

In addition to normal business risks, companies engaged in supplying military and other equipment to the U.S. Government are subject to unusual risks, including dependence on Congressional appropriations and administrative allotment of funds, changes in governmental procurement legislation and regulations and other policies that may reflect military and political developments, significant changes in contract scheduling, complexity of designs and the rapidity with which they become obsolete, necessity for constant design improvements, intense competition for U.S. Government business necessitating increases in time and investment for design and development, difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work and other factors characteristic of the industry. Changes are customary over the life of U.S. Government contracts, particularly development contracts, and generally result in adjustments of contract prices.

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The Company, like other government contractors, is subject to government investigations of business practices and compliance with government procurement regulations. Although such regulations provide that a contractor may be suspended or debarred from government contracts under certain circumstances, and the outcome of pending government investigations cannot be predicted with certainty, management is not currently aware of any such investigations that it expects, individually or in the aggregate, will have a material adverse effect on the Company. In addition, the Company has a proactive business compliance program designed to ensure compliance and sound business practices.

BACKLOG

Orders for certain aerospace-related products sold to general and commercial aviation customers mainly consist of relatively short-term and frequently renewed commitments. Government procurement agencies generally issue contracts covering relatively long periods of time. Total backlog (principally for aerospace-related products and services) for both government and commercial contracts was \$5,012 million at December 31, 1998 and \$5,087 million at December 31, 1997 of which U.S. and foreign government orders were \$1,511 million and \$1,908 million for the respective years. The Company anticipates that approximately \$3,553 million of the total 1998 backlog will be filled during 1999.

Backlog information may not be an accurate indicator of future sales. Government contracts and, in general, subcontracts thereunder are terminable, in whole or in part, for default or for convenience by the government or the higher level contractor if deemed in their best interest. Upon termination for convenience, the contractor is normally entitled to reimbursement for allowable costs and to an allowance for profit. However, if the contract is terminated because of the contractor's default, the contractor may not recover all of its costs and may be liable for any excess costs incurred by the government in procuring undelivered items from another source.

In addition to the right of the government to terminate, government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds on a fiscal-year basis even though contract performance may extend over many years. Consequently, at the outset of a program, the prime contract is usually partially funded and additional funds are normally only appropriated to the contract by Congress in future years. Fixed-price subcontracts are normally fully funded, but are subject to convenience termination if the prime contract is not funded.

SEGMENT FINANCIAL DATA

Note 23 (Segment Financial Data) of Notes to Financial Statements in the