chief Financial Officers of the respective businesses for resolution. If the Chief Financial Officers are unable to resolve all disagreements within fifteen (15) days, then, within fifteen (15) days thereafter, the matter shall be referred for final determination to Pricewaterhouse Coopers LLP. If such firm is unable to serve, Buyer and Seller shall jointly select an arbiter from one of the "Big 5" accounting firms that is not the independent auditor of either Buyer or Seller or their respective Affiliates; if Buyer and Seller are unable to select such an arbiter within such time period, the American Arbitration Association shall make such selection (Pricewaterhouse Coopers LLP or any other person so selected shall be referred to herein as the "Accounting Arbitrator"). The Accounting Arbitrator so selected will only consider those items and amounts set forth in the Purchase Price Adjustment Schedule as to which Buyer and Seller have disagreed within the time periods and on the terms specified above and must resolve the matter in accordance with the terms and provisions of this Agreement. The Accounting Arbitrator shall deliver to Buyer and Seller, as promptly as practicable and in any event within one hundred and twenty (120) days after its appointment, a written report setting forth the resolution of any such disagreement determined in accordance with the terms of this Agreement. The Accounting Arbitrator shall select as a resolution the position of either Buyer or Seller for each item of disagreement (based solely on presentations and supporting material provided by the parties and not pursuant to any independent review) and may not impose an alternative resolution. Such report shall be final and binding upon Buyer and Seller. The fees, expenses and costs of the Accounting Arbitrator shall be borne one-half by Buyer and one-half by Seller.

(f) If the Purchase Price Adjustment results in a reduction in the Purchase Price, Seller shall pay to Buyer the amount of such reduction (whether or not such reduction exceeds the \$5,000,000 threshold referred to in (d) above), and if any such adjustment results in an increase in the Purchase Price, Buyer shall pay to Seller the amount of such increase, in each case, by wire transfer of immediately available funds to an account designated by the party receiving payment within five (5) Business Days after the final determination of the amount of such reduction or increase in Purchase Price, plus interest on the amount of such reduction or increase from the Closing Date to the date of such payment thereof at the per annum rate equal to London Interbank Offer Rate (LIBOR) on the Closing Date as published in the Wall Street Journal (the "Interest Rate").

(g) For purposes of Section 2.3(b) and the Closing Statement, Taxes shall be allocated between the Buyer and Seller as follows: (i) real and personal property Taxes with respect to the Assets for the taxable period which includes the Closing Date shall be prorated between Seller and Buyer, with such Taxes being borne by Seller based on the ratio of the number of days in the relevant period prior to the Effective Time to the total number of days in the actual taxable period with respect to which such Taxes are assessed, irrespective of when such Taxes are due, become a lien or are assessed, and such Taxes being borne by the Buyer based on the ratio of the number of days in the relevant period after the Effective Time to the total number of days in the actual taxable period with respect to which such Taxes are assessed, irrespective of when such Taxes are due, become a lien or are assessed; (ii) sales and use Taxes shall be deemed to accrue as property is purchased, sold, used, or transferred; (iii) all other Taxes shall accrue in accordance with GAAP, except for income Taxes, which shall accrue in accordance with income Tax principles. The parties agree that income Taxes imposed on or with respect to the operation of the Business shall not be accrued as a liability or an asset on the Closing Statement. In no event shall Buyer have any liability for Taxes imposed upon or measured by the income of Seller, and in no event shall Seller have any liability for Taxes imposed upon or measured by the income of Buyer.

2.6 Tax Allocation. Buyer and Seller agree that the aggregate fair market value of the Assets will be appraised at Buyer's expense by an appraisal firm of its choice (and reasonably acceptable to Seller) (the "Appraisal") within 90 days after the Closing Date. Buyer shall thereafter prepare a draft of IRS Form 8594 reflecting the allocation of the Purchase Price among the Assets based upon the Appraisal and such other information as required by the form, and shall forward it within 120 days after the Closing Date to Seller for its approval, which approval will not be withheld or delayed unreasonably. If Buyer and Seller are unable to agree on such allocation, then the Accounting Arbitrator will be retained to determine such allocation (the cost of which shall be borne equally by Buyer and Seller). Buyer and Seller shall report the purchase and sale of the Assets in accordance with such allocation (as finally determined) for all tax purposes (including the filing of the forms prescribed under Section 1060 of the Code and the Treasury Regulations promulgated thereunder).

2.7 Transfer Taxes. Buyer and Seller shall cooperate in preparing, executing and filing use, sales, real estate, transfer and similar Tax returns relating to the purchase and sale of the Assets. Buyer shall bear, and to the extent permitted by law shall pay, all such transfer Taxes, including any penalties, interest and additives to tax, incurred in connection with the

purchase and sale of the Assets, and Buyer shall reimburse Seller for any transfer Taxes paid by Seller, plus interest thereon at the Interest Rate, within five (5) days of Seller's written request. Under no circumstances shall Buyer's obligation hereunder or the Taxes giving rise thereto be reflected as a liability on the Closing Statement. Such Tax returns shall be prepared in a manner that is consistent with the allocation of the Purchase Price and Assumed Liabilities contemplated by Section 2.6.

ARTICLE III

CONDITIONS TO CLOSING

3.1 Buyer's Obligation. The obligations of Buyer to purchase and pay for

the Assets are subject to the satisfaction (or waiver by Buyer) as of the Closing of the following conditions:

(a) The representations and warranties of Seller made in this Agreement shall be true and correct in all material respects as of the date hereof and, except for those made as of a specific date or as otherwise specifically contemplated by this Agreement, on and as of the Closing, as though made on and as of the Closing Date, and Seller shall have performed or complied in all material respects with all obligations and covenants required by this Agreement to be performed or complied with by Seller by the time of the Closing; and Seller shall have delivered to Buyer a certificate dated the Closing Date and signed by an authorized officer of Seller confirming the foregoing.

(b) No injunction or order shall have been granted by any court or administrative agency or instrumentality of competent jurisdiction that would restrain or prohibit any of the Transactions.

(c) The waiting period under the HSR Act shall have expired or been terminated.

(d) The consents set forth on Schedule 3.1(d) shall have been obtained (the "Required Consents") or alternative arrangements for the Gulfstream and/or Alcoa contracts pursuant to Sections 8.1(d) or (e) shall be in effect.

(e) Buyer shall have received an opinion dated the Closing Date of Gibson, Dunn & Crutcher LLC, special counsel to Seller, substantially in the form set forth in Exhibit E.

3.2 Seller's Obligation. The obligation of Seller to sell and deliver the

Assets to Buyer is subject to the satisfaction (or waiver by Seller) as of the Closing of the following conditions:

(a) The representations and warranties of Buyer made in this Agreement shall be true and correct in all material respects as of the date hereof and, except for those made as of a specific date or as otherwise specifically contemplated by this Agreement on and as of the Closing, as though made on and as of the Closing Date, and Buyer shall have performed or complied in all material respects with all obligations and covenants required by this Agreement

to be performed or complied with by Buyer by the time of the Closing; and Buyer shall have delivered to Seller a certificate dated the Closing Date and signed by an authorized officer of Buyer confirming the foregoing.

(b) No injunction or order shall have been granted by any court or administrative agency or instrumentality of competent jurisdiction that would restrain or prohibit the Transactions.

(c) The waiting period under the HSR Act shall have expired or been terminated.

(d) The Required Consents shall have been obtained or alternative arrangements pursuant to Section 8.1(d) or (e) shall be in effect for the Gulfstream and Alcoa contracts.

(e) Seller shall have received an opinion dated the Closing Date of Latham & Watkins, special counsel to Buyer, substantially in the form set forth in Exhibit F.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer as follows:

4.1 Authority; No Conflicts; Governmental Consents; Corporate Matters.

(a) Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Seller has all requisite corporate power and authority to enter into the Transaction Documents and to consummate the Transactions. All corporate acts and other proceedings required to be taken by Seller to authorize the execution, delivery and performance of the Transaction Documents and the consummation of the Transactions have been duly and properly taken, including, without limitation, any shareholder approvals. This Agreement has been, and each of the Transaction Documents, when executed, will be, duly executed and delivered by Seller and constitute a valid and binding obligation of Seller, enforceable against Seller in accordance with their respective terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(b) The execution and delivery of this Agreement does not, the execution and delivery of the other Transaction Documents will not, and the consummation of the Transactions and compliance with the terms of the Transaction Documents will not conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under, or result in the creation of any material Lien upon any of the properties or assets of Seller or the Sold Subsidiaries under, any provision of (i) the Certificate of Incorporation or By-Laws or other

organizational or governing documents of Seller or the Sold Subsidiaries, (ii) subject to the matters disclosed in Schedule 4.1(b), any material Contractual Obligation of Seller or the Sold Subsidiaries or (iii) any material judgment, order or decree or, subject to the matters described in clause (c) below, Requirement of Law applicable to Seller or the Sold Subsidiaries or their respective property or assets.

(c) No material consent, approval, license, permit, order or authorization of, or registration, declaration or filing with, any Governmental Authority is required to be obtained or made by or with respect to Seller in connection with the execution and delivery of the Transaction Documents or the consummation of the Transactions contemplated hereby, other than (A) compliance with and filings under the Exchange Act, (B) compliance with and filings and notifications under applicable Environmental Laws, (C) compliance with and filings under the HSR Act and (D) those set forth on Schedule 4.1(c).

(d) Each of the Sold Subsidiaries is duly incorporated, validly existing and in good standing under the laws of the jurisdiction in which it is organized, and has all requisite corporate power and authority to own, lease and operate its properties and to conduct its business as it is now being conducted. Each of the Sold Subsidiaries is duly licensed or qualified and in good standing as a foreign corporation in each jurisdiction in which the ownership of its property or the nature of the business conducted by it is such as to require it to be so licensed or qualified, except where the failure to be so licensed or qualified would not have a Material Adverse Effect on the Business.

(e) The authorized outstanding shares of each of the Sold Subsidiaries consists of the shares listed on Schedule 4.1(e), all of which are duly authorized, validly issued and fully paid, nonassessable and free of preemptive rights, except as provided by applicable law.

(f) None of the Sold Subsidiaries has granted any outstanding options, warrants, rights or other securities convertible into or exchangeable or exercisable for its shares or any other commitments or agreements providing for the issuance of additional shares, the sale of treasury shares, or for the repurchase or redemption of such company's shares. There are no agreements of any kind which obligate any of the Sold Subsidiaries to issue, purchase, redeem or otherwise acquire any of its shares.

(g) The activities of each of the Sold Subsidiaries since their formation have been limited to the activities described on Schedule 4.1(g)

4.2 Financial Statements; Absence of Changes.

(a) Schedule 4.2(a) contains a true and complete copy of the following:

(i) the description of accounting methods, policies, practices and procedures used in preparation of the audited statement of assets and liabilities of the Business at March 31, 2000;

(ii) the audited statement of assets and liabilities of the Business (titled as "Statement of Net Assets Subject to Section 4.2 of the Asset Purchase Agreement March 31, 2000"), excluding all cash accounts, pension plan assets and liabilities, other post-retirement liabilities, income and franchise related tax accounts, workers' compensation assets and liabilities and employee payroll, payroll tax and payroll withholding liabilities, at March 31, 2000 and the notes thereto (the "Statement"); and

(iii) the unaudited statements of revenues, costs and expenses of the Business for each of the three fiscal years ended December 31, 1999 and for the three months ended March 31, 2000 and the notes thereto (the "Income Statements").

The financial statements described in the foregoing clauses (i), (ii) and (iii) are collectively referred to herein as the "Financial Statements." The Financial Statements: (A) were prepared from the books and records of Seller and in accordance with the numbered notes to such Financial Statements and the accounting policies, practices and procedures set forth on Schedule 4.2(a), (B) are complete and accurate in all material respects except as reflected in the numbered notes thereto, on Schedule 4.2(a)(i) or for the exclusions described in Section 4.2(a)(ii), (C) in the case of the Statement, fairly presents the assets and liabilities of the Business (exclusive of pension assets and liabilities and other post-retirement employee liabilities) that would have been transferred to Buyer as if the Closing Date had been March 31, 2000, and (D) in the case of the Income Statements and except as described in the numbered notes thereto, are consistent with the internal financial statements of Seller used by management to manage the Business during the periods covered by such Income Statements and fairly present the results of operations for the periods reflected therein. The amounts set forth on the Statement were prepared in accordance with GAAP, except as otherwise referred to in the numbered notes thereto, in Schedule 4.2(a)(i) and in the exclusions described in Section 4.2(a)(ii) above, and except that certain disclosure requirements of GAAP were not met, which noncompliance would not materially impact the accuracy of any of the amounts shown on the Statement. The amounts set forth on the Income Statements for the fiscal year ended December 31, 1999 and for the three months ended March 31, 2000, except as otherwise referred to in the numbered notes thereto set forth on Schedule 4.2(a)(iii), were prepared in accordance with GAAP, except that certain disclosure requirements of GAAP were not met, which noncompliance with GAAP would not materially impact the accuracy of any of the amounts shown on such Income Statements except as otherwise disclosed on the such statements or in the numbered notes thereto. Notwithstanding all of the foregoing, with respect to any matters in the Financial Statements that are based on estimates and judgments (e.g., estimates at completion) Section 4.2(a) shall be deemed to be only a representation and warranty that such estimates and judgments were made in good faith and are permissible under GAAP.

(b) Schedule 4.2(b) sets forth an unaudited statement of all pension plan assets and liabilities and other post-retirement liabilities to be transferred to or assumed by Buyer pursuant to this Agreement or the Employee Matters Agreement, estimated as of July 31, 2000 and the notes thereto (the "Supplemental Statement"). The Supplemental Statement (A) was prepared from the books and records of Seller and in accordance with the notes thereto, (B) is complete and accurate in all material respects, (C) was prepared in accordance with GAAP and applicable Cost Accounting Standards except as otherwise referred to in the notes thereto,

(D) with respect to the Seller Pension Plan (as defined in the Employee Matters Agreement), was prepared in accordance with the principles of Section 4.2(b) of the Employee Matters Agreement (including, without limitation, the assumptions set forth or referenced therein), and (E) with respect to retiree health and life insurance benefits, was prepared in accordance with the principles and assumptions set forth on Schedule 4.2(b) hereof. The assets and liabilities conveyed as of the Closing Date may differ from those shown in Schedule 4.2(b) based on the actual results of plan performance, actual payments and changes in employees during the period from January 1, 2000 to the Closing Date.

(c) Absence of Changes. Except as expressly contemplated by this

Agreement or as set forth on Schedule 4.2(c), since March 31, 2000, the Business has been operated in the ordinary course and consistent with past practice, and with respect to the Business there have not been any:

(i) changes in the assets, liabilities, earnings or financial condition of the Business that have had or are reasonably likely to result in a Material Adverse Effect;

(ii) occurrences resulting in the damage, destruction or loss (whether or not covered by insurance) affecting any tangible asset or property of the Business in excess of \$500,000 for any single loss or \$2,000,000 for all such losses;

(iii) (a) increases in the benefits payable or potentially payable under any Seller Plans, (b) increases in salary, bonus or other compensation or benefits payable or potentially payable to any Business Employee other than in the ordinary course of the business of the Business and consistent with past practice; (c) grants of severance, continuation or termination pay to any Business Employee, (d) new employment, deferred compensation or other similar agreements (or any amendment to any such existing agreement) with any Business Employee, (e) changes in the terms of any bonus, pension, insurance, health or other Seller Plan, or (f) representations to any employee or former employee of Seller that Buyer would assume or continue to maintain any Seller Plan after the Closing Date.

(iv) changes in the accounting methods or practices followed by or with respect to the Business, or any changes in depreciation or amortization policies or rates theretofore adopted;

(v) agreements or commitments to merge or consolidate with or otherwise acquire any other Person, or any part or division thereof;

(vi) other material transactions relating to the Business, other than in the ordinary course of the Business and consistent with past practice;

(vii) agreements or understandings, whether in writing or otherwise, for Seller to take any of the actions specified in items (i) through (vi) above;

(viii) cancellation or termination by Seller of any material Contract or entry by Seller into any material Contract which is not in the ordinary course of the business of Seller; or

(ix) sale, assignment or transfer of any material portion of the Assets, other than in the ordinary course of business.

(d) Absence of Undisclosed Liabilities. Except as and to the

extent reflected on the Statement or the Supplemental Statement, Seller does not have any liabilities relating to the Business required to be reflected on a balance sheet prepared in accordance with GAAP other than liabilities and obligations incurred since the date of the Statement or the Supplemental Statement in the ordinary course of business and consistent with past practice which have not had or will not have a Material Adverse Effect.

4.3 Taxes. Except as otherwise provided in Schedule 4.3:

(a) (i) Seller has filed or caused to be filed all material Tax returns of Seller which have become due (taking into account valid extensions of time to file) prior to the date hereof, such returns are accurate and complete in all material respects and Seller has paid or caused to be paid all Taxes due, in each case to the extent Buyer or any Affiliate of Buyer would incur liability for Seller's failure to file such returns or pay such Taxes, (ii) there are no outstanding Tax Liens that have been filed by any Tax authority against any property or assets of the Business or of any Sold Subsidiary (other than for Taxes not yet due and payable) and (iii) no claims are being asserted in writing with respect to any Taxes relating to the Business for which Buyer reasonably could be held liable and Seller knows of no basis for the assertion of any such claim.

(b) (i) none of the Assets or the assets of any Sold Subsidiary comprises "tax exempt use property" within the meaning of Section 168(h) of the Code, (ii) secures any debt the interest on which is tax exempt under Code Section 103 and (iii) the Assigned Contracts and the assets of the Sold Subsidiaries do not include any lease made pursuant to former Section 168(f)(8) of the Internal Revenue Code of 1954, or Section 7701(h) of the Code.

(c) Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code.

(d) No amount payable to, or for the benefit of, any Business Employee under any Seller Plan or any other agreement, contract, or arrangement (including, without limitation, the Assigned Contracts) in effect on or before the Closing Date will fail to be deductible by Buyer for Federal income tax purposes by virtue of Section 280G or Section 162(m) of the Code.

(e) The Sold Subsidiaries have filed, or been included in, all Tax Returns required to be filed through the date hereof and will timely file any such Tax Returns required to be filed on or prior to the Closing Date, in each case, subject to any applicable extensions. All such Tax Returns are complete and accurate in all material respects;

(f) All Taxes of the Sold Subsidiaries that accrue or are payable (i) in respect of taxable periods that end on or before the Closing Date and (ii) for any taxable period that begins before the Closing Date and ends thereafter, to the extent such Taxes are attributable to the portion of such period ending on the Closing Date under the terms of Section 2.5(h), have or will have been timely paid on or before the Closing Date unless a reserve for such amount has been or will be established therefor in the Closing Statement (other than any reserve for deferred Taxes established to reflect timing differences between book and Tax income);

(g) None of Sold Subsidiaries has a Tax deficiency or claim assessed or, to the best of the Sold Subsidiaries' knowledge, proposed or threatened (whether orally or in writing) against any Sold Subsidiary;

(h) None of the Sold Subsidiaries (i) has filed a consent under Code Section 341(f) concerning collapsible corporations or (ii) has been a United States real property holding corporation within the meaning of Code Section 897(c)(2) during the applicable period specified in Code Section 897(c)(1)(A)(ii);

(i) None of the Sold Subsidiaries is a party to, or is bound by, or has any obligation under any Tax allocation or sharing agreement (including indemnity arrangements), and, after the Closing Date, no Sold Subsidiary shall be a party to, bound by or have any obligation under any Tax allocation or sharing agreement or have any liability thereunder for amounts due in respect of periods prior to the Closing Date;

(j) None of the Sold Subsidiaries (i) has been a member of any affiliated group filing a consolidated federal income Tax Return (other than a group the common parent of which is Seller) and (ii) has any liability for the Taxes of any other person (other than an entity that is a member of the consolidated group of corporations that has Seller as its common parent) as defined in Section 7701(a)(1) of the Code under Treas. Reg. ss. 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise; and

(k) None of the Sold Subsidiaries has agreed to or is required to make any adjustment pursuant to Code Section 481(a) by reason of a change in accounting method initiated by such Sold Subsidiary and none of the Sold Subsidiaries have knowledge that the Internal Revenue Service has proposed any such adjustment or change in accounting method.

4.4 Assets Other than Real Property Interests. Seller has and will

transfer good and marketable title to all assets reflected on the Statement or thereafter acquired, except those sold or otherwise disposed of since the date of the Statement in the ordinary course of business consistent with past practice, in each case free and clear of all Liens except: (a) such as are disclosed on Schedule 4.4 or in the Financial Statements and (b) (i) mechanics', carriers', workmen's, repairmen's or other like Liens arising or incurred in the ordinary course of business for amounts not yet due or which are being contested in good faith, (ii) Liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business, (iii) Liens for Taxes and other governmental charges which are not due and payable or which may thereafter be paid without penalty, (iv)

Liens occurring by operation of law or regulation in connection with progress payments or performance based payments paid under Government Contracts and (v) other imperfections of title, restrictions or encumbrances, if any, which Liens, imperfections of title, restrictions or other encumbrances do not, individually or in the aggregate, materially impair the value or continued use and operation of the specific assets to which they relate (the Liens described in the preceding clause (b) are hereinafter referred to collectively as "Permitted Liens").

This Section 4.4 does not relate to real property or interests in real property, such items being the subject of Section 4.5.

4.5 Real Property Interests.

(a) Schedule 2.1(a) sets forth a complete list of all Owned Properties and Schedule 2.1(b) sets forth a complete list of all Leased Properties and, as to Leased Property, identifies any leases relating thereto (an Owned Property or Leased Property being sometimes referred to herein individually as a "Business Property" and collectively as "Business Properties"). Seller has and will transfer good and marketable fee simple title to all Owned Property, free and clear of all Liens, easements, covenants, rights-of-way and other similar restrictions of any nature whatsoever, except: (i) mechanics', carriers', workmen's, repairmen's or other like Liens arising or incurred in the ordinary course of business for amounts not yet due or which are being contested in good faith, (ii) Liens for Taxes and other governmental charges which are not due and payable or which may thereafter be paid without penalty, (iii) Encumbrances listed on Schedule 4.5 (as supplemented in accordance with the last sentence of this Section 4.5), and (iv) (1) zoning, building and other similar government-imposed restrictions, (2) Liens that have been placed by any developer, landlord or other third party on property over which Seller has easement rights or on any Leased Property and subordination or similar agreements relating thereto and (3) unrecorded Encumbrances, none of which items set forth in clauses (1), (2) and (3) above, individually or in the aggregate, (A) materially impair the continued use and operation of the property to which they relate, (B) materially impair the fair market value of the property to which they relate, (C) secure any Financing Obligation or (D) constitute a lease, sublease or other occupancy agreement that gives any third party any right to occupy or use all or any portion of the Owned Property. Notwithstanding anything in this Section to the contrary, Seller shall have the right, by written notice to Buyer, to supplement Schedule 4.5 from time to time with additional Encumbrances after the date of this Agreement (and prior to the closing) and Buyer shall be deemed to have accepted such Encumbrances, provided that such additional Encumbrances do not (A) materially impair the continued use and operation of the property to which they relate, (B) materially impair the fair market value of the property to which they relate, (C) secure any Financing Obligation or (D) constitute a lease, sublease or other occupancy agreement that gives any third party any right to occupy or use all or any portion of the Owned Property.

(b) Real Property Leases or Other Agreements. Seller is the lessee of each of the Leased Properties and is in possession of the premises purported to be leased thereunder, and each such lease is a valid obligation of the Seller without any material default thereunder by Seller or, to the knowledge of Seller, by the applicable lessor. Except for the Leases listed on Schedule 2.1(b) and the documents listed on Schedule 4.5, there are no material leases,

subleases, licenses, occupancy agreements, options, rights, concessions or other agreements or arrangements, written or oral, granting to any Person the right to purchase, use or occupy any Business Property. With respect to each Leased Property, Seller has and will transfer to Buyer at the Closing a valid leasehold interest in the leasehold estate, and Seller has in all material respects performed all the material obligations required to be performed by it through the date hereof with respect to such Leases, and each Lease is assignable (upon receipt of necessary landlord consents) in connection with the transactions contemplated hereby. Seller has not assigned, pledged or placed any Encumbrance on the Leases or its leasehold estate in and to the Leased Properties (other than any Encumbrance which would not individually or in the aggregate materially adversely effect the use or value in respect of its current use of the Leased Property).

(c) Actions. There are no pending or, to the Knowledge of Seller, threatened condemnation proceedings with respect to any Business Property, or material litigation or administrative actions relating to any Business Property.

(d) Certificate of Occupancy. Seller has received all required material approvals of governmental authorities (including, without limitation, Permits and material certificates of occupancy or other similar certificates permitting lawful occupancy of the Business Property) required in connection with the present use of the Real Property and all improvements thereon.

(e) Utilities. All Business Property and the improvements thereon are supplied with utilities and other services necessary for the operation of such facilities as currently operated.

(f) No Special Assessment. Seller has not received notice of any special assessment relating to any Business Property or any portion thereof, and Seller has no knowledge of any pending or threatened special assessment.

(g) Improvements, Fixtures and Equipment. The Leasehold Improvements and the fixtures, equipment and other tangible assets owned, leased or used by Seller on the Business Property are adequate in all material respects for the operation of the Business as presently conducted by Seller.

4.6 Intellectual Property. Schedule A to the Intellectual Property

Agreement sets forth a list of all of Seller's material patents and pending patent applications that are practiced or utilized in the operations of the Business as currently conducted. Seller is the owner and will transfer to Buyer, free and clear of any Liens other than Permitted Liens or third party ownership interests, of all patents or applications therefor listed on Schedule A to the Intellectual Property Agreement. Except as disclosed on Schedule 4.6 and except for licenses of software or firmware used in the Business that are generally available "off-the-shelf" through commercial software vendors, Seller owns or has the right to use, without payment to any other party, all material Intellectual Property practiced or utilized in the operations of the Business as currently conducted by Seller. Except as set forth on Schedule 4.8, no material claims are pending or, to the Knowledge of Seller, threatened against Seller by any person with respect to the ownership, validity, enforceability or use of any Intellectual Property, challenging or questioning the validity

or effectiveness of any such Intellectual Property or alleging that Seller (in respect of the Business) is infringing upon the intellectual property rights of others. To the Knowledge of Seller, except as disclosed on such Schedule, Seller (in respect of the Business) is not infringing on any third party's intellectual property in the operation of the Business except for such infringement which, individually or in the aggregate, would not have a Material Adverse Effect. The Intellectual Property listed on Schedule A to the Intellectual Property Agreement together with the other Intellectual Property being assigned (in whole or as to a one-half ownership interest) to Buyer under the Intellectual Property Agreement constitutes all of the material Intellectual Property necessary to conduct the Business in the manner presently conducted, except for any rights in respect of trade names, trademarks or service marks used by Seller in connection with the conduct of the Business other than "Vought" and "Vought Aircraft".

4.7 Contracts. Schedule 4.7 sets forth a list of each of the following

types of Contracts to which any of the Sellers are a party and which relate primarily to the Business:

(a) any employment or relocation agreement not subject to termination by Seller without cost or liability in excess of \$200,000 and any severance agreement that provides for severance compensation in excess of \$200,000, including, without limitation, such Contracts (A) to employ or terminate executive officers or other personnel and with present or former officers, directors or shareholders of Seller or (B) that will result in the payment by, or the creation of any commitment or obligation (absolute or contingent) to pay on behalf of Buyer or Seller any severance, termination, "golden parachute," or other similar payments to any present or former personnel following termination of employment or otherwise as a result of the consummation of the transactions contemplated by this Agreement;

(b) any employee collective bargaining agreement or other contract with any labor union covering Business Employees;

(c) any Contract (including purchase orders) involving the obligation of Seller to purchase products or services pursuant to which the aggregate of payments to become due from Seller or a Sold Subsidiary is equal to or exceeds \$500,000;

(d) any Contract (including sales orders) involving the obligation of Seller or a Sold Subsidiary to deliver products or services with an unfilled order balance of more than \$500,000;

(e) any distributor, dealer, sales, advertising, agency, manufacturer's representative, franchise or similar Contract currently in effect requiring the payment of any commissions in excess of \$500,000 per year;

(f) any option or other agreement to purchase or otherwise acquire or sell or otherwise dispose of any interest in real property;

(g) any agreement under which Seller has agreed to indemnify any third party with respect to, or to share, the Tax liability of any third party;

(h) any commitment to make a capital expenditure or to purchase a capital asset, not contemplated by the capital expenditure budget of Seller for the Business, copies of which have been provided to Buyer by or on behalf of Seller or the Sold Subsidiaries in connection with the operation of the Business;

(i) any agreement or commitment with a third party other than an employee relating to the location of employees or minimum number of employees to be employed by Seller with respect to the Business;

(j) any power of attorney (other than powers of attorney given in the ordinary course of Business with respect to routine export, tax or securities matters);

(k) any indenture, note, loan or credit agreement or other Contract relating to the borrowing of money or to the direct or indirect guarantee or assumption of the obligations of any other Person for borrowed money;

(l) any covenant not to compete; or

(m) any lease or similar agreement under which (i) Seller is the lessee of, or holds or uses, any machinery, equipment, vehicle or other tangible personal property owned by any third Person for an annual rent in excess of \$250,000 or (ii) Seller is the lessor of, or makes available for use by any third Person, any tangible personal property owned by Seller for an annual rent in excess of \$250,000.

Except as disclosed on Schedule 4.7, each Contract listed on Schedule 4.7 (and to the extent leases are not listed on Schedule 4.7, each Lease in respect of Leased Property) is valid, binding and in full force and effect and is enforceable by Seller or the Sold Subsidiary that is party thereto in accordance with its terms. Except as disclosed in Schedule 4.7, Seller has performed all material obligations required to be performed by it to date under the Contracts and is not in breach or default in any material respect thereunder and, to the Knowledge of Seller, no other party to any of the Contracts is in breach or default in any material respect thereunder, or has repudiated any material provision thereof.

Section 4.7 also sets forth any proposals which, if accepted, would require capital expenditures in excess of \$250,000 not contemplated by the capital expenditure budget.

4.8 Litigation; Decrees. Schedule 4.8 sets forth, as of the date of this

Agreement, a list of all pending and, to the Knowledge of Seller, threatened in writing, lawsuits, litigations, arbitrations, government audits or investigations or claims relating to the Business which (a) involves a claim for damages in excess of \$500,000, (b) seeks any injunctive relief or (c) seeks to prevent the Transactions. Neither Seller nor any Company is in default under any judgment, order, writ, injunction or decree of any court, administrative agency or commission or other Governmental Authority applicable to the Business. No representation and warranty is being made in this Section 4.8 as to the matters covered by Sections 4.9, 4.10, 4.11, 4.12 and 4.15.

4.9 Employee Benefits.

(a) Schedule 4.9 sets forth a complete and correct list of all Seller Plans.

(b) Each of the Seller Plans intended to qualify under Section 401 of the Code (the "Qualified Plans") has received a current and valid determination letter from the Internal Revenue Service that it does so qualify, and to the Knowledge of Seller, no event has occurred and no condition exists that could reasonably be expected to result in the revocation of such determination letter or the loss of such qualification or exemption. Except as disclosed on Schedule 4.9(b), Seller is not aware of any operational defect with respect to any such plan which would be reasonably likely to cause the loss of such qualification or exemption and which cannot be corrected without payment of more than \$250,000 (including the amount of any additional contributions to such plans) by Buyer through an Internal Revenue Service Compliance Resolution Program described in Revenue Procedure 2000-16.

(c) Except as set forth on Schedule 4.9(c), with respect to any Seller Plan subject to Title IV of ERISA:

(i) The funding method used in connection with each such Seller Plan which is subject to the minimum funding requirements of ERISA is acceptable and the actuarial assumptions used in connection with funding each such plan are reasonable. As of the last day of the last plan year of each such Seller Plan and as of the Closing Date, the "amount of unfunded benefit liabilities" as defined in Section 4001(a)(18) of ERISA (but excluding from the definition of "current value" of "assets" of such Seller Plan, accrued but unpaid contributions) did not and will not exceed zero. No "accumulated funding deficiency" (for which an excise tax is due or would be due in the absence of a waiver) as defined in Section 412 of the Code or as defined in Section 302(a)(2) of ERISA, whichever may apply, has been incurred with respect to any such Seller Plan with respect to any plan year, whether or not waived. Neither Seller nor any ERISA Affiliate has failed to pay when due any "required installment," within the meaning of Section 412(m) of the Code and Section 302(e) of ERISA, whichever may apply, with respect to any such Seller Plan. Neither Seller nor any ERISA Affiliate is required to provide security to any such Seller Plan under Section 401(a)(29) of the Code.

(ii) No such Seller Plan has been terminated so as to subject, directly or indirectly, any assets of Seller or its ERISA Affiliates to any liability, contingent or otherwise, or the imposition of any liens under Title IV of ERISA.

(iii) No proceeding has been initiated or threatened by any person, including the Pension Benefit Guaranty Corporation ("PBGC"), to terminate any such Seller Plan.

(iv) No condition or event exists or is expected to occur with respect to any such Seller Plan that could subject, directly or indirectly, any assets of Seller or its ERISA Affiliates to any liability, contingent or otherwise, or the imposition of any lien under Title IV of ERISA, whether to the PBGC or to any other person.

(v) No "reportable event," as defined in Section 4043 of ERISA (to the extent that the reporting of such event to the PBGC has not been waived) has occurred and is continuing with respect to any such Seller Plan.

(d) True, correct and complete copies of the following documents, with respect to each of the Seller Plans, have been delivered or made available to Buyer: (i) any plans and related trust documents, and all amendments thereto; (ii) the most recent Forms 5500 and schedules thereto; (iii) the most recent financial statements and actuarial valuations; (iv) the most recent Internal Revenue Service determination letter; and (v) the most recent summary plan descriptions (including letters or other documents updating such descriptions).

(e) There are no pending legal proceedings which have been asserted or instituted against any of the Seller Plans, the assets of any such plans or the Seller, or the plan administrator of the Seller Plans with respect to the operation of such plans (other than routine benefit claims) which would have a Material Adverse Effect and, except as disclosed on Schedule 4.9(e), to the knowledge of Seller there are no facts or circumstances which could reasonably be expected to form the basis for any such legal proceeding.

(f) Except as set forth on Schedule 4.9(f), each of the Seller Plans has been maintained, in all material respects, in accordance with its terms and all Requirements of Law. Seller and its ERISA Affiliates have made full and timely payment of all amounts required to be contributed with respect to Business Employees and Retired Business Employees (as defined in the Employee Matters Agreement) under the terms of each Seller Plan, all Requirements of Law or any collective bargaining or other agreement, or required to be paid as expenses with respect to Business Employees and Retired Business Employees under such Seller Plan through the Closing Date. All amendments and actions required to bring each of the Seller Plans into conformity in all material respects with all of the applicable provisions of ERISA and other applicable Requirements of Law have been made or taken except to the extent that such amendments or actions are not required to be made or taken until a date after the Closing Date.

(g) Except as disclosed on Schedule 4.9(g), neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (i) result in any payment or benefit (including, without limitation, any "parachute payment" within the meaning of Section 280G of the Code) becoming due to any Business Employee or former employee of Seller in the Business and with respect to which Buyer would be liable or responsible, (ii) materially increase any benefits otherwise payable under any Seller Plan or (iii) result in the acceleration of the time of payment or vesting of any compensation or employee benefits and with respect to which Buyer would be liable or responsible.

(h) No Seller Plan maintained, sponsored or contributed to at any time during the five year period ending on the date of this Agreement constitutes a "multiemployer plan" as defined in Section 3(37) of ERISA.

(i) Neither Seller nor any ERISA Affiliate has any liability for delinquent or unpaid contributions under Section 515 of ERISA with respect to any Seller Plan which is subject to regulation under Title IV of ERISA.

(j) Except as set forth on Schedule 4.9(j), neither Seller nor any of its ERISA Affiliates sponsors or has previously sponsored, maintained, contributed to or incurred an obligation to contribute to any Seller Plan that provides or will provide benefits described in Section 3(1) of ERISA to any former employee or retiree of Seller or any of its ERISA Affiliates, except as required under Section 4980B of the Code and Part 6 of Title I of ERISA. With respect to each Seller Plan which constitutes or has constituted a "group health plan" (within the meaning of Section 5000(b)(1) of the Code), Seller and its ERISA Affiliates have complied in all material respects with the provisions of Section 4980B of the Code and Part 6 of Title I of ERISA.

(k) No Seller Plan is sponsored outside the United States. No Sold Subsidiary maintains any Employee Benefit Plan or Employee Benefit Arrangement within the United States that is not a Seller Plan. With respect to each Employee Benefit Plan and Employee Benefit Arrangement maintained by any Sold Subsidiary outside the United States (collectively, the "Non-U.S. Plans"), each of the following is true:

(i) each Non-U.S. Plan is in compliance in all material respects with the laws and regulations applicable to such plan;

(ii) each Non-U.S. Plan and related funding arrangement that is intended to qualify for tax-favored status has been reviewed and approved for such status by the appropriate Governmental Authority (or has been submitted for such review and approval within the applicable time period), and nothing has occurred and no condition exists that is likely to cause the loss or denial of such tax-favored status; and

(iii) as of the most recent valuation date, there are no material unfunded benefit liabilities.

4.10 Environmental Matters. Except as disclosed on Schedule 4.10:

(a) The Business is, and has at all times since June 1, 1997 been in compliance with all applicable Environmental Laws, except where any instance of non-compliance would not have a Material Adverse Effect.

(b) Since June 1, 1997, Seller has not received written notice of any claim, investigation, demand or notice by any Person alleging non-compliance with or liability under any Environmental Law in respect of the Business which would individually or in the aggregate have a Material Adverse Effect.

(c) There is no existing contamination by, and there has not been the release of, any Hazardous Material on, at or under any Business Property that has or would have a Material Adverse Effect.

(d) Seller is not and has not been required to place any notice or restriction relating to the presence of any Hazardous Material at any Owned Property or in any deed to any Owned Property.

(e) Schedule 4.10(e) sets forth a complete and correct list of all environmental audits or assessments in possession of Seller which have been conducted at any Business Property within the past three years either by Seller or any attorney, environmental consultant or engineer engaged for such purpose; copies of all such audits or assessments have been made available to Buyer.

No representation or warranty is made in this Agreement as to any matters relating to compliance with Environmental Laws or the presence of Hazardous Materials except in this Section 4.10.

4.11 Employee and Labor Relations. Except as set forth on Schedule 4.11:

(a) there is no labor strike, dispute, or work stoppage or lockout pending, or, to the Knowledge of Seller, threatened, involving the Business;

(b) to the Knowledge of Seller, no union organization campaign is in progress with respect to the Business Employees, and no question concerning representation exists respecting such employees;

(c) there is no material unfair labor practice charge or complaint against Seller or any Sold Subsidiaries pending, or, to the Knowledge of Seller, threatened in writing, before the National Labor Relations Board or similar governmental agency outside of the United States involving the Business;

(d) there is no pending, or, to the Knowledge of Seller, threatened in writing, grievance, arbitration or demand letter involving a Business Employee claiming damages in excess of \$500,000; and

(e) there is no material discrimination charges with respect to or relating to Seller or any Sold Subsidiary in respect of the Business are pending before the Equal Employment Opportunity Commission or any other similar Governmental Authority responsible for the prevention of unlawful employment practices.

4.12 Compliance With Law; Permits.

(a) Except as set forth in Schedule 4.12(a), since January 1, 1998 each of Seller and the Sold Subsidiaries has been in compliance with all Requirements of Law applicable to the Business, except where failure to be in compliance has not had, or cannot reasonably be expected to have, a Material Adverse Effect. No representation and warranty is being made in this Section 4.12 as to the matters covered by Sections 4.3, 4.5(d), 4.9, 4.10, 4.11 and 4.14.

(b) Except as set forth in Schedule 4.12(b), (i) Seller and the Sold Subsidiaries have all licenses, permits, orders, approvals and other authorizations of or from all Governmental Authorities which are necessary in the conduct of the Business as presently being conducted by Seller ("Permits"), (ii) such Permits are in full force and effect, and (iii) no material violations or claimed violations are pending before any Governmental Authority with respect to such Permits.

4.13 Assets of the Business. Except for any Excluded Assets, the Assets,

the assets of the Sold Subsidiaries and the rights conferred by the Ancillary Agreements comprise all of the properties, assets (including, without limitation, computer software and licenses therefor) and rights of Sellers and the Sold Subsidiaries material to the conduct of the Business as presently conducted. EXCEPT AS EXPRESSLY PROVIDED HEREIN, SELLER MAKES NO REPRESENTATION OR WARRANTY CONCERNING THE ASSETS OR THE BUSINESS, INCLUDING AS TO THE QUALITY, CONDITION, MERCHANTABILITY, SALABILITY, OBSOLESCENCE, WORKING ORDER OR FITNESS FOR A PARTICULAR PURPOSE THEREOF. EXCEPT AS EXPRESSLY PROVIDED HEREIN, THE ASSETS ARE SOLD TO BUYER "AS IS AND WHERE IS."

4.14 Government Contracts. Except as set forth on Schedule 4.14:

(a) Seller has not received a final decision of a contracting officer or prime contractor asserting any claim or equitable adjustment against Seller with respect to any Government Contract; and there are no material disputes between Seller and the United States Government for any prime contract under the Contract Dispute Act nor are there any such material disputes as to which Seller has received notice in writing under any other Federal statute arising under or relating to any Government Contract.

(b) Seller has not received any written notice of the intention of any contracting officer or prime contractor to terminate any Government Contract for either convenience or default. Seller has not received any show cause notices, cure notices, or negative determinations of responsibility with respect to any Government Contract.

(c) Seller has not asserted any claim or request for equitable adjustment requesting money, interpretation of contract terms, or other relief under any Government Contract.

(d) Seller has not received written notice of any failure to comply in all material respects with the Truth in Negotiations Act (10 U.S.C.(S) 2306a, 41 U.S.C.(S) 254(d)) or to submit where required cost or pricing data that were accurate, complete and current.

(e) Seller has not received written notice that either Seller or any of its directors, officers, employees, agents, or consultants is under administrative, civil, or criminal investigation, indictment or information, audit or internal investigation with respect to any irregularity, misstatement, or omission regarding any Government Contract.

(f) Seller has not received written notice that any suspension or debarment action has been commenced against the Company with respect to any Government Contract.

(g) Seller has fully complied with all of its obligations under applicable Government Contracts relating to any government furnished property or similar property or equipment owned by the United States, except for such matters as would not, individually or in the aggregate, have a Material Adverse Effect.

(h) The Business has complied with all Cost Accounting Standards and has accounted for all Government Contracts in accordance with disclosure statements furnished to and reviewed by the United States Government, except for such matters as would not, individually or in the aggregate, have a Material Adverse Effect.

(i) Seller possesses all necessary facility security clearances and permits for the execution of its obligations under any Government Contract and Schedule 4.14(i) sets forth all facility security clearances held by Seller (except to the extent disclosure thereof is prohibited by the Industrial Security Manual).

4.15 Product Warranty. Except as set forth on Schedule 4.15, since

January 1, 1998, Seller has not received any claims for product liability or breach of warranty (whether or not covered by insurance) nor has Seller given written notice to any customer of any defect or deficiency with respect to products designed, manufactured, assembled, repaired, maintained, delivered or installed or services rendered prior to the Closing.

4.16 Government-Furnished Property or Equipment. Schedule 4.16

identifies to the Knowledge of Seller (i) by description or inventory number all material Government-Furnished Property that is or should be in the possession of Seller and (ii) each Government Contract to which each such item of Government-Furnished Property relates. "Government-Furnished Property" shall mean all machinery, equipment, tools, dies, spare parts and all other personal property and fixtures loaned, bailed or otherwise furnished by the United States government to the Seller pursuant to the Government Contracts. Buyer and Seller shall cooperate after the Closing Date to correct any inaccuracies in Schedule 4.16 and effect any appropriate transfers of property.

4.17 Customers, Distributors and Suppliers. Schedule 4.17 sets

forth a complete and accurate list of the names and addresses of Seller's (i) ten (10) largest customers for the most recent fiscal year, showing the approximate total sales in dollars by Seller to each such customer during such fiscal year; and (ii) the ten (10) largest suppliers for the most recent fiscal year showing the approximate total purchases in dollars by Seller from each such supplier during such fiscal year. As of the date hereof, Seller has not received any written notice from any customer or supplier named on Schedule 4.17 of any intention to terminate or materially reduce purchases from or supplies to Seller.

4.18 Insurance. Schedule 4.18 contains a complete list of the

current insurance policies held by Seller in respect of the Business, copies of which have been made available to Buyer. All policies listed on Schedule 4.18 (i) are valid, outstanding and enforceable policies and (ii) will not terminate or lapse by reason of the transactions contemplated by this Agreement. Seller has not received (i) any written notice of cancellation of any such policies or refusal of coverage thereunder, (ii) any written notice that any issuer of any of such policies has filed for protection under applicable bankruptcy laws or is otherwise in the process of liquidating or has been liquidated, or (iii) any other written notice that such policies are no longer in full force and effect or that the issuer of any of such policies is no longer willing or able to perform its obligations thereunder.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer hereby represents and warrants to Seller as follows:

5.1 Authority; No Conflicts; Governmental Consents.

(a) Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Buyer has all requisite corporate power and authority to enter into the Transaction Documents and to consummate the Transactions. All corporate acts and other proceedings required to be taken by Buyer to authorize the execution, delivery and performance of the Transaction Documents and the Transactions have been duly and properly taken. This Agreement has been, and the Transaction Documents, when executed, will be, duly executed and delivered by Buyer and constitute valid and binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally or by general principles (regardless of whether such enforceability is considered in a proceeding in equity or law).

(b) The execution and delivery of this Agreement does not and the other Transaction Documents will not, and the consummation of the Transactions and compliance with the terms of the Transaction Documents will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a material benefit under, or result in the creation of any material Lien upon any of the properties or assets of Buyer under, any provision of (i) the Certificate of Incorporation or By-Laws of Buyer, (ii) any Contractual Obligation of Buyer or (iii) any material judgment, order or decree or, subject to the matters described in clause (c) below, statute, law, ordinance, rule or regulation applicable to Buyer or its property or assets.

(c) No material consent, approval, license, permit order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other Governmental Authority is required to be obtained or made by or with respect to Buyer or its Affiliates in connection with the execution and delivery of the Transaction Documents or the consummation by Buyer of the Transactions, other than (A) compliance with and filings and notifications under applicable state environmental laws and (B) compliance with and filings under the HSR Act.

5.2 Actions and Proceedings, Etc. There are no: (a) outstanding

judgments, orders, writs, injunctions or decrees of any court, governmental agency or arbitration tribunal against Buyer or (b) actions, suits, claims or legal, administrative or arbitration proceedings or investigations pending or, to the knowledge of Buyer, threatened against Buyer in either case that are reasonably likely to materially and adversely affect the ability of Buyer to enter into and perform its obligations under this Agreement.

5.3 Buyer's Acknowledgment. Buyer acknowledges and agrees that,

(a) other than the representations and warranties of Seller specifically contained in this Agreement, there are no representations or warranties of Seller either expressed or implied with respect to Seller, the Business or the Transactions and (b) it shall have a right to indemnification solely as provided in Article IX hereof and shall have no claim or right to indemnification with respect to any information, documents or materials furnished by either Seller or any of its officers, directors, employees, agents or advisors, or otherwise available to Buyer.

5.4 Solvency. Immediately after giving effect to the Transactions,

Buyer will be able to pay its debts as they become due and will own property which has a fair salable value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent liabilities). Immediately after giving effect to the Transactions, Buyer will have adequate capital to carry on its businesses. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement with the intent to hinder, delay or defraud either person or future creditors of Buyer.

5.5 Financing. Buyer has obtained (i) from certain financial

institutions firm commitments pursuant to a commitment letter dated June 5, 2000 to provide debt financing and (ii) from Carlyle Partners III, L.P. and its affiliates firm commitments pursuant to a commitment letter dated June 5, 2000 to provide equity financing, which together are sufficient to enable it to consummate the transactions contemplated hereby. A true and complete copy of such commitment letters has been provided to Seller.

5.6 Limitations on Representations and Warranties. Buyer acknowledges

that neither Seller nor any other Person has made any representation or warranty, express or implied, as to the accuracy or completeness of any information regarding the Business or the Assets or other matters that is not included in this Agreement or the Schedules hereto. Without limiting the generality of the foregoing, except as expressly covered by a representation or warranty set forth in Article IV, neither Seller nor any other Person has made a representation or warranty to Buyer with respect to (i) any projections, estimates or budgets for the Business made available to Buyer, (ii) any material, documents or information relating to the Business made available to Buyer or its counsel, accountants or advisors in Seller's data room or otherwise, or (iii) the information contained in the Confidential Management Presentation made April 20 and 21, 2000.

ARTICLE VI

COVENANTS OF SELLER

Seller covenants and agrees as follows:

6.1 Access. Subject to the provisions of Section 7.1 hereof, prior to

the Closing, Seller will give Buyer and its representatives, employees, counsel and accountants reasonable access during normal business hours and upon reasonable notice, to the personnel, properties, books and records of the Business for purposes of investigating its assets, operations, prospects, obligations and liabilities; provided, however, (i) that such access does not unreasonably disrupt the normal operations of the Business, and (ii) that Seller is under no obligation to disclose to

Buyer any (A) "Classified Information" other than in compliance with the DIS Industrial Security Regulations, the DIS Industrial Security Manual and any other applicable government security regulations, (B) any information, the disclosure of which is restricted by Contract or the Requirement of Law, except in strict compliance with the applicable Contract or Requirement of Law and (C) any information as to which the attorney-client privilege may be available, until a mutually satisfactory joint defense agreement has been executed by Buyer and Seller.

6.2 Ordinary Conduct. Except as contemplated by this Agreement or as -----

set forth in Schedule 6.2, from the date hereof to the Closing, Seller agrees to cause the business of the Business to be conducted in the ordinary course in substantially the same manner as presently conducted and will make all reasonable efforts, consistent with past practices, to preserve relationships with employees, customers, suppliers and others with whom the Business deals. Except as contemplated by this Agreement or as set forth in Schedule 6.2, Seller will not, without the prior written consent of Buyer, which consent will not be unreasonably withheld or delayed, (i) take any action which would cause the representations and warranties of Seller herein to be untrue in any material respect or (ii) transfer any employee of the Business to another business of Seller or transfer any employee of another Seller business to the Business. Seller will provide Buyer with interim monthly financial statements of the Business and other management reports as and when they are available. Without limiting the generality of the foregoing, Seller shall not, except as specifically contemplated by this Agreement:

(a) enter into, extend, materially modify, terminate or renew any Contract or Lease, except in the ordinary course of business;

(b) sell, assign, transfer, convey, lease, mortgage, pledge or otherwise dispose of or encumber any material Assets, or any interests therein, except in the ordinary course of business;

(c) (i) except as otherwise required by law, take any action with respect to the grant of any bonus, severance, continuation or termination pay (otherwise than pursuant to policies or agreements of Seller in effect on the date hereof) or with respect to any increase of benefits payable under its severance or termination pay policies or agreements in effect on the date hereof or increase in any material respect the compensation or fringe benefits of any employee or pay any benefits not required by any existing Employee Benefit Plan or Employee Benefit Arrangement, in each case other than in the ordinary course of business, consistent with past practice.

(ii) make any change in the key management structure of Seller, including, without limitation, the hiring of additional officers or the termination of existing officers other than in the ordinary course of business;

(iii) except in the ordinary course of business, adopt, enter into or amend any Employee Benefit Plan or Employee Benefit Arrangement (including, without limitation, any collective bargaining or employment agreement), or any trust, fund or other arrangement for the benefit or welfare of any employee;

(d) acquire by merger or consolidation with, or merge or consolidate with, or purchase substantially all of the assets of, or otherwise acquire any material assets or business of any corporation, partnership, association or other business organization or division thereof if the assets or business so acquired would be included in the Business;

(e) make any capital expenditure or enter into any commitment for capital expenditures, except in accordance with the capital expenditures budget heretofore delivered to Buyer;

(f) fail to maintain the Assets in substantially their current state of repair, excepting normal wear and tear, and replace inoperable, worn-out or obsolete or destroyed Assets, in each case in accordance with Seller's past practice;

(g) make any material loans or advances to any partnership, firm or corporation, or, except for expenses incurred in the ordinary course of business, any individual;

(h) make any settlement or compromise with tax authorities, apply to change any material method of accounting for Tax purposes or make any material Tax elections, to the extent that any of the foregoing affect the Assets of the Sold Subsidiaries;

(i) intentionally do any other act which would cause any representation or warranty of Seller in this Agreement to be become untrue in any material respect;

(j) enter into any agreement, or otherwise become obligated, to do any action prohibited hereunder.

6.3 Insurance; Administration of Insurance. Seller shall keep, or

cause to be kept, all insurance policies presently maintained relating to the Business and its properties, or replacements therefor, in full force and effect through the close of business on the Closing Date. At the Closing, Seller and Buyer agree to enter into an insurance administration agreement, in form reasonably acceptable to Seller and Buyer, covering any insurance policy maintained by Seller applicable to the Assets providing that Seller shall continue to administer all such policies, and submit Claims of Buyer thereunder, consistent with Seller's corporate practice (including any decision to terminate, commute or modify any such policy), and shall include appropriate arrangements for the allocation of deductibles under current coverage and claims processing. From and after the Closing, Seller agrees to use all reasonable efforts to cause Buyer to be added as an additional named insured under any such insurance policy; provided, that, Seller shall notify Buyer of any costs associated with the foregoing and if Buyer so elects, Seller shall proceed to have Buyer added as an additional named insured and Buyer shall reimburse Seller for the costs incurred by Seller in connection therewith.

6.4 Accounts Receivable. For a period of sixty (60) days after the

Closing, on the first business day of each week after the Closing Date, and thereafter, promptly following receipt of proceeds from accounts receivable of the Business, Seller agrees to promptly forward to Buyer any and all proceeds from accounts receivable of the Business that are received by Seller after the Closing Date. If, after the Closing Date, Seller receives any payment from any Person

who at the time of such payment has outstanding accounts payable to Seller, on the one hand (for the purposes of this Section, "Seller Accounts Receivable"), and to Buyer, on the other hand (for the purposes of this Section, "Buyer Accounts Receivable"), and the payment (a) does not indicate whether it is in respect of Seller Accounts Receivable or Buyer Accounts Receivable or (b) indicates that it is in payment of both Seller Accounts Receivable and Buyer Accounts Receivable without specifying the portion to be allocated to each, then Seller and Buyer shall consult with one another to determine the proper allocation of such payment; and, if they are unable to reach agreement on the proper allocation, such payment shall be applied so as to retire Seller Accounts Receivable and Buyer Accounts Receivable in chronological order based upon the period of time such accounts receivable have existed on the books of Seller or Buyer, as the case may be.

6.5 Confidential Information. On and after the day of the Closing,

Seller will hold, and will use its best efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents ("Representatives") to hold, in confidence, unless compelled to disclose by any Requirement of Law, all confidential documents and information concerning the Business (including any confidential information or documents provided to it pursuant to Section 8.6 and any trade secrets or other proprietary information forming a part of the Intellectual Property) (the "Confidential Information"), except to the extent that such information is (a) in the public domain through no fault of Seller or any of its Representatives or (b) later lawfully acquired by Seller on a non-confidential basis from sources other than Buyer or any of its Affiliates. The obligation of Seller to hold any such information in confidence shall be satisfied if it exercises the same care with respect to such information as Seller would take to preserve the confidentiality of its own similar information.

6.6 No Solicitation.

(a) From the date hereof through the Closing or the earlier termination of this Agreement, Seller shall not, and shall use all reasonable efforts to cause its representatives (including, without limitation, investment bankers, attorneys and accountants) not to, directly or indirectly, enter into, solicit, initiate or continue any discussions or negotiations with, or encourage or respond to any inquiries or proposals by, or participate in any negotiations with, or provide any information to, or otherwise cooperate in any other way with, any Person, other than Buyer and its representatives, concerning any sale of all or any substantial portion of the Assets or the Business, or any merger, consolidation, liquidation, dissolution or similar transaction involving the Business (each such transaction being referred to herein as a "Proposed Acquisition Transaction").

(b) Seller will promptly notify Buyer if any discussions or negotiations are sought to be initiated, any inquiry or proposal is made, or any information is requested with respect to any Proposed Acquisition Transaction and notify Buyer of the terms of any proposal which it may receive in respect of any such Proposed Acquisition Transaction, including, without limitation, the identity of the prospective purchaser or soliciting party, except to the extent that any such notification would violate any existing agreement of Seller.

6.7 Covenant Not To Compete. Seller agrees that for a period of six

years from and after the Closing Date, it shall not, directly or indirectly through any of its Affiliates, engage in any business that competes directly with the Business in supplying any existing customer of the Business or Airbus any of the commercial or C-17 products currently manufactured by the Business directly for third party customers or any natural follow-on products representing modifications or improvements of such products for existing third party customers on current or successor programs or any similar products in the case of Airbus (collectively "Competitive Activities"); provided, however, that nothing herein shall prohibit:

(i) an investment of less than 20% of the equity securities (as determined at the time of the investment) in a Person;

(ii) any acquisition by Seller of another Person which is engaged in a Competitive Activity, if such Competitive Activity represents (A) during the first three years from and after the Closing Date, the lesser of (x) less than one-third of such Person's revenues and less than one-third of such Person's assets or (y) \$300,000,000 in revenues of such Person and (B) thereafter, less than one-third of such Person's revenue and less than one-third of such Person's assets; or

(iii) any such Competitive Activity by another Person if such Person has acquired Seller or substantially all of its assets; provided, however, that the restrictions of this Section 6.7 shall remain applicable to Seller and its assets after such acquisition whether the business of Seller is held as a separate legal entity or a division of such acquiring Person.

The provisions of this Section 6.7 shall be deemed to be a separate covenant in each country in which the Business is currently engaged in Competitive Activities. Seller acknowledges and agrees that the time, scope, geographic area and other provisions of this covenant not to compete have been specifically negotiated by sophisticated parties and that such provisions are reasonable under the circumstances. The parties further agree that if, despite the foregoing acknowledgment, a court or other tribunal of competent jurisdiction holds that any of the restrictions of this covenant not to compete are unenforceable, the maximum restrictions of time, scope or geographic area reasonable under the circumstances, as determined by such court or tribunal, shall be substituted for any such restrictions held unenforceable.

ARTICLE VII

COVENANTS OF BUYER

Buyer covenants and agrees as follows:

7.1 Confidentiality. Buyer acknowledges that the information being

provided to it by Seller is subject to the terms of a confidentiality letter agreement dated January 31, 2000 between Buyer and Seller (the "Confidentiality Agreement"), the terms of which are incorporated herein by reference. Effective upon, and only upon, the Closing, the Confidentiality Agreement will terminate; provided, however, that Buyer acknowledges that the Confidentiality Agreement will

terminate only with respect to information relating solely to the Business; and provided, further, however, that Buyer acknowledges that any and all other information provided to it by Seller or Seller's representatives concerning Seller shall remain subject to the terms and conditions of the Confidentiality Agreement after the date of the Closing.

7.2 Waiver of Bulk Sales Law Compliance. Buyer hereby waives

compliance by Seller with the requirements, if any, of Article 6 of the Uniform Commercial Code as in force in any state in which Assets are located and all other similar Requirements of Law applicable to bulk sales and transfers, to the extent applicable to the Transactions.

7.3 Excluded Assets. If, after the Closing Date, and except as

otherwise provided in Section 7.5, Excluded Assets shall remain on the premises utilized or controlled by Buyer, then Buyer shall take reasonable steps at the request and expense of Seller to deliver such Excluded Assets to such Seller, and so long as such assets remain in Buyer's control, shall exercise reasonable care with respect thereto, and in no event less care than with respect to its own properties.

7.4 Change of Company Names. Effective on or promptly after the

Closing Date, Buyer will take such actions as are necessary under local law to remove the name "Northrop" from that of any of the Sold Subsidiaries it will operate after the Closing; provided, however, that Buyer may use such name until the earlier of (i) effectiveness of the name change or (ii) the second anniversary of the Closing Date.

7.5 Government-owned and Government Furnished Property. Except for

those items listed on Schedule 7.5, on and after the Closing Date, Buyer shall assume responsibility for all property or equipment owned or leased by the United States located at any of the Business Properties, including, but not limited to, managing, maintaining, storing, tracking, reporting on, accounting for, protecting, repairing, preserving, and disposing of any such property or equipment, as well as any loss, destruction, or damage to such property or equipment. Seller shall retain responsibility for all items of such property or equipment listed on Schedule 7.5; provided, however, Buyer agrees to store such items at its facilities without charge to Seller until such time as either Seller or the United States provides instructions to the Buyer regarding the disposition of such items.

7.6 Title Insurance. Buyer agrees to use its reasonable best

efforts to obtain title insurance, at its expense, for Owned Properties, in amounts equal to Buyer's good faith estimate as to the value thereof.

ARTICLE VIII

MUTUAL COVENANTS

Each of Seller and Buyer covenant and agree as follows:

8.1 HSR Filings; Permits; Novations and Consents.

(a) Seller and Buyer will as promptly as practicable, but in no event later than five Business Days following the execution and delivery of this Agreement, file with the United States Federal Trade Commission (the "FTC") and the United States Department of Justice (the "DOJ") the notification and report form, if any, required for the Transactions and any supplemental information requested in connection therewith pursuant to the HSR Act. Any such notification and report form and supplemental information will be in substantial compliance with the requirements of the HSR Act. Seller and Buyer shall furnish to the other such necessary information and reasonable assistance as the other may request in connection with its preparation of any filing or submission which is necessary under the HSR Act. Seller and Buyer shall keep each other apprised of the status of any communications with, and inquiries or requests for additional information from, the FTC and the DOJ and shall comply promptly with any such inquiry or request. Seller and Buyer will use all reasonable efforts to obtain any clearance required under the HSR Act for the Transactions.

(b) As promptly as practicable after the date hereof, Buyer and Seller shall make all other filings with governmental bodies and other regulatory authorities, and use all reasonable efforts to obtain all permits, approvals, authorizations and consents of all third parties, required to consummate the Transactions. Buyer and Seller shall furnish promptly to each other all information that is not otherwise available to the other party and that such party may reasonably request in connection with any such filing. Buyer and Seller shall use reasonable efforts to obtain such consents to the assignment of the Assigned Contracts as may be required; provided, however, that Seller shall not be required to commence any litigation or offer or grant any accommodation (financial or otherwise) to any third party.

(c) As soon as practicable following the Closing, Buyer shall prepare (with Seller's assistance), in accordance with Federal Acquisition Regulations Part 42, (P) 42.12 and any applicable agency regulations or policies, a written request meeting the requirements of the Federal Acquisition Regulations Part 42, as reasonably interpreted by the Responsible Contracting Officer (as such term is defined in Federal Acquisition Regulations Part 42, (P) 42.1202(a)), which shall be submitted by Seller to each Responsible Contracting Officer, for the United States Government to (i) recognize Buyer as Seller's successor in interest to all the Assigned Contracts constituting Government Contracts, and (ii) to enter into a novation agreement (a "Novation Agreement") in form and substance reasonably satisfactory to Buyer and Seller and their respective counsel, pursuant to which, subject to the requirements of the Federal Acquisition Regulations Part 42, all of Seller's right, title and interest in and to, and all of Seller's obligations and liabilities under, each such Government Contract shall be validly conveyed, transferred and assigned and novated to Buyer by all parties thereto. Buyer shall provide to Seller promptly any information regarding Buyer required in connection with such request.

Seller and Buyer shall each use reasonable efforts to obtain all consents, approvals and waivers required for the purpose of processing, entering into and completing the Novation Agreements with regard to any of the Government Contracts, including responding to any requests for information by the United States Government with regard to such Novation Agreements; provided, however, that Seller shall not be required to commence any litigation or offer or grant any accommodation (financial or otherwise) to any third party.

(d) In the event that any and all novations, transfer or other agreements, consents, approvals or waivers necessary for the assignments, transfer or novation of any Assigned Contract, or any claim, right or benefit arising thereunder or resulting therefrom, shall not have been obtained prior to the Closing Date, then as of the Closing, this Agreement, to the extent permitted by law, shall constitute full and equitable assignment by Seller to Buyer of all of Seller's right, title and interest in and to, and all of Seller's obligations and liabilities under, such Assigned Contracts, and Buyer shall be deemed Seller's agent for purpose of completing, fulfilling and discharging all of Seller's liabilities under any such Assigned Contract. The parties shall take all necessary steps and actions to provide Buyer with the benefits of such Assigned Contracts, and to relieve Seller of the performance and other obligations thereunder, including entry into subcontracts for the performance thereof. Buyer agrees to pay, perform and discharge, and indemnify Seller against and hold Seller harmless from, all obligations and liabilities of Seller relating to such performance or failure to perform under such Assigned Contracts subject to the provisions of Section 2.3(j).

(e) In the event Seller shall be unable to make the equitable assignment described in Section 8.1(d), or if such attempted assignment would give rise to any right of termination, or would otherwise adversely affect the rights of Seller or Buyer under such Assigned Contract, or would not assign all Seller's rights thereunder at the Closing, Seller and Buyer shall continue to cooperate and use all reasonable efforts to provide Buyer with all such rights. To the extent that any such consents and waivers are not obtained, or until the impediments to such assignment are resolved, Seller shall use all reasonable efforts (without the expenditure, in the aggregate, of any material sum) to (i) provide to Buyer, at the request of Buyer, the benefits of any such Assigned Contract to the extent related to the Business, (ii) cooperate in any lawful arrangement designed to provide such benefits to Buyer and (iii) enforce, at the request of and for the account of Buyer, any rights of Seller arising from any such Assigned Contract against any third Person (including any Governmental Authority) including the right to elect to terminate in accordance with the terms thereof upon the advice of Buyer. To the extent that Buyer is provided the benefits of any Assigned Contract referred to herein (whether from Seller or otherwise), Buyer shall perform at the direction of Seller and for the benefit of any third Person (including any Governmental Authority) the obligations of Seller thereunder or in connection therewith, and Buyer agrees to pay, perform and discharge, and indemnify Seller against and hold Seller harmless from, all obligations and liabilities of Seller relating to such performance or failure to perform, and in the event of a failure of such indemnity, Seller shall cease to be obligated under this Agreement in respect of the Assigned Contract which is the subject of such failure subject to the provisions of Section 2.3(j).

8.2 Reasonable Efforts. Subject to the terms and conditions of this

Agreement (including the limitations set forth in Section 8.1), each party will use all reasonable efforts to

cause the Closing to occur. Each of Seller and Buyer will promptly notify the other promptly after learning of the occurrence of any event or circumstance which would reasonably be expected to cause any condition to Closing not to be satisfied. In connection with the foregoing: (i) neither Buyer nor Seller shall be required to make any material payments; and (ii) Buyer shall not be required to agree to any material modifications to the terms of any Contract, Lease or Permit or to dispose of any material portion of the Assets or any other assets owned by Buyer.

8.3 Publicity. Seller and Buyer agree that, from the date hereof through

the Closing Date, no public release or announcement concerning the Transactions shall be issued without the prior consent of each party (which consent shall not be unreasonably withheld or delayed), except as such release or announcement may be required by any Requirement of Law, in which case the party required to make the release or announcement shall allow the other party reasonable time to comment on such release or announcement in advance of such issuance. Notwithstanding the foregoing, Seller shall provide Buyer access to, and facilitate meetings with, the employees of the Business for the purposes of making announcements concerning, and preparing for the consummation of, the Transactions.

8.4 Cooperation After Closing. Buyer and Seller shall cooperate with each

other and shall cause their officers, employees, agents, auditors and representatives to cooperate with each other after the Closing to ensure the orderly transition of the Business to Buyer and to minimize any disruption to the respective businesses of Seller or the Business that might result from the Transactions. Neither party shall be required by this Section 8.4 to take any action that would unreasonably interfere with the conduct of its business.

8.5 Records. After the Closing, upon reasonable written notice and at

Buyer's sole expense, Seller agrees to furnish or cause to be furnished to Buyer and its representatives (including its auditors), access at reasonable times and during normal business hours to such information relating to the Business in Seller's possession as is reasonably necessary for financial reporting and accounting matters, the preparation and filing of any Tax returns, reports or forms, the defense of any Tax Claim or assessment, or otherwise and will permit Buyer or such representatives to make abstracts from, or copies of, any of such information, or to obtain temporary possession of any thereof as may be reasonably required by Buyer at Buyer's sole cost and expense; provided, however, that such access does not unreasonably disrupt the normal operations of such Seller. After the Closing, upon reasonable written notice and at Seller's sole expense Buyer will afford authorized representatives of Seller (including its auditors) access to such Records in Buyer's possession at reasonable times and during normal business hours at the principal business office of the Business, or at such other location or locations at which such Records may be stored or maintained from time to time, and will permit such representatives to make abstracts from, or copies of, any of such Records, or to obtain temporary possession of any thereof as may be reasonably required by Seller at such Seller's sole cost and expense; provided, however, that such access does not unreasonably disrupt the normal operations of Buyer. After the Closing, Buyer will, at Seller's expense (limited, however, to Buyer's reasonable out-of-pocket expenditures without regard to any employee cost or other overhead expenses), cooperate with Seller in furnishing information, evidence, testimony, and other reasonable assistance in connection with any action, proceeding, Tax audit, or investigation to which such Seller or any of its Affiliates is subject relating to the business of the Business prior to the

Closing. In respect of the Records subject to this Section 8.5, Seller and Buyer will follow the same retention and disposal procedures as are used by Seller for similar documents and records in its other businesses.

8.6 Use of Trademark and Trade Names. Notwithstanding anything to the

contrary in this Agreement, Buyer shall not have the right to use any trademark or trade name of Seller, except to the extent provided for in the Intellectual Property Agreement.

8.7 Intercompany Work Orders. Seller and Buyer agree that at the date of

this Agreement there are in place certain intercompany work orders ("IWO's") as set forth on Schedule 8.7 pursuant to which the Business is performing work for other business units of Seller and/or other business units of Seller are performing work for the Business. Seller and Buyer agree that prior to the Closing, the IWO's listed on Schedule 8.7 and any additional such orders which are entered into after the date hereof will be converted into fixed price contracts using Seller's standard procurement terms and conditions (including the establishment of appropriate base line scope of work and procedures for equitable adjustment) for the relevant program and reflecting that portion of the budgeted value of the IWO (which budgeted value should represent the fully burdened, estimated cost of performance) that has not been incurred and transferred to the benefiting organization. In the case of Buyer, the IWO's as converted shall become Assigned Contracts as of the Closing Date.

8.8 Non-Interference. Each of Seller and Buyer agrees that for a period

of two years following the Closing, it will not solicit or attempt to solicit any salaried employee, officer, representative, consultant, or other agent of the other (whether such person is presently or may hereinafter be employed by such person) to leave such person's employ or otherwise interfere with the employment relationship between any such person and Buyer or Seller (as the case may be); provided, however, that this Section shall not preclude advertisements for open jobs.

8.9 Notification of Certain Matters. From the date hereof through the

Closing, Seller shall give prompt notice to Buyer and Buyer shall give prompt notice to Seller of (a) the occurrence or failure to occur of an event which occurrence or failure would be likely to cause any of Seller's or Buyer's respective representations or warranties contained in this Agreement to be untrue or inaccurate in any material respect and (b) any material failure of Seller or Buyer to comply with or satisfy any of its covenants, conditions or agreements to be complied with or satisfied by it under this Agreement; provided, however, that such disclosure shall not be deemed to cure any breach of a representation, warranty, covenant or agreement, or to satisfy any condition.

8.10 Tax Returns of Sold Subsidiaries. Seller shall cause to be prepared

in a manner consistent with past practices all Tax Returns of each Sold Subsidiary and all Tax Returns required to include one or more of the Sold Subsidiaries for taxable years or periods ending on or before the Closing Date but which are due to be filed after the Closing Date (taking into account any applicable extensions of time for filing). Seller shall cause such Tax Returns to be filed in a timely fashion (taking into account any applicable extensions of time for filing). Seller shall cause to be timely paid all Taxes required to be paid for the periods covered by such tax Returns. Notwithstanding the foregoing, Seller shall not be required to pay any Taxes required to be paid

for the period covered by such Tax Returns to the extent reserves for such Taxes are established on the Closing Statement of Assets and Liabilities (other than any reserves for deferred Taxes established to reflect timing differences between book and Tax income). Buyer shall cause to be prepared all federal, state and local Tax Returns of each Sold Subsidiary for periods that begin before the Closing Date and end after the Closing Date. Buyer shall cause such Tax Returns to be filed in a timely fashion (taking into account any applicable extensions of time for filing).

8.11 Section 338(h)(10) Election.

(a) Buyer may elect to cause Seller, any relevant Selling Subsidiary and Buyer to jointly make the election provided by Section 338(h)(10) of the Code for the acquisition of the stock of the Sold Subsidiaries in accordance with Treas. Reg. (S) 1.338(h)(10)-1(d) on IRS Form 8023, and to make a joint election under any corresponding state, local or foreign tax law (the "Election") with respect to the purchase and sale of the stock of the Sold Subsidiaries by notifying Seller in writing (the "Section 338 Election Notice") at any time on or before the date that is 60 days prior to the deadline for filing the Election (the "Election Deadline"). Seller and Buyer shall provide to the other all necessary information to permit the Election to be made. Seller, any relevant Selling Subsidiary and Buyer shall, as promptly as practicable following the receipt of a 338 Election Notice, take all actions necessary and appropriate (including filing IRS Form 8023 and other such forms, returns, elections, schedules, attachments and other documents as may be required (the "Forms")) to effect and preserve a timely Election.

(b) Buyer, Seller and any relevant Selling Subsidiary agree that the aggregate fair market value of the assets of each Sold Subsidiary (the "Aggregate Fair Market Value") will be appraised at Buyer's expense as part of the Appraisal under Section 2.6 hereof.

(c) In connection with the Election, Buyer and Seller shall mutually determine (i) the amount of the modified aggregated deemed sales price ("MADSP") of the Target Shares (within the meaning of Treas. Reg.(S) 1.338(h)(10)-1(f)) and (ii) based on the Aggregate Fair Market Value as determined in the Appraisal, the proper allocation of the MADSP among the assets of each Sold Subsidiary for which an Election is made in accordance with Treas. Reg.(S) 1.338(h)(10)-1(f). The allocations referred to in the preceding sentence are referred to herein as the "338 Allocations." Buyer, Seller and any relevant Selling Subsidiary will calculate the gain or loss, if any, in a manner consistent with the Allocations, and Buyer, Seller and any relevant Selling Subsidiary will not take any position inconsistent with the 338 Allocations in any Tax Return (subject to appropriate adjustments pursuant to Treas. Reg.(S) 1.338(h)(10)-1(f)(4)).

(d) In the event Buyer delivers a Section 338 Election Notice to Seller, Buyer shall prepare each Form based on the 338 Allocations, and shall, no later than thirty (30) days prior to the latest date for the filing of each Form, deliver each Form to Seller for Seller's approval, which approval shall not be unreasonably withheld.

8.12 Leaseback Arrangements and Certain Post-Closing Support. Prior to the

Closing, Seller and Buyer agree to enter into a lease, license or other occupancy agreement, in form reasonably satisfactory to Seller and Buyer, to provide for the continued occupancy by Seller after the Closing of certain space in the Business Property for specified periods as more fully

described in Schedule 8.12. Seller shall occupy the space rent free but shall be responsible for utilities, operating maintenance, insurance and real property taxes and other reasonable allocated overhead (including for support services specified in Schedule 8.12) to the extent such overhead benefits Seller with respect to the portion of the Business Property occupied by Seller. Upon vacating the foregoing space, Seller shall return the same in its condition as of the date hereof, reasonable wear and tear excepted. Seller shall maintain reasonable and customary insurance covering its occupancy of such space. At no additional charge to Seller, Buyer shall provide to Seller the additional support described in Schedule 8.12.

8.13 Information Technology Services. Seller and Buyer shall enter into, -----
prior to the Closing, an agreement to provide the information technology services defined in Schedule 8.13 on terms and conditions substantially the same as those reflected on Schedule 8.13.

ARTICLE IX

INDEMNIFICATION

9.1 Indemnification by Seller. Subject to the terms and conditions of this -----

Article IX and except with respect to the matters that are the subject of Sections 9.8 and 9.9, Seller shall indemnify Buyer and each of its Affiliates, officers, directors, employees and agents against, and hold them harmless from, any Loss suffered or incurred by any such Indemnified Person to the extent arising from (a) if the Closing occurs, any breach of any representation or warranty of Seller contained in this Agreement or any Ancillary Agreement which survives the Closing or in any certificate, instrument or other document delivered pursuant hereto, (b) any material breach of any covenant of Seller contained in this Agreement or any Ancillary Agreement or (c) if the Closing occurs, the existence of, or the failure of Seller to pay, perform and discharge when due, any of the Excluded Liabilities, whether such Excluded Liabilities are liabilities of Seller or of any of the Sold Subsidiaries (including, without limitation, any Losses as a result of the failure of Seller to comply with any Bulk Sales Laws referred to in Section 7.3); provided, however, that Seller shall have no liability under Section 9.1(a) unless the aggregate of all Losses relating thereto for which Seller would, but for this proviso, be liable exceeds \$15,000,000 (Fifteen Million Dollars) (and then only to the extent of any such excess); and provided further, however, that Seller's aggregate liability under Section 9.1(a) shall in no event exceed \$150,000,000 (One Hundred Fifty Million Dollars).

9.2 Indemnification by Buyer. Subject to the terms and conditions of this -----

Article IX, Buyer shall indemnify Seller and each of its Affiliates, officers, directors, employees and agents against, and hold them harmless from, any Loss suffered or incurred by any such Indemnified Person to the extent arising from (a) if the Closing occurs, any breach of any representation or warranty of Buyer contained in this Agreement or any Ancillary Agreement which survives the Closing or in any certificate, instrument or other document delivered pursuant hereto or in connection herewith, (b) any material breach of any covenant of Buyer contained in this Agreement or any Ancillary Agreement, (c) if the Closing occurs, the existence of, or the failure of Buyer to pay, perform and discharge when due, any of the Assumed Liabilities and (d) if the Closing occurs, any Loss caused by the ongoing operations of the Business and the Assets after the Closing Date; provided, however, that Buyer shall have no liability under clause 9.2(a) unless

the aggregate of all Losses relating thereto for which Buyer would, but for this proviso, be liable exceeds on a cumulative basis \$15,000,000 (Fifteen Million Dollars) (and then only to the extent of any such excess); and provided further, however, that Buyer's aggregate liability under Section 9.2(a) shall in no event exceed \$150,000,000 (One Hundred Fifty Million Dollars).

9.3 Losses Net of Insurance, Etc.

(a) The amount of any Loss for which indemnification is provided under this Article IX shall be net of any amounts actually recovered by the Indemnified Person, or which the Indemnified Party is entitled to recover, under insurance policies with respect to such Loss and of any related reserve in respect thereof reflected on the Closing Statement.

(b) Notwithstanding anything to the contrary elsewhere in this Agreement, no Indemnifying Person shall, in any event, be liable to the other party for any damages not proximately caused by its breach hereunder, any damages for loss of business reputation, or any punitive or exemplary damages. The foregoing shall not be interpreted, however, to limit indemnification for Losses incurred as a result of the assertion by a claimant (other than the parties hereto and their successors and assigns) in a Third-Party Claim of claims for damages of the foregoing type.

(c) The parties hereto agree that any matter that is subject to resolution by the Accounting Arbitrator pursuant to Section 2.5 shall not be the basis of an indemnification claim under this Article IX, it being the intent of the parties that the Purchase Price adjustment provided in Section 2.5 shall be the sole and exclusive remedy therefor.

(d) Except as expressly set forth in Section 10.5 as to equitable remedies, the parties hereto agree that the indemnification provisions of this Article IX are intended to provide the exclusive remedy as to all Losses either may incur arising from or relating to the Transactions, and each party hereby waives, to the extent they may do so, any other rights or remedies that may arise under any applicable statute, rule or regulation.

9.4 Termination of Indemnification. The obligations to indemnify and hold

harmless a party hereto, pursuant to Sections 9.1(a) and 9.2(a), shall terminate when the applicable representation or warranty terminates pursuant to Section 9.8; provided, however, that such obligations to indemnify and hold harmless shall not terminate with respect to any item as to which the person to be indemnified shall have, before the expiration of the applicable period, previously made a claim by delivering a notice (stating in reasonable detail the basis of such claim) to the Indemnifying Person.

9.5 Procedures Relating to Indemnification (Other than for Tax Claims). In

order for an Indemnified Person to be entitled to any indemnification provided for under this Agreement (other than for Tax Claims) in respect of, arising out of or involving a claim or demand made by any Person against the Indemnified Person (a "Third-Party Claim"), such Indemnified Person must notify the Indemnifying Person in writing, and in reasonable detail, of the Third-Party Claim within 10 Business Days after receipt by such Indemnified Person of written notice of the Third-Party Claim; provided, however, that failure to give such notification shall not affect the

indemnification provided hereunder except to the extent the Indemnifying Person shall have been actually prejudiced as a result of such failure (except that the Indemnifying Person shall not be liable for any Losses incurred during the period in which the Indemnified Person failed to give such notice). Thereafter, the Indemnified Person shall deliver to the Indemnifying Person, within five Business Days after the Indemnified Person's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnified Person relating to the Third-Party Claim.

If a Third-Party Claim is made against an Indemnified Person, the Indemnifying Person will be entitled to participate in the defense thereof and, if it so chooses, to assume the defense thereof with counsel selected by the Indemnifying Person and reasonably satisfactory to the Indemnified Person. Should the Indemnifying Person so elect to assume the defense of a Third-Party Claim, the Indemnifying Person will not be liable to the Indemnified Person for legal fees and expenses subsequently incurred by the Indemnified Person in connection with the defense thereof. If the Indemnifying Person assumes such defense, the Indemnified Person shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Person, it being understood that the Indemnifying Person shall control such defense. The Indemnifying Person shall be liable for the reasonable fees and expenses of counsel employed by the Indemnified Person for any period during which the Indemnifying Person has not assumed the defense thereof (other than during any period in which the Indemnified Person shall have failed to give notice of the Third-Party Claim as provided above). If the Indemnifying Person chooses to defend or prosecute any Third-Party Claim, all the parties hereto shall cooperate in the defense or prosecution thereof. Such cooperation shall include the retention and (upon the Indemnifying Person's request) the provision to the Indemnifying Person of records and information which are reasonably relevant to such Third-Party Claim, and making employees available on a mutually convenient basis in the manner specified in Section 8.5 hereof to provide additional information and explanation of any material provided hereunder. Whether or not the Indemnifying Person shall have assumed the defense of a Third-Party Claim, the Indemnified Person shall not admit any liability with respect to, or settle, compromise or discharge, such Third-Party Claim without the Indemnifying Person's prior written consent (which consent shall not be unreasonably withheld or delayed). All Tax Claims (as defined in Section 9.6) shall be governed by Section 9.6.

9.6 Procedures Relating to Indemnification of Tax Claims.

(a) If notice of an audit, examination or other proceeding is received from any Tax authority, which, if successful, might result in an indemnity payment to any Person hereunder (a "Tax Indemnitee"), the Tax Indemnitee shall promptly notify the party against whom indemnification is sought (the "Tax Indemnitor") in writing of such potential claim (a "Tax Claim"). If notice of a Tax Claim is not given to the Tax Indemnitor within a sufficient period of time to allow the Tax Indemnitor to effectively participate in such audit, examination or proceeding, or in reasonable detail to apprise the Tax Indemnitor of the nature of the Tax Claim, in each case taking into account the facts and circumstances with respect to such Tax Claim, the Tax Indemnitor shall not be liable to the Tax Indemnitee to the extent that the Tax Indemnitor's ability to effectively contest such Tax Claim is actually prejudiced as a result thereof.

(b) With respect to any Tax Claim for which it agrees that any resulting Tax is covered by the indemnity given in this Article IX, the Tax Indemnitor shall control that portion of any audit, examination and other proceeding in connection with such Tax Claim (including, without limitation, selection of counsel) and, without limiting the foregoing, may in its sole discretion pursue or forego any and all administrative appeals, proceedings, hearings and conferences with any taxing authority with respect thereto and may, in its sole discretion, either pay any Tax claimed and sue for a refund where applicable law permits such refund suits or contest the Tax Claim in any permissible manner; provided, however, that (i) the Tax Indemnitor shall keep the Tax Indemnitee informed regarding the progress and substantive aspects of any such Tax Claim and (ii) the Tax Indemnitor shall not settle or compromise a Tax Claim without giving 15 days' prior notice to the Tax Indemnitee, and without the Tax Indemnitee's consent, which shall not be unreasonably withheld or delayed. The Tax Indemnitee, and each of its Affiliates, shall cooperate with the Tax Indemnitor in contesting any Tax Claim, which cooperation shall include, without limitation, the retention and (upon the Tax Indemnitor's request) the provision to Tax Indemnitor of Records and information which are reasonably relevant to such Tax Claim, and making employees available on a mutually convenient basis to provide additional information or explanation of any material provided hereunder or to testify at proceedings relating to such Tax Claim.

9.7 Survival of Representations. The representations and warranties in

this Agreement and in any other document delivered in connection herewith shall survive the Closing solely for purposes of this Article IX and, except as set forth in the next two sentences, shall terminate at the close of business eighteen (18) months after the Closing Date. The representations and warranties in Sections 4.1(a), the first sentence of Section 4.4 and the second sentence of Section 4.5 shall survive indefinitely, the representations and warranties in Section 4.9 shall survive for seven (7) years after the Closing Date and the representations and warranties in Section 4.3 shall survive for the applicable statute of limitations pertaining to the underlying liability plus 60 days. Survival of the representations and warranties in Section 4.10 is covered by Section 9.8 dealing with environmental indemnification.

9.8 Environmental Liability.

(a) Subject to the limitations set forth below, Seller shall indemnify Buyer and each of its Affiliates, officers, directors, employees and agents against, and hold them harmless from, any Loss suffered or incurred by any such indemnified Person to the extent arising from (i) any breach of any representation or warranty of Seller set forth in Section 4.10 of this Agreement or (ii) any Assumed Liability arising from any Pre-Closing Environmental Condition (any of the matters described in clauses (i) or (ii) above are collectively referred to as "Pre-Closing Environmental Liabilities"). Seller shall not have any financial obligation or liability for Pre-Closing Environmental Liabilities unless the aggregate of all Pre-Closing Environmental Liabilities for which Seller, but for this sentence, would be liable exceeds an amount equal to \$7,500,000, in which case Seller's liability shall be for eighty percent (80%) and Buyer's liability shall be for twenty percent (20%) of any such excess over \$7,500,000 until the amount of such excess reaches a total amount of \$30,000,000, and thereafter Seller shall be liable for 100% of any such excess over \$30,000,000. The provisions of Section 9.3 shall be applicable to this

Section 9.8. In accordance with the foregoing, Buyer's maximum total liability for Pre-Closing Environmental Liabilities shall be \$12,000,000.

(b) Buyer shall indemnify Seller and each of its Affiliates, officers, directors, employees and agents against, and hold them harmless from, any Loss suffered or incurred by any such indemnified Person to the extent arising from:

(i) The first \$7,500,000 in Pre-Closing Environmental Liabilities, and for 20% of any excess over \$7,500,000 until the amount of such excess over \$7,500,000 reaches a total amount of \$30,000,000, Buyer having no liability for any such excess over \$30,000,000; and

(ii) All liability and costs incurred to address, investigate, assess, characterize, monitor, remove, contain and/or remediate any contamination by Hazardous Material caused by Buyer or its agents, representatives or consultants after the Closing.

(c) Buyer acknowledges and agrees that its sole and exclusive remedy with respect to any and all claims against Seller relating to environmental, health and safety matters shall be pursuant to the indemnification provisions set forth in this Section 9.8. In furtherance of the foregoing, Buyer hereby waives, to the fullest extent permitted under applicable law, any and all rights, claims and causes of action it may have against Seller, its officers, directors, employees and agents arising under or based upon any Environmental Law.

(d) Seller acknowledges and agrees that its sole and exclusive remedy with respect to any and all claims against Buyer relating to environmental health and safety matters shall be pursuant to the indemnification provisions set forth in this Section 9.8. In furtherance of the foregoing, Seller hereby waives, to the fullest extent permitted under applicable law, any and all rights, claims and causes of action it may have against Buyer, its officers, directors, employees and agents arising under or based upon any Environmental Law.

(e) Notwithstanding any other provision of this Agreement to the contrary, Seller shall have no liability pursuant to this Section 9.8 for Pre-Closing Environmental Liabilities: (i) not made known to Seller by Buyer in a written statement within ten (10) years of the Closing Date setting forth in reasonable detail the nature and extent of each Pre-Closing Environmental Liability covered thereby and (ii) as to Remedial Actions, for which any expenditures are made or costs incurred twenty (20) years or more after the date of Closing; provided, however, that expenditures for Pre-Closing Environmental Liabilities that are not Remedial Actions (e.g., a Third Party Claim based on a common law tort cause of action) are not subject to the 20 year time limit provided in this Section 9.8(e)(ii).

(f) To the extent that Seller shall have indemnification obligations for the cost and performance of Remedial Action, such Remedial Action shall be limited to that required under Environmental Laws by any Governmental Authority. Seller's obligations to conduct Remedial Action shall cease to the extent that it has paid the costs of such Remedial Action and has received notice from the pertinent Governmental Authority that no further Remedial Action is required or, if such Governmental Authority has not responded within a reasonable time to

Seller's request for such written notice, a certification by Seller's environmental consultant that no such further Remedial Action is required; provided, however, that Seller's obligations to conduct Remedial Action shall revive if the Governmental Authority requires further Remedial Action.

(g) Seller's obligations for the cost and performance of Remedial Action on an Owned Property shall be limited to the continued industrial use of the Owned Property. Seller shall not be required to conduct a Remedial Action to the extent that Remedial Action is related to the use of the Owned Property for any residential or other non-industrial purpose.

(h) Seller's obligations to conduct a Remedial Action do not include any obligation to remediate:

(i) Hazardous Material used as construction materials in, on or otherwise affixed to structures or improvements on any Owned Property, including asbestos, urea formaldehyde foam insulation, lead-based paint or coatings;

(ii) Hazardous Material introduced after the Closing into the soil or groundwater of the Owned Property (other than introductions into the environment as a result of the migration of Hazardous Materials actually present in the environment prior to the Closing, such as the migration through soil or groundwater after the Closing of Hazardous Material released prior to the Closing);

(iii) Any increase in soils or groundwater contamination or exacerbation of existing contamination as a result of the acts or omissions after the Closing of Buyer.

(i) (i) Seller shall remain responsible for and shall direct the performance of Remedial Action related to any Pre-Closing Environmental Condition and the costs of such Remedial Action shall be allocated pursuant to subsection (a) of this Section 9.8. In addition, with the written approval of the other party, either party may undertake such Remedial Action as is required under any Environmental Law or otherwise is appropriate. In the event Seller shall no longer desire to direct the performance of Remedial Action for Pre-Closing Environmental Conditions at one or more sites, Seller may request that Buyer direct such performance. Buyer may, at its sole discretion, agree to direct the performance of the Remedial Action, and Buyer and Seller may allocate responsibilities for such direction subject to such terms and conditions as they may determine.

(ii) Buyer shall, for the first \$7,500,000 of expenditures, have the right to review and approve (i) Seller's selection of any consultant or contractor designated to perform the Remedial Action and (ii) the development of the scope of work for, and type of, Remedial Action to be implemented. Thereafter, when \$7,500,000 has been expended, Buyer shall, for any further Remedial Action, have the right to review and provide Seller with written comments on (i) and (ii) which comments Seller shall reasonably review and consider.

(iii) Prior to commencing any Remedial Action after the Closing or presenting after the Closing any plan for Remedial Action to any Governmental Authority having jurisdiction over such Remedial Action or to any person making a Third Party Claim for which Seller is in whole or in part responsible, Seller shall meet and consult with Buyer in good faith concerning such remedial Action. In connection with the performance of any Remedial Action by Seller, Seller shall:

(1) Provide the Buyer with reasonable notice of any meetings with any such Governmental Authority or any such other Person to afford Buyer or its representatives the right to participate in such meetings;

(2) Provide the Buyer with a reasonable opportunity to preview and comment upon any submissions Seller plans to deliver or submit to any such Governmental Authority or any such other Person;

(3) Meet and consult with the Buyer in good faith over the time, manner and conditions for the completion of the Remedial Action

(4) Avoid unreasonable interference with business conducted or planned to be conducted at the site in question;

(5) Provide the Buyer with five (5) Business Days' prior notice (which may be oral) of material actions to be taken at the site in question in connection with Remedial Action undertaken by Seller, and permit the Buyer the opportunity to have its representatives present to observe such Remedial Action;

(6) Properly dispose of all Hazardous Materials removed from the soil or groundwater of the site in question in connection with such Remedial Action;

(7) After completion of any Remedial Action, to restore the surface of the site in question to a condition substantially similar to its condition prior to the performance of the Remedial Action, subject to any intervening changes in surface conditions not caused by such Remedial Action.

(j) With respect to the Seller's rights and obligations in respect of Remedial Action, Buyer agrees as follows:

(i) It will grant to Seller access (in form and substance reasonably acceptable to Seller and at no cost to Seller) allowing Seller and its representatives and agents under reasonable terms and conditions so as to not interfere with normal business operations, to enter upon the real property included in the Owned Property and use all facilities or equipment located thereon and to install equipment for the purpose of performing the Remedial Action and carrying out its rights and obligations under this Section;

(ii) Except as necessary for the reasonable operation or disposition of the business, it will not relocate, disturb or interfere with such equipment or the performance of such Remedial Action in compliance with the provisions of this Section;

(iii) It will provide Seller and its representatives and agents with reasonable access to environmental and other relevant, non-privileged records respecting the site for the purpose of carrying out such Remedial Action and will provide Seller with copies of all material and communications with any Governmental Authority about existing soils contamination, Remedial Action or other matters pertaining to Seller's obligations;

(iv) It will not submit, or cause to be submitted, to any Governmental Authority any information or comments concerning any Pre-Closing soils contamination or Remedial Action undertaken by Seller except for information routinely submitted to a Governmental Authority or as may be otherwise required by Environmental Law; and

(v) It will consult with Seller in good faith prior to extracting, excavating or removing any soil or groundwater at any Owned Property or otherwise disturbing or disrupting the same and, except as provided in Section 9.9(b)(vi) will otherwise make reasonable efforts to avoid taking any action, and will take reasonable steps to cause others to avoid taking any action, that will increase or accelerate any obligation to commence or implement Remedial Action.

(k) The parties shall allocate all costs arising from any Remedial Action of Pre-Closing Environmental Conditions in accordance with subsection (a) of this Section 9.8. These costs shall include the out-of-pocket costs of planning for and conducting Remedial Action and the reasonable out-of-pocket oversight costs thereof; provided, however, that Seller's and Buyer's employee and other overhead costs shall not be included in the costs of any Remedial Action. For the first \$7,500,000, Seller shall provide Buyer with invoices identifying the costs incurred. Seller shall provide Buyer with invoices identifying the percentage (20%) of such Costs incurred in excess of \$7,500,000 and up to \$30,000,000. Buyer shall pay all invoices within thirty (30) calendar days of their submission.

(l) The parties shall make a good faith effort to resolve any disputes related to this Section 9.8 through informal negotiation, including the use of third-party technical consultants where appropriate. If the parties are unable to resolve the dispute, the matter shall be submitted to binding arbitration as provided in Section 9.9.

9.9 Pre-Closing Environmental Liabilities Procedures.

(a) After the Closing, each of Buyer and Seller shall notify the other in writing, and in reasonable detail, of any claim in respect of, arising out of or involving a claim made by any Person against the notifying party (the "Notifying Party") constituting a Pre-Closing Environmental Liability, within 15 business days after receipt by the Notifying Party of written notice of such claim; provided, however, that failure to give such notification shall not affect the indemnification provided hereunder except to the extent the indemnifying party shall

have been actually prejudiced as a result of such failure and except that the indemnifying party shall not be liable for any expenses incurred during the period in which the Notifying Party failed to give such notice. Thereafter, each party shall deliver to the other party, promptly after such party's receipt thereof, copies of all non-privileged notices and documents (including court papers) received by such party relating to the Pre-Closing Environmental Liability claim.

(b) Excepting the provisions of Section 9.8 regarding Seller's responsibility for and direction of Remedial Action:

(i) Buyer and Seller shall each be entitled to participate in the defense of any Pre-Closing Environmental Liability claim; provided, that if either Buyer or Seller shall have one hundred percent of the liability in respect thereof, the procedures applicable to a Third Party Claim under Section 9.5 shall apply;

(ii) Buyer and Seller shall each cooperate in the defense or prosecution of any Pre-Closing Environmental Liability, including the retention and (upon request) the provision to the requesting party of non-privileged records and information which are reasonably relevant to such claim, and making employees (including any Transferred Employees familiar with such claim), available on a mutually convenient basis to provide additional information and explanation of any such records and information;

(iii) Buyer and Seller shall consult with each other and shall mutually agree on any settlement, compromise or discharge of any Pre-Closing Environmental Liability Claim (which agreement shall not be unreasonably withheld);

(iv) neither Buyer nor Seller shall admit any liability with respect to, or settle, compromise or discharge, any Pre-Closing Environmental Liability Claim without the other party's prior written consent (which consent shall not be unreasonably withheld); and

(v) If Seller and Buyer, despite reasonable good faith efforts, cannot agree as to any decision under this Section 9.9, either party may elect to have the disputed matters presented for binding arbitration, provided, further, that, unless Seller and Buyer agree otherwise, any such arbitration shall be completed prior to any deadline set by the applicable Governmental Authority relating to the matter in dispute.

(vi) Seller shall permit Buyer, if it shall so elect and for the purpose of determining the need for Remedial Action, to make tests, take samples and soil borings and/or conduct groundwater studies and such other investigations. All plans for such testing must be provided to Seller a reasonable period of time before their commencement so as to allow Seller an opportunity to comment and allow Buyer adequate time to incorporate such comments to the extent they are reasonable and appropriate.

(c) In order to effect the provisions of Section 9.9 and Section 9.8, the parties may, with regard to one or more of the sites, enter into such agreements and other contractual arrangements as they see fit to implement Remedial Action.

9.10 Treatment of Indemnity Payments. All indemnity payments made under this Agreement shall be treated by the parties for all Tax purposes as adjustments to the Purchase Price.

ARTICLE X
GENERAL PROVISIONS

10.1 Assignment. This Agreement and the rights and obligations hereunder shall not be assignable or transferable by either party other than by operation of law or in connection with a merger or sale of substantially all the assets of such party without the prior written consent of the other, which consent will not be unreasonably withheld; provided, however, that Buyer may without the prior written consent of Seller (a) assign its rights hereunder to any lender providing financing in connection with the Transactions as collateral security or (b) assign its rights and obligations hereunder to an Affiliate of Buyer which shall assume Buyers obligations and liabilities hereunder; provided further, however, that no assignment shall release the assigning party from its obligations hereunder.

10.2 No Third-Party Beneficiaries. Except as provided in Article IX as to Indemnified Persons and in the Employee Matters Agreement, this Agreement is for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person or entity, other than the parties hereto and such assigns, any legal or equitable rights hereunder.

10.3 Termination.

(a) Anything contained herein to the contrary notwithstanding, this Agreement may be terminated (except as set forth in Section 10.3(c)) and the Transactions abandoned at any time prior to the Closing Date:

- (i) by mutual written consent of Seller and Buyer;
- (ii) by Seller if any of the conditions set forth in Section 3.1 shall have become incapable of fulfillment, and shall not have been waived by Seller;
- (iii) by Buyer if any of the conditions set forth in Section 3.2 shall have become incapable of fulfillment, and shall not have been waived by Buyer; or
- (iv) by either party hereto, if the Closing does not occur on or prior to August 31, 2000; provided, however, that such date may be extended by either party for up to 30 days if necessary to satisfy the condition in Sections 3.1(c) and 3.2(c).

(b) In the event of termination by Seller or Buyer pursuant to this Section 10.3, written notice thereof shall forthwith be given to the other party and the Transactions shall be terminated, without further action by either party. If the Transactions are terminated as provided herein:

(i) Buyer shall return all documents and copies and other material received from Seller relating to the Transactions, whether so obtained before or after the execution hereof, to Seller; and

(ii) all confidential information received by Buyer with respect to the Business and Seller shall be treated in accordance with the Confidentiality Agreement which shall remain in full force and effect notwithstanding the termination of this Agreement.

(c) If this Agreement is terminated and the transactions contemplated hereby are abandoned as described in this Section 10.3, this Agreement shall become void and of no further force and effect, except for the provisions of (i) Section 7.1 relating to the obligation of Buyer to keep confidential certain information and data obtained by it, (ii) Section 8.3 relating to publicity, (iii) Section 10.4 relating to certain expenses, (iv) Section 10.11 relating to finder's fees and broker's fees and (v) this Section 10.3. Nothing in this Section 10.3 shall be deemed to release either party from any liability for any breach by such party of the terms and provisions of this Agreement or to impair the right of either party to compel specific performance by the other party of its obligations under this Agreement.

10.4 Expenses. Whether or not the transactions contemplated hereby are

consummated, and except as otherwise provided in this Section 10.4, Section 2.7 or elsewhere in this Agreement, all fees, costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees, costs or expenses.

10.5 Equitable Relief. The parties hereto agree that in the event of

Sellers' breach of its obligations to consummate the Transactions, damages may prove insufficient and Buyer should be entitled to the remedy of specific performance.

10.6 Amendments. No amendment to this Agreement shall be effective

unless it shall be in writing and signed by the parties hereto.

10.7 Notices. All notices or other communications required or

permitted to be given hereunder shall be in writing and shall be delivered by hand or sent prepaid telex, cable or telecopy, or sent, postage prepaid, by registered, certified or express mail, or reputable overnight courier service and shall be deemed given when so delivered by hand, telexed, cabled or telecopied, or if mailed, three days after mailing (one business day in the case of express mail or overnight courier service), as follows:

(i) if to Buyer, to:

VAC Acquisition Corp. II
c/o The Carlyle Group
1001 Pennsylvania Ave., N.W.
Washington, D.C. 20004
Attention: Alan Holt
Telephone: (202) 347-2626
Telecopier: (202) 347-9250

with a copy to:

Latham & Watkins
885 Third Avenue, Suite 1000
New York, NY 10022-4802

Attention: R. Ronald Hopkinson
Telephone: 212-906-1200
Telecopier: 212-751-4864

(ii) if to Seller, to:

Office of General Counsel
Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California 90067
Telephone: (310) 201-3000
Telecopier: (310) 556-4556

with a copy to:

Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, California 90071
Attention: Andrew E. Bogen, Esq.
Telephone: (213) 229-7159
Telecopier: (213) 229-7520

10.8 Interpretation; Exhibits and Schedules. The headings contained

in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement, are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Information set forth in each Schedule specifically refers to the article and section of this Agreement to which such information is responsive, and such information shall not be deemed to have been disclosed with respect to any statement in any article and section that is not qualified by reference to the pertinent Schedule or, except with regard to information set forth on the face of any Schedule that makes reasonably apparent its applicability to any other Schedule,

with respect to any other article or section of this Agreement or for any other purpose. The Schedules shall not vary, change or alter the language of the representations and warranties contained in this Agreement. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Schedule or Exhibit, but not otherwise defined therein, shall have the meaning as defined in this Agreement.

10.9 Counterparts. This Agreement may be executed in one or more

counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other party.

10.10 Entire Agreement. This Agreement and the Confidentiality

Agreement contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior oral and written agreements and understandings relating to such subject matter.

10.11 Fees. Each party hereto hereby represents and warrants that (a)

the only brokers or finders that have acted for such party in connection with this Agreement or the transactions contemplated hereby or that may be entitled to any brokerage fee, finder's fee or commission in respect thereof are Lehman Brothers Inc. with respect to Buyer and Salomon Smith Barney with respect to Seller, and (b) each of Buyer and Seller agrees that it will pay all fees or commissions which may be payable to such firm(s) as are describe in clause (a) as relating to it.

10.12 Severability. If any provision of this Agreement or the

application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

10.13 Governing Law. This Agreement shall be governed by and construed

in accordance with the internal laws of the State of California applicable to agreements made and to be performed entirely within such State, without regard to the conflicts of law principles of such State.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

SELLER:

NORTHROP GRUMMAN CORPORATION

By: /s/

Name: Albert F. Myers

Title: Corporate Vice President & Treasurer

BUYER:

VAC ACQUISITION CORP. II

By: /s/

Name: Allan M. Holt

Title: Managing Director

EMPLOYEE MATTERS AGREEMENT

This Employee Matters Agreement, (the "Employee Agreement") is entered into as of this 9th day of June, 2000, by and between Northrop Grumman Corporation, a Delaware corporation ("Seller") and VAC Acquisition Corp. II, a Delaware corporation ("Buyer"). Seller and Buyer are sometimes hereinafter collectively referred to as the "Parties."

W I T N E S S E T H:

WHEREAS, Seller and Buyer have entered into an Asset Purchase Agreement (the "Purchase Agreement") dated as of the 9th day of June, 2000, relating to the purchase by Buyer of a portion of the business and assets, and the assumption of certain related liabilities (collectively, the "Business") of Seller's Integrated Systems and Aerostructures Sector; and

WHEREAS, the Purchase Agreement contemplates the execution and delivery of this Employee Agreement; and

NOW, THEREFORE, the Parties, intending to become legally bound, hereby agree as follows:

SECTION 1

Definitions

For the purposes of this Employee Agreement, the following capitalized terms shall have the meanings assigned to them below. Capitalized terms not defined below shall have the meanings ascribed to them in the Purchase Agreement.

1.1 "Business Employees" shall mean as of the Closing Date all persons who are employed on such date by Seller or a Sold Subsidiary and assigned by Seller or a Sold Subsidiary pursuant to the Seller's or Sold Subsidiary's ongoing payroll practice to the Business, including each person so employed and assigned who is on disability (but still on the payroll), and any person so employed on an approved leave of absence, and any person so employed on layoff with recall rights and any person listed on Schedule 1(a) as a Shared Service Employee.

1.2 "Retired Business Employees" shall mean as of the Closing Date all persons (a) who are not active employees of Seller but who have a defined benefit pension accrual under either (i) the Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan portion of the Northrop Grumman Pension Plan, (ii) the Grumman Pension Plan portion of the Northrop Grumman Pension Plan, but only if such accrual is attributable solely to service with the former Grumman Aerostructures business (designated Entity 58 by Seller) ("Entity 58"), (iii) the Northrop Grumman Commercial Aircraft Division Hourly Retirement Plan, and/or (iv) the Northrop Grumman Commercial Aircraft Division Protective Services Retirement Plan, but not under any other Seller defined benefit pension plan; or (b) who are receiving retiree medical benefits pursuant to either (i) the Northrop Grumman Commercial Aircraft Division Salaried Health Care Plan (Retiree Health Program only), (ii) the Northrop Grumman Commercial Aircraft Division Hourly Health Care Plan, or (iii) the Grumman Corporation Group Health and

Life Plan (Retiree Health Care and Insurance Program only), and, in the case of this clause (iii), who terminated employment with Seller while assigned to Entity 58.

SECTION 2

General Employment Terms and Conditions

2.1 Buyer shall offer employment to each Business Employee actively at work on the Closing Date and shall honor any obligation to reemploy any Business Employee who is not actively at work on the Closing Date due to leave of absence (including without limitation disability leave or military leave) or layoff with recall rights. Seller agrees to provide to Buyer, in a complete, diligent and timely manner, all relevant information as Buyer may reasonably request with respect to compensation, service, and other information relating to the employment of the Business Employees. Buyer shall also after the Closing Date offer employment to any Shared Service Employee not listed on Schedule 1(a) but whom Seller and Buyer mutually agree after the Closing Date shall be treated as a Business Employee ("Delayed Business Employees") and such person(s) shall, except as expressly provided herein, be treated as Business Employees for all purposes hereunder.

2.2 Except as provided herein, as of the Closing Date, Business Employees and Retired Business Employees and their beneficiaries and dependents shall cease to participate in all Seller Plans. Except as provided herein, Buyer shall not assume sponsorship, maintenance or administration of any Seller Plan or any Employee Benefit Plan or Employee Benefit Arrangement that is not a Seller Plan or receive or assume any assets or liabilities in connection with any such plan. Notwithstanding the foregoing, all Delayed Business Employees shall cease participation in all Seller Plans as of their respective dates of actual transfer to Buyer (in each case, an "Applicable Transfer Date").

2.3 Buyer shall have established as of the Closing Date compensation and employee benefit plans or arrangements (or shall have designated existing plans or arrangements) which, for at least 24 months following the Closing Date, provide each Business Employee who continues to be employed by Buyer and is not a member of a collective bargaining unit or is not covered by a collective bargaining agreement with at least the same salary or hourly wage rate as in effect immediately prior to the Closing Date, or Applicable Transfer Date, and with other compensation and employee benefits which are comparable in the aggregate to those provided under the Seller Plans covering such individual immediately prior to the Closing Date, or Applicable Transfer Date. Buyer shall have established or designated as of the Closing Date employee benefit plans or arrangements which, for at least 24 months following the Closing Date, provide each Retired Business Employee who is not a member of a collective bargaining unit or is not covered by a collective bargaining agreement with retiree benefits (including without limitation retiree health and life insurance coverage) which are comparable in the aggregate to those provided under the Seller Plans covering such individual immediately prior to the Closing Date. For purposes of this Section 2.3, compensation and employee benefits shall not include compensation and employee benefits pursuant to any stock option, stock purchase, phantom stock, restricted stock, stock appreciation right, or other stock-based or equity-based compensation plan, program or arrangement.

2.4 From and after the Closing Date, or Applicable Transfer Date, Buyer shall, and shall cause its affiliates and successors to, provide credit under Buyer's plans to Business Employees and Retired Business Employees for their service with Seller and its predecessors and affiliates for purposes of determining eligibility to participate, vesting, and eligibility to retire (but not for purposes of benefit accrual), to the same extent that such service was recognized under the Seller Plans that most closely resemble such Buyer plans. For purposes of such Buyer plans, Buyer shall recognize all amounts applied to deductibles, co-payments and out-of-pocket maximums with respect to Business Employees and Retired Business Employees under the Seller Plans during the plan year in which the Closing Date occurs, and will not impose any limitations on coverage for pre-existing conditions other than such limitations as were applicable under the Seller Plans which most closely resemble such Buyer plans.

2.5 Effective as of the Closing Date, Buyer shall assume the collective bargaining agreements disclosed on Schedule 4.7 to the Purchase Agreement. Promptly after the date hereof, Seller shall advise each union which is a party to such collective bargaining agreements of such proposed assumption.

SECTION 3

Qualified Defined Contribution Plans -----

3.1 Prior to the Closing Date, Seller shall take all actions as are necessary to provide that all persons who are neither Business Employees nor Retired Business Employees shall cease accruing benefits under the Northrop Grumman Integrated Systems & Aerostructures Represented Employee Savings and Investment Plan in respect of periods following the Closing Date. Effective as of the Closing Date, Buyer shall assume the sponsorship of the Northrop Grumman Integrated Systems & Aerostructures Represented Employee Savings and Investment Plan and in connection therewith shall assume all responsibility for the administration of such plan and its assets and liabilities with respect to Business Employees and Retired Business Employees. Buyer shall arrange effective as of the Closing Date to enter into appropriate agreements or modify existing agreements with trustees and other vendors providing services to this plan; provided, how ever, that Seller shall use its reasonable efforts to cause such trustees and vendors to continue to provide services to such plan until December 31, 2001 (or such earlier date as Buyer shall determine) on substantially the same terms and conditions as such services were provided to such plan immediately prior to the Closing Date. As soon as practicable after the Closing Date but effective as of the Closing Date, Buyer and Seller shall cause such plan to transfer to one or more other defined contribution plans maintained by Seller (the "Seller Defined Contribution Plans"), in a manner consistent with Code Section 414(l), assets and liabilities attributable to persons who are neither Business Employees nor Retired Business Employees but who do have account balances under such plan, and Buyer shall have no obligation or liability with respect thereto. Such transfer of assets to the Seller Defined Contribution Plans is subject to the receipt by Buyer of, and no such transfer shall be made unless Buyer has received: (i) evidence reasonably satisfactory to it that Seller has timely completed all governmental filings or submissions needed in order for the Seller Defined Contribution Plans to receive a transfer of assets from the Northrop Grumman Integrated Systems & Aerostructures Represented Employee Savings and Investment Plan and (ii)(A) a current and valid IRS qualification letter with respect to the Seller Defined Contribution Plans, or

(B) a representation by Seller that the Seller Defined Contribution Plans are designed to so qualify and that Seller shall timely make all filings necessary to obtain such qualification and make any and all necessary amendments on a retroactive basis to the Seller Defined Contribution Plans as are required by the Internal Revenue Service to obtain such qualification.

3.2 All Business Employees as of the Closing Date, or Applicable Transfer Date, shall be fully vested in their account balances under the Northrop Grumman Savings and Investment Plan ("SIP") and Business Employees and Retired Business Employees shall be entitled to either (i) an immediate distribution of their account balances in accordance with the terms of such plan and pursuant to Section 401(k)(10)(A)(ii) or (iii) of the Code, (ii) maintain such amounts in the SIP in accordance with its terms, or (iii) transfer their respective account balances (including any unpaid participant loans and Seller common stock held in such accounts) directly to one or more defined contribution plans established or designated by Buyer (each, a "Buyer Savings Plan") each of which is designed and intended to qualify under Code Section 401(a). As soon as practicable after the Closing Date, Buyer shall seek a favorable Internal Revenue Service determination letter that each Buyer Savings Plan, as organized, satisfies all qualification requirements under Section 401(a) of the Code, and Buyer shall make any and all necessary amendments on a retroactive basis to the Buyer Savings Plans as are required by the Internal Revenue Service to issue such determination letter. In the event that, pursuant to clause (iii) above, any Business Employee or Retired Business Employee elects to transfer his or her account balance to a Buyer Savings Plan (collectively, the "Transferred Savings Plan Accounts"), then Seller shall cause the trustees of the SIP to transfer to the trustees or other funding agent of such Buyer Savings Plan, in the case of each electing Business Employee and Retired Business Employee, the assets (including but not limited to Seller securities) allocated to the account of each such person under SIP, such amount to be established as an account balance or accrued benefit of such individual under the Buyer Savings Plan. Each such transfer shall comply with Section 414(1) of the Code and the requirements of ERISA and the regulations promulgated thereunder and no such transfer shall be made until Buyer provides to Seller a copy of a favorable IRS determination letter for each Buyer Savings Plan or a representation by Buyer that it has commenced its undertaking, described above, to seek a determination letter for each Buyer Savings Plan. Notwithstanding the foregoing, as of the Closing Date, Buyer shall, at Seller's direction, administer unpaid participant loans under SIP outstanding as of the Closing Date and, until such time as all of the affected participant's SIP account is transferred to the applicable Buyer Savings Plan, remit to SIP the collected loan repayments. The Transferred Savings Plan Accounts shall be valued as of the date on which the transfer is made, which value shall include the earnings, gains and losses, appreciation and depreciation of the investment funds in which the accounts are invested through the date on which the transfer is made. Except with respect to the Transferred Savings Plan Accounts, (a) Buyer shall have no liability or obligation with respect to benefits accrued under the SIP nor shall Buyer be responsible for any other obligation or liability under the SIP, and (b) Seller shall retain and shall be solely responsible for any and all liabilities and obligations whatsoever under the SIP (including with respect to Business Employees or Retired Business who do not elect to transfer their account balances to a Buyer Savings Plan pursuant to clause (iii) above). Treatment of any Business Employees as terminated in connection with the SIP shall not necessarily be determinative for purposes of any other Seller Plan.

3.3 Effective as of the Closing Date, Buyer shall establish or designate a defined contribution retirement plan comparable to SIP in which Business Employees who were eligible to participate in SIP immediately prior to the Closing Date may be eligible to participate.

3.4 Notwithstanding the foregoing, Seller shall be responsible for all liabilities incurred by Seller or Buyer as a direct result of any failure of the SIP to be qualified under Section 401(a) of the Code.

SECTION 4

Qualified Defined Benefit Plans -----

4.1 Prior to the Effective Time, Seller shall take all actions as are necessary to provide that all persons who are neither Business Employees nor Retired Business Employees shall cease accruing benefits under the Northrop Grumman Commercial Aircraft Division Hourly Retirement Plan and the Northrop Grumman Commercial Aircraft Division Protective Services Retirement Plan (the "CAD Pension Plans") as of the Effective Time. Effective as of the Closing Date, Buyer shall assume the sponsorship of the CAD Pension Plans and in connection therewith shall assume all responsibility for the administration of such plans and their assets and liabilities with respect to Business Employees and Retired Business Employees. Buyer shall be responsible for all contributions to these plans accrued after the Closing Date. Buyer shall arrange effective as of the Closing Date to enter into appropriate agreements or modify existing agreements with trustees and other vendors providing services to those plans; provided, however, that Seller shall use its reasonable efforts to cause such trustees and vendors to continue to provide services to such plans until December 31, 2001 (or such earlier date as Buyer shall determine) on substantially the same terms and conditions as such services were provided to the CAD Pension Plans immediately prior to the Closing Date. As soon as practicable after the Closing Date but effective as of the Closing Date, Seller and Buyer shall cause the CAD Pension Plans to transfer to one or more other defined benefit plans maintained by Seller (the "Seller Defined Benefit Plans"), in a manner consistent with Code Section 414(l) and using the assumptions set forth in Schedule 4.1, assets and liabilities (plus an appropriate share of earnings) attributable to persons who are neither Business Employees nor Retired Business Employees but who did accrue benefits under such plans, and Buyer shall have no obligation or liability with respect thereto; provided that, in the case of each plan, if the liabilities attributable to such employees account for less than 3 percent of the total assets of the plan as of the Closing Date, Section 414(l) shall be applied without an allocation under ERISA Section 4044 and the assumptions used shall be those set forth in Schedule 4.2. Such transfer of assets to the Seller Defined Benefit Plans is subject to the receipt by Buyer of, and no such transfer shall be made unless Buyer has received: (i) evidence reasonably satisfactory to it that Seller has timely completed all governmental filings or submissions needed in order for the Seller Defined Benefit Plans to receive a transfer of assets from the CAD Pension Plans and (ii)(A) a current and valid IRS qualification letter with respect to the Seller Defined Benefit Plans, or (B) a representation by Seller that the Seller Defined Benefit Plans are designed to so qualify and that Seller shall timely make all filings necessary to obtain such qualification and make any and all necessary amendments on a retroactive basis to the Seller Defined Benefit Plans as are required by the Internal Revenue Service to obtain such qualification.

4.2 (a) Establishment of Buyer Pension Plan. Buyer shall, effective

as of the Closing Date, establish a defined benefit plan (or designate an existing defined benefit plan of Buyer), intended to qualify under Section 401(a) of the Code (such new or existing defined benefit plan of Buyer being referred to herein as "Buyer Pension Plan") to provide benefits to Business Employees and Retired Business Employees who immediately prior to the Closing Date had accrued any benefit under the Northrop Grumman Pension Plan (the "Seller Pension Plan"). Each Business Employee or Retired Business Employee so participating in the Seller Pension Plan prior to the Closing Date shall thereupon become a participant in the Buyer Pension Plan; except that Delayed Business Employees shall cease participation in the Seller Pension Plan and commence participation in the Buyer Pension Plan on an Applicable Transfer Date.

(b) Initial Transfer of Assets. Not later than 120 days after the

Closing Date and subject to the requirements of Section 4.2(d) being satisfied, Seller shall cause an initial transfer of assets and liabilities from the Seller Pension Plan to the Buyer Pension Plan. The value of the assets of the Seller Pension Plan to be so transferred shall be at least 90 percent of an estimate of the "CAS Amount." The "CAS Amount" is defined as the assets allocated with respect to the Business Employees and Retired Business Employees under Seller's accounting procedures to implement the segment accounting requirements of Cost Accounting Standard CAS 413-50(c), and specifically CAS 413-50(c)(7). The CAS Amount so defined shall equal the sum of amounts attributable to each of the following five portions of the Seller Pension Plan (each, a "Heritage Plan"), as indicated in clauses (i), (ii), (iii), (iv) and (v) below:

(i) An amount equal to the market value of assets of the Northrop Grumman Retirement Plan portion of the Seller Pension Plan, multiplied by a fraction the numerator of which is the actuarial accrued liability attributable to Business Employees under the Northrop Grumman Retirement Plan portion of the Seller Pension Plan and the denominator of which is the actuarial accrued liability of all participants in the Northrop Grumman Retirement Plan portion of the Seller Pension Plan.

(ii) An amount equal to the market value of assets of the Grumman Pension Plan portion of the Seller Pension Plan, multiplied by a fraction the numerator of which is the actuarial accrued liability attributable to Business Employees and Retired Business Employees under the Grumman Pension Plan portion of the Seller Pension Plan and the denominator of which is the actuarial accrued liability of all participants in the Grumman Pension Plan portion of the Seller Pension Plan.

(iii) An amount equal to the market value of assets of the Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan portion of the Seller Pension Plan, multiplied by a fraction the numerator of which is the actuarial accrued liability attributable to Business Employees and Retired Business Employees under the Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan portion of the Seller Pension Plan and the denominator of which is the actuarial accrued liability of all participants in the Northrop Grumman Commercial Aircraft Division Salaried Retirement Plan portion of the Seller Pension Plan.

(iv) An amount equal to the market value of assets of the Northrop Grumman Retirement Plan--Rolling Meadows Site portion of the Seller Pension Plan,

multiplied by a fraction the numerator of which is the actuarial accrued liability attributable to Business Employees and Retired Business Employees under the Northrop Grumman Retirement Plan--Rolling Meadows Site portion of the Seller Pension Plan and the denominator of which is the actuarial accrued liability of all participants in the Northrop Grumman Retirement Plan--Rolling Meadows Site portion of the Seller Pension Plan.

(v) An amount equal to the market value of the assets of the Northrop Grumman Electronic Sensors & Systems Sector Nonrepresented Employees Pension Plan portion of the Seller Pension Plan, multiplied by a fraction the numerator of which is the actuarial accrued liability attributable to Business Employees and Retired Business Employees under the Northrop Grumman Electronic Sensors & Systems Sector Nonrepresented Employees Pension Plan portion of the Seller Pension Plan and the denominator of which is the actuarial accrued liability of all participants in the Northrop Grumman Electronic Sensors & Systems Sector Nonrepresented Employees Pension Plan portion of the Seller Pension Plan.

For the above purposes, the assets are measured as of the last day of the month preceding the Closing Date. The market value of assets for each of the above Heritage Plans takes into account the result of employing an asset allocation convention for those Heritage Plans. The funding convention requires that assets of the Seller Pension Plan be used to fund any underfunded Heritage Plan pension liabilities. This convention will be used to allocate pension assets for unfunded liabilities that are determined for the period from January 1, 2000 through the Closing Date (the "Period"). The assets allocated to an underfunded Heritage Plan are equal to the pension costs measured in accordance with CAS 412, Cost Accounting Standard for Composition and Measurement of Pension Cost, for the Period. The funding convention is carried out by allocating a pro rata

share of the actuarial surplus (defined as the excess of the market value of assets over the actuarial accrued liability) from each overfunded Heritage Plan to provide assets to underfunded Heritage Plans. The Heritage Plan pension costs measured in accordance with CAS 412 include: (1) the normal cost of the Period; (2) an amortized part of any unfunded actuarial liability; (3) an adjustment for actuarial gains and loss; and (4) appropriate interest adjustments for the Period.

The actuarial accrued liability shall be determined utilizing the entry age normal cost method and assumptions set forth in Schedule 4.2 and, for both the numerators and denominators in (i) through (v), above, based on the January 1, 2000 valuation completed by Seller's actuary in accordance with the requirements of CAS, including the expected change in the actuarial accrued liability projected due to additional service, benefits paid and interest for the Period. The actuarial liability so calculated shall cover all benefits (including ancillary benefits) accrued under the Seller Pension Plan by the Business employees and Retired Business Employees. For purposes of this initial transfer the CAS Amount shall be computed without regard to Delayed Business Employees. The assets of the Seller Pension Plan to be transferred to the Buyer Pension Plan both under the initial transfer and under any adjustment pursuant to Section 4.2(c) hereof, shall be in the form of cash and other assets (excluding Seller securities) reasonably representative of the Seller Pension Plan investment portfolio as a whole but without regard to Seller securities, and Buyer shall cause the Buyer Pension Plan to accept such transfer and, to the extent of the assets so transferred, to assume all obligations for benefits (including ancillary benefits) accrued under the Seller Pension Plan by the Business Employees and Retired Business Employees.

(c) Subsequent Adjustments

(i) Seller shall cause its enrolled actuary to determine reasonably and in good faith as soon as practicable but in any case within twelve (12) months following the Closing Date, the actual CAS Amount (taking into account Delayed Business Employees) and an amount equal to 130 percent of the present value of accrued benefits attributable to Business Employees and Retired Business Employees calculated as current liability pursuant to the principles of Code Section 412(c)(7)(B) as of the last day of the month preceding the Closing Date using an interest rate (the "Rate") as defined in the next sentence and the other assumptions set forth in Schedule 4.2 (the "Guaranteed Amount"). The Rate shall be 105 percent of the weighted average of the rates of interest on 30-year Treasury securities during the 4-year period ending on the last day of the month preceding the Closing Date as permitted by Code Section 412(b)(5)(B)(ii).

(ii) If the actual CAS Amount exceeds the Guaranteed Amount, then not later than 45 days following the determination of the actual CAS Amount and Guaranteed Amount, either Seller shall cause a transfer of assets from the Seller Pension Plan to the Buyer Pension Plan equal to the amount, if any, by which the actual CAS Amount exceeds the initial transfer, or Buyer shall cause a transfer of assets from the Buyer Pension Plan to the Seller Pension Plan equal to the amount by which the initial transfer exceeds the CAS Amount, if any. If the Guaranteed Amount exceeds the actual CAS Amount then not later than 45 days following the determination of the actual CAS Amount and Guaranteed Amount, then either Seller shall cause a transfer of assets from the Seller Pension Plan to the Buyer Pension Plan equal to the amount, if any, by which the Guaranteed Amount exceeds the initial transfer, or Buyer shall cause a transfer of assets from the Buyer Pension Plan to the Seller Pension Plan equal to the amount, if any, by which the initial transfer exceeds the Guaranteed Amount.

(iii) Any amounts to be transferred between the plans more than one day following the Closing Date in satisfaction of the of this Section 4.2 shall include investment gains or losses from the day preceding the Closing Date, as follows:

(A) With respect to the period from the day preceding the Closing Date to and including the date of the initial transfer of assets hereunder ("Initial Transfer Date"), investment gains and losses shall mean the aggregate net investment experience of the transferor plan during such period; and

(B) With respect to the period from the Initial Transfer Date to and including the day preceding the date of payment of any adjustment under clause (ii), investment gains and losses shall mean interest credited during such period at the interest rate assumption specified in Schedule 4.2 regardless of the actual investment experience of the assets of the transferor plan.

(d) Requirements of Transfer. The total amount transferred from the

Seller Pension Plan to the Buyer Pension Plan under this Section 4.2 shall in no event be less than that required under Code Section 414(l) using the assumptions set forth in Schedule 4.2. Further, notwithstanding any provision in the Purchase Agreement or this Employee Agreement to the contrary, each transfer of assets from the Seller Pension Plan is subject to the receipt by Seller of,

and no such transfer shall be made unless Seller has received: (i) evidence reasonably satisfactory to it that Buyer has timely completed all governmental filings or submissions needed in order for the Buyer Pension Plan to receive a transfer of assets from the Seller Pension Plan and (ii)(A) a current and valid IRS qualification letter with respect to the Buyer Pension Plan, or (B) a representation by Buyer that the Buyer Pension Plan is designed to qualify and that Buyer shall timely make all filings necessary to obtain such qualification and make any and all necessary amendments on a retroactive basis to the Buyer Pension Plan as are required by the Internal Revenue Service to obtain such qualification. In no event shall any transfer from the Seller Pension Plan be made prior to the lapse of thirty (30) days after Seller files a complete Form 5310A; provided that Seller shall cause such filing to be made within 90 days of the Closing Date.

(e) Notwithstanding the foregoing, Seller shall be responsible for all liabilities incurred by Seller or Buyer as a result of any failure of the Seller Pension Plan to be qualified under Section 401(a) of the Code.

(f) Seller hereby represents and warrants to Buyer that the assumptions set forth in Schedule 4.2 are the same assumptions that are utilized for the preparation and presentation of Seller's public financial statements; except that (i) the assumptions for current liability do not apply to the preparation of public financial statements, and (ii) there is no assumption in Schedule 4.2 for the annual rate of increase in the indexed limits on plan compensation and maximum benefits inasmuch as such rate is irrelevant to CAS and ERISA calculations, but the rate used for such purposes in Seller's public financial reporting is 3.5 percent.

SECTION 5

Welfare Benefit Plans other than Severance -----

5.1 Seller shall be responsible in accordance with its applicable welfare plans in effect prior to the Closing Date for all medical and similar claims for expenses incurred prior to the Closing Date, or Applicable Transfer Date, by Business Employees and Retired Business Employees and their dependents. Reimbursement of said employees and their dependents for medical and similar expenses associated with such claims (including claims submitted on behalf of disabled employees and their dependents) shall be determined in accordance with the terms of Seller's medical and similar programs as in effect immediately prior to the Closing Date. Seller shall terminate coverage of Business Employees and Retired Business Employees and their dependents effective for claims for expenses incurred on and after the Closing Date, or Applicable Transfer Date. Effective as of the Closing Date, Buyer shall be responsible in accordance with its applicable welfare plans in effect on and after the Closing Date for all medical and similar claims for expenses incurred on and after the Closing Date, or Applicable Transfer Date (including, but not limited to, responsibility for post-retirement medical and dental claims), by Business Employees and Retired Business Employees and their dependents; provided, that Buyer's medical and similar programs shall provide sufficient medical and dental coverage so that Seller and its affiliates shall have no obligation to provide "COBRA" continuation coverage to Business Employees or Retired Business Employees under Section 4980B(f) of the Code.

5.2 Effective as of the Closing Date, Buyer shall be responsible for all long-term and short term disability income benefits payable in respect of claims asserted on or after the Closing Date, or Applicable Transfer Date, for Business Employees or Retired Business Employees who become disabled on or after the Closing Date, or Applicable Transfer Date, as the case may be. Seller shall be responsible for all long-term and short-term disability income benefits payable in respect of claims asserted by Business Employees or Retired Business Employees who become disabled before the Closing Date.

5.3 Effective as of the Closing Date, Buyer shall be responsible for all life insurance claims (including post-retirement life insurance claims) of Business Employees and Retired Business Employees and their dependents for losses incurred by such employees or dependents on and after the Closing Date, or Applicable Transfer Date, under group life, travel and accident, and accidental death and dismemberment insurance policies. Seller shall be responsible solely for claims for such losses incurred prior to the Closing Date, or Applicable Transfer Date.

5.4 Effective as of the Closing Date, Buyer shall establish a cafeteria plan (or designate an existing plan) subject to Code Section 125 with features which are comparable to those contained in Seller's cafeteria plan applicable to Business Employees immediately prior to the Closing Date. Effective as of the Closing Date, Buyer shall, pursuant to such Buyer cafeteria plan, assume responsibility for administering all benefit or reimbursement claims of Business Employees and Retired Business Employees, in respect to calendar year 2000, whether arising before, on or after the Closing Date, or Applicable Transfer Date, under the cafeteria plan applicable to such individuals at such time. Seller shall cause to be transferred to Buyer an amount in cash equal to the sum of all contributions to the various reimbursement accounts under Seller's cafeteria plan prior to the Closing Date, or Applicable Transfer Date, reduced by the sum of all claims paid with respect to such accounts prior to the Closing Date, or Applicable Transfer Date (regardless of whether the amount paid to any participant exceeded such participant's reimbursement account balance), and by any amount accrued as a liability in respect of such plan on the Closing Statement of Assets and Liabilities.

SECTION 6

Supplemental Plans

6.1 Effective as of the Closing Date, Buyer shall establish or otherwise make available as soon as practicable thereafter one or more nonqualified plans (the "Buyer Supplemental Plans") in which Business Employees and Retired Business Employees shall be eligible to participate on terms which are comparable to those applicable to Business Employees and Retired Business Employees immediately prior to the Closing Date under the Seller Plans set forth on Schedule 6 attached hereto (the "Seller Supplemental Plans"). Effective as of the Closing Date, Buyer shall assume, under the Buyer Supplemental Plans, all liabilities and obligations with respect to Business Employees and Retired Business Employees under the Seller Supplemental Plans incurred prior to the Effective Time. Subject to Section 2.3 hereof, Buyer may, in its discretion, modify or terminate the Buyer Supplemental Plans at any time following the Closing Date.

6.2 No termination of a Business Employee's employment shall be deemed to occur for purposes of the Buyer Supplemental Plans as a result of any actions taken pursuant to this Employee Agreement or otherwise as a result of the consummation of the transactions contemplated by the Purchase Agreement, provided that the Business Employee remains continuously employed by Buyer or an affiliate of Buyer immediately after the Effective Time.

SECTION 7

Severance, Retention and Similar Agreements -----

Effective as of the Closing Date, Buyer shall assume and be responsible for the Relocation Agreement between Paul Coco (assuming Mr. Coco accepts employment with Buyer in connection with the closing of the transaction contemplated by the Purchase Agreement) and Northrop Grumman Corporation dated April 28, 2000, and the Special Severance Agreements and the Retention Incentive Bonus Agreements for the following Business Employees (assuming the employee accepts employment with Buyer in connection with the closing of the transaction contemplated by the Purchase Agreement):

Vernon Broomall
Stephen A. Davis
William R. LePoint
William J. McKenna
Judith W. Northup
Tommy D. Risley
Erich G. Smith
Mark A. Tucker
W. B. White, Jr.

SECTION 8

Workers' Compensation -----

Seller currently sponsors a program that provides workers compensation benefits for eligible Business Employees and Retired Business Employees ("Seller's Workers Compensation Program"). Seller shall be responsible for all claims for workers compensation benefits which are incurred prior to the Closing Date, or Applicable Transfer Date, by such Business Employees or Retired Business Employees that are payable under the terms and conditions of Seller's Workers Compensation Program, and Buyer shall have no obligation or liability with respect thereto. Effective as of the Closing Date, Buyer shall take all necessary and appropriate action to adopt or designate a workers compensation program which shall cover the Business Employees or Retired Business Employees covered by such Seller program ("Buyer's Workers Compensation Program"). Buyer's Workers Compensation Program shall be responsible for all claims for benefits which are incurred from and after the Closing Date, or Applicable Transfer Date, by Business Employees or Retired Business Employees that are payable under the terms and conditions of Buyer's Workers Compensation Program. For purposes of this Section 8, a claim for workers compensation benefits shall be deemed to be incurred when the first event giving rise to the claim occurs.

SECTION 9

WARN Act

Seller agrees to provide any required notice under the Worker Adjustment and Retraining Notification Act, as amended (the "WARN Act"), and any similar statute, and otherwise to comply with any such statute with respect to any "plant closing" or "mass layoff" (as defined in the WARN Act) or similar event affecting Business Employees or Retired Business Employees and occurring prior to the Closing Date. Seller shall indemnify and hold harmless Buyer with respect to any liability under the WARN Act or similar statute arising from the actions or inactions of Seller prior to the Closing Date. Buyer agrees to provide any required notice under the WARN Act, and any similar statute, and otherwise to comply with any such statute with respect to any plant closing or mass layoff or similar event affecting Business Employees or Retired Business Employees and occurring on or after the Closing Date. Buyer shall indemnify and hold harmless Seller with respect to any liability under the WARN Act or similar statute arising from the actions or inactions of Buyer on or after the Closing Date.

SECTION 10

Payroll

Seller and Buyer agree that, with respect to Business Employees who accept employment with Buyer upon the Closing Date, or Applicable Transfer Date, they will take the position that they respectively meet the definitions of "predecessor" and "successor," each as defined in Revenue Procedure 96-60 and IRS Regulation Section 31.3121(a)(1)-1(b). Absent a mutual agreement with respect to Procedure 96-60, Seller shall supply to Buyer, with respect to all Business Employees who accept employment with Buyer upon the Closing Date, or an Applicable Transfer Date, all cumulative payroll information as of the Closing Date, or Applicable Transfer Date, that Buyer shall reasonably request in order to employ IRS Regulation Section 31.3121(a)(1)-1(b).

SECTION 11

Vacation and Sick Pay

Buyer shall assume responsibility for accrued vacation and sick pay attributable to Business Employees as of the Closing Date, or Applicable Transfer Date, to the extent such amounts are accrued as a liability on the Closing Statement of Assets and Liabilities.

SECTION 12

Miscellaneous

12.1 (a) Further Agreements. Each Party shall be responsible for its own expenses incurred before, on or after the Closing Date that are attributable to the costs of disposing of the Seller Plans and establishing of plans by Buyer pursuant to this Employee Agreement.

(b) The Parties agree to reasonably cooperate and to respond to reasonable requests for information to implement the terms of this Employee Agreement

12.2 No Third Party Beneficiaries. This Employee Agreement and any

Schedule attached hereto are for the sole benefit of the parties hereto and their permitted assigns and nothing herein expressed or implied shall give or be construed to give to any person or entity, other than the parties hereto and such assigns, any legal or equitable rights hereunder

12.3 No Right to Continued Employment. Nothing contained in this Employee

Agreement shall confer upon any Business Employee any right with respect to continuance of employment by Buyer, nor shall anything herein interfere with the right of Buyer to terminate the employment of any Business Employee at any time, with or without cause, or, except as expressly provided herein, restrict Buyer in the exercise of its independent business judgment in modifying any of the terms and conditions of the employment of the Business Employees..

12.4 Severability. If any provision of this Employee Agreement or

Schedules hereto, or the application of any such provision to any person or circumstance shall be held invalid, illegal or unenforceable in any respect by a court of competent jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

12.5 Governing Law. To the extent not governed by federal law, this

Employee Agreement shall be governed by and construed in accordance with the internal laws of the State of California applicable to agreements made and to be performed entirely within such State, without regard to the conflicts of law principles of such State.

12.6 Schedules Attached To Employee Agreement. The Schedules attached to

this Employee Agreement are incorporated herein by reference as though fully set forth herein.

12.7 Entire Agreement. This Employee Agreement and the Schedules attached

hereto contain the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior oral and written agreements and understandings relating to such subject matter.

12.8 Order of Precedence. The parties agree that if any terms of this

Employee Agreement conflict with terms in the Purchase Agreement, the terms of this Employee Agreement shall govern with respect to the resolution of such conflict.

12.9 Counterparts. This Employee Agreement may be executed in one or more

counterparts, all of which shall be considered one and the same agreement, and shall become effective when one or more such counterparts have been signed by each of the parties and delivered to the other party.

12.10 Notices. All notices or other communications required or permitted

to be given hereunder shall be in writing and shall be delivered by hand or sent prepaid telex, cable or telecopy, or sent, postage prepaid, by registered, certified or express mail, or reputable overnight courier service and shall be deemed given when so delivered by hand, telexed, cabled or telecopied, or if mailed, three days after mailing (one business day in the case of express mail or overnight courier service), as follows:

(i) if to Buyer, to:

VAC Acquisition Corp. II
c/o The Carlyle Group
1001 Pennsylvania Ave., N.W.
Washington, D.C. 20004
Attention: Alan Holt
Telephone: (202) 347-2626
Telecopier: (202) 347-9250

with a copy to:

Latham & Watkins
885 Third Avenue, Suite 1000
New York, NY 10022-4802
Attention: R. Ronald Hopkinson
Telephone: (212) 906-1200
Telecopier: (212) 751-4864

(ii) if to Seller, to:

Office of General Counsel
Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California 90067
Telephone: (310) 201-3000
Telecopier: (310) 556-4556

with a copy to:

Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, California 90071
Attention: Andrew E. Bogen, Esq.
Telephone: (213) 229-7159
Telecopier: (213) 229-7520

12.11 Descriptive Headings. The Section and clause headings of this

Employee Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Employee Agreement.

12.12 Expenses. Except as otherwise provided elsewhere in this Employee

Agreement, all fees, costs and expenses incurred in connection with this Employee Agreement and the transactions contemplated hereby shall be paid by the party incurring such fees, costs or expenses.

12.13 Amendments. No amendment to this Employee Agreement shall be

effective unless it shall be in writing and signed by the parties hereto.

12.14 Assignment. This Employee Agreement and the rights and obligations

hereunder shall not be assignable or transferable by either party other than by operation of law or in connection with a merger or sale of substantially all the assets of such party without the prior written consent of the other, which consent will not be unreasonably withheld; provided, however, that no assignment shall limit or affect assigning party's obligations hereunder.

12.15 Termination. This Employee Agreement shall terminate and be of no

force or effect in the event the Purchase Agreement is terminated prior to the Closing.

IN WITNESS WHEREOF, Seller and Buyer have each caused this Employee Agreement to be duly signed and delivered to the other parties.

SELLER

By: /s/

Title: Corporate Vice President & Treasurer

BUYER

By: /s/

Title: Managing Director

SELLER NOTE

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. IT MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT.

VAC HOLDINGS II, INC.

11 1/2% SELLER NOTE
DUE July 21, 2009

\$175,000,000

July 24, 2000

VAC HOLDINGS II, INC., a Delaware corporation ("Payor"), for value received, promises to pay to the order of NORTHROP GRUMMAN CORPORATION, a Delaware corporation ("Payee"), or its permitted assigns, the principal amount of ONE HUNDRED AND SEVENTY-FIVE MILLION DOLLARS (\$175,000,000), together with interest accrued thereon at the time or times set forth below (this Note together with any PIK Notes issued pursuant to Section 1.1 below, the "Notes"). The principal of and interest on this Note is payable in lawful money of the United States of America in immediately available funds at such place in the United States as Payee may from time to time designate in writing to Payor.

This Note is made pursuant to that certain Asset Purchase Agreement dated June 9, 2000 (the "Purchase Agreement" as amended, modified supplemented or waived from time to time), by and between Payee and VAC Acquisition Corp. II, a Delaware corporation and a wholly-owned subsidiary of Payor ("Buyer") and is the "Seller Note" referred to therein. Payee is receiving this Seller Note pursuant to the Purchase Agreement. For the avoidance of doubt, this Note does not provide the Payee with, nor does it imply to the Payee, any right

against any subsidiary of the Payor. All capitalized terms used herein and not defined herein shall have the meanings assigned to such terms in the Purchase Agreement.

1. Payment of Principal and Interest

1.1 Calculation and Payment of Interest.

Interest on the principal balance of this Note outstanding from time to time shall accrue at the rate of eleven and one-half percent (11 1/2%) per annum computed on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed, commencing on the date hereof (and on the date of issuance with respect to any PIK Note). Such interest shall be payable semi-annually in arrears, beginning on January 24, 2001 and thereafter on each July 24/th/ and January 24/th/ (each, an "Interest Payment Date") through and including July 24, 2004 by the issuance of a promissory note in a principal amount equal to interest accrued but not otherwise paid (by the issuance of a PIK Note or otherwise) on the principal amount hereof through and including such Interest Payment Date and otherwise having such terms and provisions that are the same as the terms and provisions of this Note (each such promissory note a "PIK Note"), and (without limiting the Payor's obligation to issue in each such instance, a PIK Note) Payor shall be deemed to have issued a PIK Note to Payee for any such interest regardless of whether Payor shall have actually delivered any such PIK Note to Payee. On and after January 24, 2005, payment of such interest shall be made semi-annually in arrears on each Interest Payment Date until the Maturity Date (as defined below) and on the Maturity Date in cash; provided, however, that such payment shall instead be made by the issuance of a

PIK Note for such interest, and (without limiting the Payor's obligation to issue in each such instance a PIK Note) Payor shall be deemed to have issued a PIK Note to Payee for any such interest regardless of whether Payor shall have actually delivered any such PIK Note, if (a) a payment default under the Credit Agreement or the other Bank Debt Documents has occurred and is continuing, (b) the Leverage

Ratio for the most recently ended fiscal quarter is greater than 2.0:1 or (c) after giving effect to such payment, the ratio of (I) Consolidated Total Debt plus the aggregate principal amount of outstanding Notes to (II) Consolidated Adjusted EBITDA for the four Fiscal Quarter period then most recently ended would be greater than 3.0:1. Payee, by acceptance hereof, acknowledges (i) that Payor is contractually bound hereunder to pay interest in cash only if the conditions specified in Sections 1.1 (a) or (b) or (c) above are not met, (ii) that any interest not paid in cash shall be paid in the form of a PIK Note, and (iii) the failure to pay cash interest as a result of Sections 1.1(a), (b) or (c) shall not constitute a default or Event of Default under this note.

1.2 Payment on Maturity Date. The principal balance of, and any

accrued and unpaid interest on, this Note shall be payable on July 21, 2009 (the "Maturity Date").

1.3 Voluntary Prepayment.

(a) Payor may, at its option at any time, to the extent not prohibited by the Bank Debt Documents, without premium or penalty, prepay all or any portion of this Note.

(b) Any prepayment of this Note shall be applied as follows:
first, to payment of accrued interest; and second, to payment of

principal. Upon any partial prepayment, at the request either of Payee or Payor, this Note shall be surrendered to Payor in exchange for a substitute note, which shall set forth the revised principal amount. In the event that this Note is prepaid in its entirety, this Note shall be surrendered to Payor for cancellation as a condition to any such prepayment.

1.4 Mandatory Prepayment. Subject to any limitations on the ability

of Payor's Subsidiaries to pay dividends arising under applicable law, the Net Proceeds from the

sale of more than two-thirds of the fair market value of the assets of Payor's Significant Subsidiaries to any person that is not a Significant Subsidiary of Payor in a transaction or a series of related transactions shall be applied first, to prepay all or a portion of the Bank Debt then outstanding, to the extent required under the Bank Debt Documents, and second, to prepay all or a portion of the principal balance of the Notes then outstanding.

1.5 Prepayment of Notes at the Option of Payee upon a Change of

Control. In the event that a Change of Control has occurred, Payee will have the

right, at Payee's option (subject to compliance with applicable federal and state laws), to require Payor to pay all or any part of the Note on a date no later than 30 days after the occurrence of such Change of Control, at a cash price equal to 101% of the principal amount then outstanding, which such principal amount shall include the principal amount of any PIK Notes issued pursuant to Section 1.1 hereof.

1.6 Payment Only on Business Days. Any payment hereunder which, but

for this Section 1.6, would be payable on a day which is not a Business Day, shall instead be due and payable on the Business Day next following such date for payment.

2. Events of Default

The following shall constitute "Events of Default" under this Note:

(a) Failure by Payor to make any payment or prepayment of principal required under this Note when the same shall become due and payable (whether at maturity, by acceleration or otherwise) and the continuation of such failure for a period of ten (10) days; or failure by Payor to make any payment of interest when the same shall become due and payable and the continuation of such failure for a period of thirty (30) days; or

(b) A breach of the covenant set forth in Section 3.1(a) which breach shall continue uncured for a period of five (5) days; or

(c) Other than as set forth in 2(b) above; a breach of any covenant under Section 3.1 or Section 3.2 of this Note, which breach, if curable, shall continue uncured for a period of thirty (30) days after the date on which written notice specifying such breach and stating that such notice is a "Notice of Default" hereunder, shall have been given by Payee to Payor; or

(d) Payor or Material Subsidiaries pursuant to or within the meaning of any Bankruptcy Law:

(i) commence a voluntary case or proceeding;

(ii) consent to the entry of an order for relief against them in an involuntary case or proceeding;

(iii) consent to the appointment of a Custodian of them or for all or substantially all of their property or assets;

(iv) make a general assignment for the benefit of the creditors; or

(e) an involuntary case or proceeding is commenced against Payor or Material Subsidiaries under any Bankruptcy Law and is not dismissed, bonded or discharged within ninety (90) days thereafter, or a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

(i) is for relief against Payor or Material Subsidiaries in an involuntary case or proceeding;

(ii) appoints a Custodian of Payor or Material Subsidiaries for all or substantially all of their properties or assets; or

(iii) orders the liquidation of Payor or Material Subsidiaries; and in each case the order or decree remains unstayed and in effect for ninety (90) days.

If an Event of Default specified in Section 2(a), 2(b) or 2(c) shall have occurred and be continuing Payee may, at its option, declare the entire principal amount of this Note and the interest accrued thereon to be due and payable upon the date which is five Business Days after the date of delivery by Payee to Payor of a written notice of acceleration, and upon any such declaration the same shall become due and payable at such time. If an Event of Default specified in Section 2(d) or 2(e) hereof occurs, the principal balance of and accrued interest on this Note shall become due and payable immediately without any declaration or other act on the part of Payee.

If any Event of Default shall have occurred and be continuing, Payee may proceed to protect and enforce its rights either by suit in equity or by action at law, or both, whether for specific performance of any provision of this Note or in aid of the exercise of any power granted to Payee under this Note.

3. Covenants.

3.1 Affirmative Covenants. Payor covenants and agrees that for so

long as any indebtedness evidenced by this Note shall remain outstanding, unless waived by Payee, Payor shall:

(a) promptly give notice to Payee of (i) any default or Event of Default hereunder upon any senior officer of Payor obtaining knowledge of any such default or Event of Default or (ii) any notice of an "Event of Default" (as defined

in the Bank Debt Documents) permitting the holder or holders of the Bank Debt to accelerate such Bank Debt given to Payor or any of its Subsidiaries by any holder of Bank Debt or its agent; and

(b) deliver to Payee copies of quarterly and annual financial statements of Payor.

3.2 Negative Covenants. Payor covenants and agrees that for so long

as any indebtedness evidenced by this Note remains outstanding, Payor will not without the written consent of Payee;

(a) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of related transactions, all or substantially all of its assets other than to a Significant Subsidiary; or

(b) consolidate with, or merge with or into, any Person unless (i) Payor shall be the continuing Person, or the Person (if other than Payor) formed by such consolidation or into which Payor is merged shall be a corporation organized and existing under the laws of the United States or any state thereof or of the District of Columbia and, in the event Payor is merged with or into any other Person, such Person shall expressly assume, by an agreement executed and delivered to Payee, in form and substance reasonably satisfactory to Payee the obligations of Payor under this Note, (ii) following the transaction, the Payor on this Note shall be in compliance with Section 3.2(c) below, and (iii) no Event of Default has occurred and is continuing or would occur after giving effect to such consolidation or merger. Upon any consolidation or merger of Payor in

accordance with this Section 3.2(b), the successor corporation formed by such consolidation or into which Payor is merged shall succeed to, and be substituted for and may exercise any right and power of, Payor under this Note with the same effect as if such successor corporation had been named as Payor herein; or

(c) incur, assume or suffer to exist any Indebtedness or permit any of its Significant Subsidiaries to incur, assume or suffer to exist any Indebtedness, except that Payor and its Significant Subsidiaries may incur indebtedness if (x) no Event of Default shall have occurred and be continuing at the time of, or would occur after giving effect to such incurrence of Indebtedness on a pro forma basis (including a pro forma application of the net proceeds therefrom) as though it had been incurred on the first day of the most recently ended period of four consecutive full Fiscal Quarters for which internal financial statements are available immediately preceding the date on which such Indebtedness is incurred and (y) the Interest Coverage Ratio of Payor for the most recently ended period of four consecutive full Fiscal Quarters for which internal financial statements are available prior to the date on which such Indebtedness is incurred, on a pro forma basis (including a pro forma application of the net proceeds therefrom), would be not less than 2.0:1.0.

Without regard to the foregoing limitations, the Payor and its Significant Subsidiaries may incur, assume or suffer to exist the following ("Permitted Indebtedness"):

(i) Indebtedness under the Notes;

(ii) Indebtedness under the Credit Agreement and the other Bank Debt Documents, provided that the aggregate principal amount -----
at any time outstanding thereunder shall not exceed \$850,000,000;

(iii) Indebtedness of any Significant Subsidiary of Payor owing to Payor or owing to another Subsidiary of Payor or Indebtedness of any Subsidiary owing to Payor;

(iv) Indebtedness incurred by Payor or its Significant Subsidiaries arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or from guaranties or letters of credit, surety bonds or performance bonds securing the performance of Payor, Buyer or any of their Subsidiaries pursuant to such agreements;

(v) Payor or any of its Significant Subsidiaries may become and remain liable with respect to promissory notes incurred in connection with an Acquisition and payable to the seller in connection therewith, provided that the aggregate -----
principal amount of such promissory notes outstanding at any time shall not exceed \$25,000,000;

(vi) Indebtedness incurred by Payor or its Significant Subsidiaries which may be deemed to exist pursuant to any guaranties, performance, surety, statutory, appeal or similar obligations incurred in the ordinary course of business;

(vii) Indebtedness incurred by Payor or its Significant Subsidiaries in respect of netting services, overdraft protections and otherwise in connection with deposit accounts;

(viii) guaranties in the ordinary course of business of the obligations of suppliers, customers, franchisees and licensees of Payor, or any Subsidiary of Payor;

(ix) Indebtedness with respect to any lease of any property by a Payor or its Significant Subsidiaries as lessee that, in conformity with generally accepted accounting principles is or should be accounted for as a capital lease in an aggregate amount not to exceed at any time \$25,000,000;

(x) A Significant Subsidiary acquired pursuant to an Acquisition may become or remain liable with respect to Indebtedness of such Significant Subsidiary existing at the time of Acquisition by Payor or its Subsidiary of such Significant Subsidiary or assets obtained pursuant to an Acquisition; provided that such Indebtedness was not incurred in connection -----
with or in anticipation of such acquisition, and the aggregate principal amount of all such indebtedness does not exceed \$20,000,000;

(xi) Indebtedness incurred by Payor or its Significant Subsidiaries with respect to Interest Rate Agreements and Currency Agreements;

(xii) purchase money Indebtedness incurred by Payor or its Significant Subsidiaries in an aggregate amount not to exceed at any time

\$30,000,000 provided, any such Indebtedness shall be secured only by the asset acquired in connection with the incurrence of such Indebtedness and proceeds thereof;

(xiii) other unsecured Indebtedness of Payor and its Significant Subsidiaries, in an aggregate amount not to exceed at any time \$30,000,000;

(xiv) Indebtedness of the Payor or any of its Significant Subsidiaries outstanding on the date hereof; and

(xv) refinancings and extensions of any such Indebtedness;

(d) except as set forth in this Section 3.2(d) incur, assume or suffer to exist, any Lien of any kind securing any Indebtedness upon any of its assets now owned or acquired or upon any income or profits therefrom except:

(i) Liens with which the Notes are equally and ratably secured;

(ii) Liens incurred to secure indebtedness under the Credit Agreement or any Bank Debt Document;

(iii) Liens for taxes if obligations with respect to such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted;

(iv) statutory Liens of landlords, banks (and rights of set-off), of carriers, warehousemen, mechanics, repairmen, workmen and materialmen, and other Liens imposed by law; (other than any such Lien imposed pursuant to Section 401 (a)(29) or 412(n) of the Internal Revenue Code or by ERISA), in each case incurred in the ordinary course of

business (A) for amounts not yet overdue or (B) for amounts that are overdue and that are being contested in good faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts;

(v) Liens incurred in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money or other indebtedness);

(vi) easements, rights-of-way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of Payor;

(vii) any interest or title of a lessor or sublessor under any lease of real estate;

(viii) Liens solely on any cash earnest money deposits made by Payor in connection with any letter of intent or purchase agreement permitted hereunder;

(ix) purported Liens evidenced by the filing of precautionary UCC financing statements relating solely to operating leases for personal property entered into in the ordinary course of business;

(x) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(xi) any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;

(xii) licenses of patents, trademarks and other intellectual property rights granted by Payor in the ordinary course of business and not interfering in any respect with the ordinary conduct of the business of Payor;

(xiii) Liens securing Indebtedness permitted pursuant to 3.2(c)(xi); provided, any such Lien shall encumber only the asset acquired with the proceeds of such Indebtedness and proceeds thereof; and;

(xiv) existing Liens on assets acquired pursuant to acquisitions (so long as such Liens were not created in anticipation of such acquisition); and

(xv) any land use restrictions consistent with the terms of Section 9.8(g) of the Purchase Agreement.

(e) except as set forth in this Section 3.2(e), enter into or suffer to exist any contract, agreement, arrangement or transaction with any Affiliate or permit

its Significant Subsidiaries to enter into or suffer to exist any contract, agreement, arrangement or transaction with any other Affiliate other than those contracts, agreements, arrangements or transactions on terms that are no less favorable to Payor or any Significant Subsidiary of Payor than those that might be obtained from a Person who is not an Affiliate of Payor except:

(i) any transaction between Payor and any Subsidiary of Payor or any Subsidiary of Payor and any other Subsidiary of Payor;

(ii) reasonable and customary fees paid to members of the board of directors (or similar governing body) of Payor;

(iii) compensation arrangements for officers and other employees of Payor entered into in the ordinary course of business;

(iv) annual management and oversight fees paid to Sponsor and its Affiliates in reliance on this clause (iv) in amounts not in excess of \$5,000,000 per Fiscal Year and expense reimbursements paid to Sponsor and its Affiliates; and

(f) except as permitted under this Section 3.2(f), engage in any business or permit Buyer to engage in any business other than the businesses engaged in by Payor or Buyer, similar or related businesses and reasonable extensions thereof.

4. Certain Definitions.

"Acquisition" means any acquisition by Payor or its Subsidiaries,

whether by purchase, merger or otherwise, of all or substantially all of the assets of or the Capital Stock of, or a business line or unit or a division of, any Person.

"Affiliate" means, as applied to any Person, any other Person directly

or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power (i) to vote 15% or more of the Securities having ordinary voting power for the election of directors of such Person or (ii) to direct or cause the direction of the management and policies of that Person, whether through the ownership of voting securities or by contract or otherwise.

"Agent" means Lehman Commercial Paper, Inc., as administrative agent

for the lenders under the Credit Agreement, and its successors and assigns.

"Bank Debt" means all obligations of Payor and its Subsidiaries

(including without limitation contingent obligations, interest rate protection incurred to satisfy the requirements of the Credit Agreement and fees and expenses payable thereunder or pursuant thereto) (i) arising under the Credit Agreement or (ii) with respect to Refinancing Debt.

"Bank Debt Documents" means the Credit Agreement and any other

agreement, indenture, mortgage, guaranty, pledge, security agreement or instrument evidencing or securing Bank Debt or pursuant to which Bank Debt is incurred, in each case as such documents may be amended, modified, supplemented or waived from time to time in accordance with the terms thereof.

"Bankruptcy Law" means Title 11, United States Code, or any similar

federal, state or foreign law for the relief of debtors or any arrangement, reorganization, assignment for the benefit of creditors or any other marshalling of the assets and liabilities of Payor.

"Business Day" means each day other than Saturdays, Sundays and days

when commercial banks are authorized or required by law to be closed for
business in New York, New York.

"Capital Stock" means any and all shares, interests, participations or

other equivalents (however designated) of capital stock of a corporation, any
and all equivalent ownership interests in a Person (other than a corporation),
including, without limitation, partnership interests and membership interests,
and any and all warrants, rights or options to purchase or other arrangements or
rights to acquire any of the foregoing.

"Cash" means money, currency or a credit balance in any demand or

deposit account.

"Change of Control" means, at any time, (i) (a) prior to consummation

of an initial public offering by Payor, Sponsor and its Affiliates and other
Permitted Investors shall cease to beneficially own and control in excess of 50%
on a fully diluted basis of the economic and voting interests in the Capital
Stock of Payor (b) after consummation of any initial public offering, Sponsor,
its Affiliates and other Permitted Investors shall cease to own and control at
least 25% of the Capital Stock of Payor or such higher percentage that exceeds
the highest percentage owned by any Person or "group" (within the meaning of
Rules 13d-3 and 13d-5 under the Exchange Act) other than Sponsor and its
Affiliate and the other Permitted Investors, or (ii) Payor shall cease to
beneficially own and control 100% on a fully diluted basis of the Capital Stock
of Buyer.

"Consolidated Adjusted EBITDA" means, for any period, the sum, for

Payor and its Subsidiaries (determined on a consolidated basis without
duplication in accordance with GAAP), of the following: (a) net operating income
(calculated before taxes, Consolidated

Interest Expense, extraordinary and unusual items and income or loss attributable to equity in Affiliates) for such period plus (b) depreciation and amortization, and all other non-cash charges, in each case for such period and to the extent deducted in computing net operating income for such period plus (c) the amount by which the amount of deferred learning costs, tooling costs and similar assets were reduced from the first day of such period to the last day of such period, and minus (d) the amount by which the amount of deferred learning costs, tooling costs and similar assets were increased from the first day of such period to the last day of such period; provided that the foregoing shall be subject to the adjustments described in Schedule 1.

"Consolidated Cash Interest Expense" means, for any period,

Consolidated Interest Expense for such period, excluding any amount not paid or received in Cash during such period.

"Consolidated Interest Expense" means, for any period, total interest

expense (including that portion attributable to capital leases in accordance with GAAP and capitalized interest) of Payor and its Subsidiaries on a consolidated basis with respect to all outstanding Indebtedness of Payor and its Subsidiaries, including all commissions, discounts and other fees and charges owed with respect to letters of credit and plus the net amount paid (or minus the net amount received) under Interest Rate Agreements (whether or not actually paid or received during such period), but excluding, however, any fees payable to agents under the Credit Agreement on or before the date hereof and minus the amount of consolidated interest income, if any, for such period.

"Consolidated Total Debt" means as at any date of determination, the

aggregate stated balance sheet amount of all Indebtedness of Payor and its Subsidiaries, other than the Notes, determined on a consolidated basis in accordance with GAAP.

"Credit Agreement" means the Credit Agreement among the Payor, Lehman

Commercial Paper, Inc., as administrative agent and as collateral agent and the other parties thereto, together with the related documents thereto (including without limitation any guarantee agreements and security documents), in each case as such agreement or document may be amended, modified, supplemented or waived from time to time, including without limitation any agreement or document extending the maturity of, refinancing, replacing or otherwise restructuring all or any part of the Indebtedness under such agreement or document or any replacement or successor agreement or document and whether by the same or any other agent, lender or group of lenders.

"Currency Agreement" means any foreign exchange contract, currency

swap agreement, futures contract, option contract, synthetic cap or other similar agreement or arrangement, each of which is for the purpose of hedging the foreign currency risk associated with Payors' and its Subsidiaries' operations and not for speculative purposes.

"Custodian" means any receiver, trustee, assignee, liquidator,

custodian or similar official under any Bankruptcy Law.

"Event of Default" means any of the occurrences specified under

Sections 2(a) through 2(e) of this Note.

"Fiscal Quarter" means a fiscal quarter of any Fiscal Year.

"Fiscal Year" means the fiscal year of Payor and its Subsidiaries.

"Indebtedness" means, to the extent the following would be reflected

on a consolidated balance sheet of Payor and its Subsidiaries prepared in accordance with generally accepted accounting principles, the principal amount of all indebtedness of Payor and its Subsidiaries with respect to (i) borrowed money, evidenced by debt securities, debentures,

acceptances, notes or other similar instruments, (ii) obligations under capital leases, (iii) reimbursement obligations for letters of credit and financial guarantees (without duplication), (other than ordinary course of business contingent reimbursement obligations) or (iv) the deferred purchase price of property or services, (except for accounts payable and accrued expenses and receipt of progress and advance payments related to such purchase price, in each case arising in the ordinary course of business).

"Interest Coverage Ratio" means the ratio as of the last day of any -----
Fiscal Quarter of (i) Consolidated Adjusted EBITDA for the four- Fiscal Quarter Period then ended to (ii) Consolidated Cash Interest Expense for such four- Fiscal Quarter Period.

"Interest Rate Agreements" means any interest rate swap agreement, -----
interest rate cap agreement, interest rate collar agreement, interest rate hedging agreement or other similar agreement or arrangement, each of which is for the purpose of hedging the interest rate exposure associated with Payors' and its Subsidiaries' operations and not for speculative purposes.

"Leverage Ratio" means the ratio as of the last day of any Fiscal -----
Quarter of (i) Consolidated Total Debt to (ii) Consolidated Adjusted EBITDA for the four-Fiscal Quarter period ending on or immediately prior to such date.

"Lien" means any lien, mortgage, deed of trust, pledge, assignment, -----
security interest, charge or encumbrance of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, and any lease in the nature thereof) and any option, trust or other preferential arrangement having the practical effect of any of the foregoing.

"Material Subsidiaries" means a Subsidiary or Subsidiaries of Payor -----
that individually or in the aggregate (a) own 25% or more of the total assets of Payor and its

Subsidiaries on a consolidated basis or (b) earn 25% or more of the net revenues of the Payor and its Subsidiaries on a consolidated basis during Payor's latest completed fiscal year.

"Net Proceeds" means an amount equal to (i) Cash payments (including

any Cash received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received) received by Payor from a sale of assets, minus (ii) any bona fide fees, costs and expenses incurred in connection with such sale including (a) taxes payable as a result of such sale, (b) payment of the outstanding principal amount of, premium or penalty, if any, and interest on any indebtedness that is secured by a Lien on the assets in question and that is required to be repaid under the terms thereof as a result of such sale of assets and (c) a reasonable reserve for any indemnification payments (fixed or contingent) attributable to seller's indemnities and representations and warranties to purchaser in respect of such sale of assets undertaken by Payor or any of its Subsidiaries in connection with such sale of assets.

"Permitted Investors" means management investors and other co-

investors with or Affiliates of Sponsor.

"Person" means any individual, corporation, partnership, joint

venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"PIK Notes" means the PIK Notes issued pursuant to Section 1.1 hereof

in lieu of cash interest and containing terms substantially identical to this Note.

"Refinancing Debt" means any indebtedness incurred to repay, refinance

or otherwise replace indebtedness or obligations in whole or in part (including, without limitation, commitments) under the Credit Agreement or any such Refinancing Debt.

"Securities" means any stock, shares, partnership interests, voting

trust certificates, certificates of interest or participation in any profit-sharing agreement or arrangement (other than any such agreement or arrangement entered into with a customer or supplier in the ordinary course of business), options, warrants, bonds, debentures, notes, or other evidences of indebtedness, secured or unsecured, convertible, subordinated or otherwise, or in general any instruments commonly known as "securities" or any certificates of interest, shares or participations in temporary or interim certificates for the purchase or acquisition of, or any right to subscribe to, purchase or acquire, any of the foregoing.

"Securities Act" means the Securities Act of 1933, as amended.

"Seller Note" means each of this Note and each other subordinated

promissory note made by Payor pursuant to the Purchase Agreement, including without limitation, in each case, any PIK Notes issued pursuant to the terms thereof.

"Significant Subsidiary" means a Subsidiary of Payor (a) owning 10% or

more of the total assets of Payor and its Subsidiaries on a consolidated basis or (b) which earned 10% or more of the net revenues of the Payor and its Subsidiaries on a consolidated basis during Payor's latest completed fiscal year, provided, however, that if less than 75% of the total assets of Payor and its Subsidiaries on a consolidated basis are owned by Payor or its Significant Subsidiaries, then the definition of Significant Subsidiary shall include one or more additional entities, to be designated by the board of directors of Payor, such that at least 75% of the total assets of Payor and its Subsidiaries on a consolidated basis will be held by Payor or its Significant Subsidiaries as of the end of each Fiscal Quarter.

"Sponsor" means TC Group, L.L.C., d/b/a The Carlyle Group.

"Subsidiary" means, with respect to any Person, any corporation or

other entity, whether such corporation or entity now exists or shall hereafter
be created, of which a majority of the Capital Stock or other ownership
interests having ordinary voting power to elect a majority of the board of
directors or other persons performing similar functions are at the time directly
or indirectly owned by such Person.

5. Miscellaneous

5.1 Section Headings. The section headings contained in this Note are

for reference purposes only and shall not affect the meaning or interpretation
of this Note.

5.2 Amendment and Waiver. Subject to Section 6.10 hereof, no

provision of this Note may be amended or waived unless Payor shall have obtained
the written agreement of Payee. No failure or delay in exercising any right,
power or privilege hereunder shall imply or otherwise operate as a waiver of any
rights of Payee, nor shall any single or partial exercise thereof preclude any
other or future exercise thereof or the exercise of any other right, power or
privilege.

5.3 Successors, Assigns and Transferors. This Note shall be freely

assignable and transferable by Payee except that this Note may not be assigned
or transferred by Payee to (x) any competitor, customer or supplier of Payor or
its Subsidiaries or any Subsidiaries of the foregoing or (y) to any other Person
if such assignment or transfer would cause any interest payments due under this
Note to become non-deductible as an expense for any tax purposes provided,

however, after (a) the occurrence and continuance of an Event of Default under

the Bank Debt Documents and (b) receipt by Payor of notice of such Event of
Default from Payee or Agent or an authorized representative of the holders of
the Bank Debt, any assignment or transfer of this Note shall require the consent
of the Agent. Payor may not assign its obligations under this Note without the
prior written consent of Payee except in connection with a transaction

permitted under Section 3.2(b) hereof. Subject to the foregoing, the obligations of Payor and Payee under this Note shall be binding upon, and inure to the benefit of, and be enforceable by, Payor and Payee, and their respective successors and permitted assigns, whether or not so expressed.

5.4 Governing Law. This Note shall be governed by, and construed in accordance with, the laws of the State of New York without giving effect to any conflicts of laws principles thereof that would otherwise require the application of the law of any other jurisdiction.

5.5 Lost, Stolen, Destroyed or Mutilated Note. Upon receipt of evidence reasonably satisfactory to Payor of the loss, theft, destruction or mutilation of this Note and of indemnity arrangements reasonably satisfactory to Payor from or on behalf of the holder of this Note, and upon surrender or cancellation of this Note if mutilated, Payor shall make and deliver a new note of like tenor in lieu of such lost, stolen, destroyed or mutilated Note, at Payee's expense.

5.6 Waiver of Presentment, Etc. Except as otherwise provided herein, presentment, demand, protest, notice of dishonor and all other notices are hereby expressly waived by Payor.

5.7 Usury. Nothing contained in this Note shall be deemed to establish or require the payment of a rate of interest in excess of the maximum rate legally enforceable. If the rate of interest called for under this Note at any time exceeds the maximum rate legally enforceable, the rate of interest required to be paid hereunder shall be automatically reduced to the maximum rate legally enforceable. If such interest rate is so reduced and thereafter the maximum rate legally enforceable is increased, the rate of interest required to be paid hereunder

shall be automatically increased to the lesser of the maximum rate legally enforceable and the rate otherwise provided for in this Note.

5.8 Notices. Any notice, request, instruction or other document to be

given hereunder by either party to the other shall be in writing and shall be deemed given when received and shall be (i) delivered personally or (ii) mailed by certified mail, postage prepaid, return receipt requested or (iii) delivered by Federal Express or a similar overnight courier or (iv) sent via facsimile transmission to the fax number given below, as follows:

If to Payor, addressed to:

VAC Holdings II, Inc.
9314 West Jefferson Avenue
Dallas, TX 75211
Attention: William McMillan
Fax Number: (972) 946-5683

With a copy to:

The Carlyle Group
1001 Pennsylvania Avenue, N.W.
Washington, DC 20004
Attention: Allan Holt
Fax Number: (202) 347-9250

and

Latham & Watkins
1001 Pennsylvania Avenue, N.W.
Suite 1300
Washington, DC 20004-2505
Attention: James Ritter
Fax Number: 202-637-2201

If to Payee, addressed to:

Office of General Counsel
Northrop Grumman Corporation
1840 Century Park East
Los Angeles, California 90067
Attention: Burks Terry
Fax Number: (310) 556-4556

With a copy to:

Gibson, Dunn & Crutcher LLP
333 South Grand Avenue
Los Angeles, California
Attention: Andrew E. Bogen, Esq.
Fax Number: (213) 229-7520

or to such other place and with such other copies as either party may designate as to itself by written notice to the other party.

In the event that any notice under this Note is required to be made on or as of a day which is not a Business Day, then such notice shall not be required to be made until the first day thereafter which is a Business Day.

5.9 Representations and Warranties of Payor. Payor hereby

represents and warrants to Payee that: (a) Payor is duly incorporated, validly existing and in good standing under the laws of the State of Delaware; (b) Payor has duly authorized, executed and delivered this Note; and (c) this Note constitutes a legally valid and binding obligation of Payor, enforceable against Payor in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to or affecting the rights or remedies of creditors and the effect of general principles of equity, whether enforcement is considered in a proceeding in equity or at law, and the discretion of the court before which any proceeding therefor may be brought.

IN WITNESS WHEREOF, Payor has executed and delivered this Note as of the date hereinabove first written.

VAC HOLDINGS II, INC.

By: /s/

Name: William McMillan

Title:

Acknowledgment

Northrop Grumman Corporation, Payee under the attached 11 1/2% Seller Note, dated as of July 24, 2000 (the "Note") hereby acknowledges the provisions of Section 5.3 of the Note and agrees to be bound by the provisions thereof.

/s/

By: Albert F. Myers

Title: Corporate Vice President & Treasurer

SCHEDULE 1

Certain Calculations

With respect to any calculation of Consolidated Adjusted EBITDA required to be made prior to the completion of four Fiscal Quarters following the date hereof, such calculation for the relevant period shall equal the product of (A) the respective measurement of Consolidated Adjusted EBITDA above for the period from the date hereof to the date of measurement multiplied by (B) a fraction, the

numerator of which is 365 and the denominator of which is the number of days during the period from the date hereof to the date of measurement.

EXHIBIT 15

Letter from Independent Accountants Regarding Unaudited Interim
Financial Information

August 8, 2000

Northrop Grumman Corporation
Los Angeles, California

We have made a review, in accordance with standards established by the American Institute of Certified Public Accountants, of the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended March 31, 2000 and 1999, as indicated in our report dated April 24, 2000; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Current Report on Form 8-K dated August 8, 2000, is incorporated by reference in Registration Statement Nos. 33-59815, 333-59853 and 333-680030 on Form S-8 and Registration Statement Nos. 333-78251 and 333-85633 on Form S-3 and Registration Statement No. 333-40862 on Form S-4.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Deloitte & Touche LLP
Los Angeles, California
August 8, 2000

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements Nos. 333-59815 and 33-59853 and 333-68003 of Northrop Grumman Corporation on Form S-8 and Registration Statements Nos. 333-78251 and 333-85633 of Northrop Grumman Corporation on Form S-3 and Registration Statement No. 333-40862 of Northrop Grumman Corporation on Form S-4 of our report dated January 26, 2000, except for discontinued operations footnote, as to which the date is July 24, 2000, appearing in this Report on Form 8-K of Northrop Grumman Corporation dated August 8, 2000.

DELOITTE & TOUCHE LLP
Los Angeles, California
August 8, 2000