

=====

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
Date of report (Date of earliest event reported) October 27, 1998

L-3 COMMUNICATIONS CORPORATION
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE
(State or Other Jurisdiction of Incorporation)

(Commission File Number) 13-3937436
(IRS Employer Identification No.)

600 THIRD AVENUE, NEW YORK, NEW YORK 10016
(Address of Principal Executive Offices) (Zip Code)

(212) 697-1111
(Registrant's Telephone Number, Including Area Code)

=====

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND
EXHIBITS

	PAGE

a. Financial Statements:	
Unaudited Condensed Consolidated Financial Statements as of June 30, 1998 and for the six months ended June 30, 1998 and 1997	A-1 to A-6
Condensed Consolidated Balance Sheet as of June 30, 1998	
Condensed Consolidated Statements of Earnings for the six months ended June 30, 1998 and 1997	
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 1998 and 1997	
Notes to Condensed Consolidated Financial Statements	
Consolidated Financial Statements as of December 31, 1997 and for the year ended December 31, 1997	A-7 to A-21
Consolidated Balance Sheet as of December 31, 1997	
Consolidated Statement of Earnings for the year ended December 31, 1997	
Consolidated Statement of Cash Flows for the year ended December 31, 1997	
Notes to Consolidated Financial Statements	
Consolidated Financial Statements as of December 31, 1996 and 1995 and for the years ended December 31, 1996 and 1995	A-22 to A-34
Consolidated Balance Sheets as of December 31, 1996 and 1995	
Consolidated Statements of Earnings and Accumulated Deficit as of December 31, 1996 and 1995 Consolidated Statements of Cash Flows as of December 31, 1996 and 1995	
Notes to Consolidated Financial Statements	
b. Pro Forma Financial Information:	
Unaudited Pro Forma Condensed Consolidated Financial Statements as of June 30, 1998 and for the six months ended June 30, 1998 and for the year ended December 31, 1997	B-1 to B-8
c. Exhibits	
2. Amended and Restated Agreement and Plan of Merger dated as of August 13, 1998 by and among L-3 Communications Corporation, SPD Merger Co., SPD Technologies, Inc. and Midmark Capital, L.P.	
23. Consent of Grant Thornton LLP	

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.

L-3 COMMUNICATIONS CORPORATION

Registrant

Date October 27, 1998

By: /s/ Robert V. LaPenta

President and Chief
Financial Officer
(Principal Financial Officer)

UNAUDITED CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
SPD TECHNOLOGIES INC. AND SUBSIDIARIES
AS OF JUNE 30, 1998 AND FOR THE
SIX MONTHS ENDED JUNE 30, 1998 AND 1997

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

JUNE 30, 1998

ASSETS

CURRENT ASSETS

Cash	\$ 197,000
Accounts receivable, less allowance for doubtful accounts of \$582,000.....	25,931,000
Inventories	28,174,000
Unbilled costs	5,259,000
Deferred income tax benefit	6,100,000
Prepaid expenses and other	2,596,000

Total current assets	68,257,000
Property, plant and equipment--at cost	\$ 15,663,000
Less accumulated depreciation and amortization	(2,782,000)

DEFERRED INCOME TAX BENEFIT	927,000
INTANGIBLE ASSETS - NET	78,035,000
OTHER ASSETS	366,000

\$160,466,000
=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Current maturities of long-term debt	\$ 6,250,000
Accounts payable	12,428,000
Accrued expenses and other liabilities	21,808,000

Total current liabilities	40,486,000
LONG-TERM DEBT, LESS CURRENT MATURITIES	69,745,000
POSTRETIREMENT BENEFITS LIABILITY	25,500,000
PENSION BENEFITS LIABILITY	4,731,000
OTHER LIABILITIES	435,000

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock -- authorized, 1,000,000 shares of \$.01 par value; issued and outstanding, 38,010 shares, at stated value.....	\$ 3,801,000	
Common stock -- authorized, 1,000,000 shares of \$.01 par value; issued and outstanding, 99,000 shares	990	
Additional paid-in capital	2,422,010	
Carryover basis adjustment	(2,151,000)	
Net earnings	15,785,000	
Cumulative translation adjustment	(289,000)	19,569,000
	-----	-----
		\$160,466,000
		=====

The accompanying notes are an integral part of this statement.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30	
	1998	1997
Net revenues	\$105,505,000	\$50,782,000
Cost of goods sold	76,429,000	33,929,000
Gross profit	29,076,000	16,853,000
Operating expenses		
Selling, general and administrative	14,132,000	5,525,000
Engineering, research and development	3,853,000	3,942,000
Actuarial and other changes to postretirement and defined benefit pension plans	--	(2,663,000)
	17,985,000	6,804,000
Earnings from operations	11,091,000	10,049,000
Other income (expenses)		
Interest expense, net	(4,951,000)	(554,000)
Earnings before income taxes	6,140,000	9,495,000
Income tax expense	2,272,000	2,460,000
NET EARNINGS	\$ 3,868,000	\$ 7,035,000
	=====	=====

The accompanying notes are an integral part of these statements.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1998	1997
Cash flows from operating activities		
Net earnings	\$ 3,868,000	\$ 7,035,000
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	2,559,000	529,000
Changes in operating assets and liabilities, net of effect of acquisition of SPD Technologies Inc.		
Accounts receivable	(6,544,000)	(2,868,000)
Inventories	7,036,000	(386,000)
Unbilled costs	(644,000)	827,000
Prepaid expenses and other	(793,000)	(511,000)
Accounts payable	1,332,000	(618,000)
Pension and postretirement benefits liability	(1,033,000)	(2,956,000)
Accrual expenses and other liabilities	1,776,000	880,000
Income taxes payable	1,284,000	703,000
Net cash provided by operating activities	8,841,000	2,635,000
Cash flows from investing activities		
Acquisition of SPD Technologies Inc., net of cash acquired	(791,000)	--
Capital expenditures	(2,950,000)	(914,000)
Net cash (used in) investing activities	(3,741,000)	(914,000)
Cash flows from financing activities		
Proceeds from the issuance of common and preferred stock	1,000	--
Principal payments on short-term debt	(2,955,000)	(1,978,000)
Principal payments on long-term debt	(2,500,000)	(750,000)
Net cash (used in) financing activities	(5,454,000)	(2,728,000)
NET (DECREASE) IN CASH	\$ (354,000)	\$ (1,007,000)

The accompanying notes are an integral part of these statements.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 1998 AND 1997

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SPD Technologies Inc. ("SPD") and Subsidiaries (the "Company") develop, manufacture and market electrical power delivery systems and components and vehicular control systems, focused on switching and distribution and frequency and voltage conversion for military, commercial marine, rail transportation, utility and commercial specialty markets in the United States and overseas. SPD's products encompass the entire electrical distribution (power delivery) system utilized on self-contained power systems such as ships and rail cars.

In January 1997, SPD Holdings Inc., a company formed by an investor group and certain minority stockholders of SPD Technologies Inc., the predecessor company, acquired all of the outstanding stock of the Company. The acquisition was accounted for as a purchase and was financed by the issuance of common and preferred stock and bank borrowings. As a result of certain minority shareholders of the predecessor company acquiring ownership in SPD Holdings Inc., the Company recorded a carryover basis adjustment to stockholders' equity of \$(2,151,000). During 1997, SPD Holdings Inc. changed its name to SPD Technologies Inc.

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month periods ended June 30, 1998 and 1997 are not necessarily indicative of the results that may be expected for the years ended December 31, 1997 and 1998. For further information, refer to the financial statements and footnotes thereto included in the Company's financial statements for the year ended December 31, 1997.

NOTE B -- INVENTORIES

Inventories and inventoried costs relating to long-term contracts consist of the following:

	JUNE 30, 1998

Materials and purchased parts	\$10,730,000
Work-in-process, primarily on U.S. Government	
contracts	24,064,000
Finished goods	1,703,000

	36,497,000
Less progress billings related to long-term contracts	
and programs	8,323,000

	\$28,174,000

Under the contractual arrangements by which progress payments are received, the United States government asserts that it has a security interest in the contracts in process identified with the related contracts.

NOTE C -- SUBSEQUENT EVENT

Pursuant to a definitive agreement entered into on July 2, 1998, L-3 Communications Corporation acquired the stock of the Company on August 13, 1998 for \$230,000,000, subject to adjustment based on closing net assets, as defined. In connection with the sale of the Company, as provided for in the Company's stock option plan, on August 13, 1998 the vesting date for all outstanding stock options of the Company was accelerated and the Company recorded a related \$22,078,000 pre-tax compensation charge.

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

DECEMBER 31, 1997

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
SPD TECHNOLOGIES INC.

We have audited the accompanying consolidated balance sheet of SPD Technologies Inc. and Subsidiaries as of December 31, 1997, and the related consolidated statements of earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPD Technologies Inc. and Subsidiaries as of December 31, 1997, and the consolidated results of their operations and their consolidated cash flows for the year then ended in conformity with generally accepted accounting principles.

New York, New York
February 25, 1998

/s/ Grant Thornton LLP

A-8

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1997

ASSETS

CURRENT ASSETS

Cash	\$	551,230
Accounts receivable, less allowance for doubtful accounts of \$772,000		19,791,544
Inventories		35,209,738
Unbilled costs		4,616,034
Deferred income tax benefit		6,100,000
Prepaid expenses and other		1,219,101

Total current assets

67,487,647

PROPERTY, PLANT AND EQUIPMENT -- AT COST

Land	\$	150,651
Building and improvements		826,754
Machinery and equipment		8,701,809
Furniture and fixtures		783,851
Leasehold improvements		2,469,130

12,932,195

Less accumulated depreciation and amortization

(1,626,808)

11,305,387

DEFERRED INCOME TAX BENEFIT

927,466

INTANGIBLE ASSETS -- NET

78,434,265

OTHER ASSETS

726,932

\$158,881,697

=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Current maturities of long-term debt		\$ 6,305,700
Accounts payable		11,096,002
Postretirement benefits liability		3,500,000
Pension benefits liability		3,049,508
Accrued expenses and other liabilities		18,808,646
Income taxes payable		229,479

Total current liabilities		42,989,335
LONG-TERM DEBT, LESS CURRENT MATURITIES		75,403,527
POSTRETIREMENT BENEFITS LIABILITY		22,681,000
PENSION BENEFITS LIABILITY		2,033,797

		143,107,659
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock -- authorized, 1,000,000 shares of \$.01 par value; issued and outstanding, 38,010 shares, at stated value	\$ 3,801,000	
Common stock -- authorized, 1,000,000 shares of \$.01 par value; issued and outstanding, 99,000 shares	990	
Additional paid-in capital	2,422,170	
Carryover basis adjustment	(2,151,000)	
Net earnings	11,916,021	
Cumulative translation adjustment	(215,143)	15,774,038
	-----	-----
		\$158,881,697
		=====

The accompanying notes are an integral part of this statement.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1997

Net revenues	\$130,039,536
Cost of goods sold	86,533,682

Gross profit	43,505,854

Operating expenses	
Selling, general and administrative	15,749,504
Engineering, research and development	8,500,920
Amortization of intangible assets	1,458,755
Actuarial and other changes to postretirement and defined benefit pension plans	(5,332,680)

	20,376,499

Earnings from operations	23,129,355
Other income (expenses)	
Interest expense, net	(4,842,334)

Earnings before income taxes	18,287,021
Income taxes	
Current	3,100,000
Deferred	3,271,000

	6,371,000

NET EARNINGS	\$ 11,916,021
	=====

The accompanying notes are an integral part of this statement.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 1997

Cash flows from operating activities	
Net earnings	\$ 11,916,021
Adjustments to reconcile net earnings to net cash provided by operating activities	
Depreciation and amortization of property, plant and equipment	1,626,808
Amortization of intangible assets	1,458,755
Deferred income taxes	3,271,000
Actuarial and other changes to postretirement and defined benefit pension plans	(5,332,680)
Provision for losses on accounts receivable	643,000
Changes in operating assets and liabilities, net of effect of acquisitions of SPD Technologies Inc. and Power Paragon Inc.	
Accounts receivable	664,814
Inventories	(6,995,194)
Unbilled costs	2,484,834
Prepaid expenses and other	923,808
Accounts payable	1,897,353
Pension and postretirement benefits liability	(2,893,879)
Other liabilities	2,055,969

Net cash provided by operating activities	11,720,609

Cash flows from investing activities	
Acquisition of SPD Technologies Inc. and Power Paragon Inc., net of cash acquired	(84,920,664)
Capital expenditures	(1,886,136)

Net cash used in investing activities	(86,806,800)

Cash flows from financing activities	
Proceeds from the issuance of common and preferred stock	3,122,000
Net proceeds from long-term debt	96,954,761
Principal payments on long-term debt	(22,718,315)
Payment of deferred financing costs	(1,721,025)

Net cash provided by financing activities	75,637,421

NET INCREASE IN CASH	\$ 551,230
	=====

The accompanying notes are an integral part of this statement.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997

NOTE A -- BUSINESS AND SUMMARY OF ACCOUNTING POLICIES

SPD Technologies Inc. ("SPD") and Subsidiaries (the "Company") develop, manufacture and market electrical power delivery systems and components and vehicular control systems, focused on switching and distribution and frequency and voltage conversion for military, commercial marine, rail transportation, utility and commercial specialty markets in the United States and overseas. SPD's products encompass the entire electrical distribution (power delivery) system utilized on self-contained power systems such as ships and rail cars.

In January 1997, SPD Holdings Inc., a company formed by an investor group and certain minority stockholders of SPD Technologies Inc., the predecessor company, acquired all of the outstanding stock of the Company. The acquisition was accounted for as a purchase and was financed by the issuance of common and preferred stock and bank borrowings. As a result of certain minority shareholders of the predecessor company acquiring ownership in SPD Holdings Inc., the Company recorded a carryover basis adjustment to stockholders' equity of \$(2,151,000). During 1997, SPD Holdings Inc. changed its name to SPD Technologies Inc.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of SPD and its wholly-owned subsidiaries, SPD Electrical Systems, Inc., SPD Switchgear Inc., PacOrd Inc., Henschel, Inc., Power Paragon Inc. and its wholly-owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

2. REVENUE RECOGNITION

Revenues for production-type contracts are recognized as units are shipped or are substantially ready to be shipped subject to customer inspection. Revenues on long-term, production-type contracts, service contracts and engineering and development contracts are recognized on the percentage-of-completion method, whereunder the estimated sales value is determined on the basis of contract milestones achieved and costs are recognized on the basis of contract percentage completions (as measured by applying the most recent estimated profit margin for the entire contract at completion to the revenues recognized based on contractual milestones achieved).

The Company believes its approach is conservative and generally results in lower revenues and gross profits in the early stages of a contract when estimates are more susceptible to change.

Sales under cost reimbursement contracts are recorded as costs are incurred and include estimated earned fees proportionate to total estimated costs. The fees under certain government contracts may be increased or decreased in accordance with cost or performance incentive provisions, which measure actual performance against established targets or other criteria. Such incentive fee awards or penalties are included in sales at the time the amounts can be reasonably determined.

Generally, sales and earnings on long-term government contracts are determined on a contract-by-contract basis, based on estimates that are reviewed and revised periodically and adjustments to recognized sales and earnings resulting from such revisions are recorded on a cumulative basis in the period in which they are identified. Provisions for anticipated losses are made in the period in which they first become determinable.

3. CASH AND CASH EQUIVALENTS

The Company classifies all highly liquid investments with original maturities of less than three months as cash equivalents.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE A -- BUSINESS AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

4. INVENTORIES

Inventories are stated at the lower of cost or market with appropriate provision to reduce excess and obsolete inventory to net realizable values. Generally, the Company values inventory at cost, which approximates actual on a first-in, first-out basis and the weighted moving average method. One subsidiary values inventory related to government contracts to include all costs identified with the contract and an allocation of all other indirect costs, including marketing, general and administrative, and other expenses.

5. PROPERTY, PLANT AND EQUIPMENT

Depreciation and amortization of property, plant and equipment are computed by the straight-line method over the estimated useful lives of the assets for financial reporting purposes and straight-line and accelerated methods for tax reporting purposes.

6. INTANGIBLE ASSETS

Goodwill is being amortized on a straight-line basis over forty years. Deferred financing costs are being amortized over the five-year term of the loan agreement. The Company evaluates goodwill on an annual basis for possible impairment based on the expected future cash flows of the businesses acquired.

7. INCOME TAXES

Deferred income taxes arise from temporary differences between income tax and financial reporting and principally relate to postretirement benefits other than pensions, pension costs, depreciation, inventory and various accrued expenses.

8. FOREIGN CURRENCY TRANSLATION

The assets and liabilities of the Company's German subsidiaries are translated into U.S. dollars at current exchange rates in effect at the reporting date. Income statement items are generally translated at average exchange rates prevailing during the year. The resulting translation adjustments are recorded as a separate component of stockholders' equity. Gains or losses resulting from foreign currency transactions are included in the consolidated statement of earnings as incurred.

9. ACCOUNTING ESTIMATES

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B -- ACQUISITION OF POWER PARAGON INC.

At the close of business on June 30, 1997, SPD acquired all of the outstanding stock of Power Paragon Inc. ("PPI") and subsidiaries (formerly known as PTS Holdings, Inc. and subsidiaries). PPI develops and manufactures electrical power systems and components for military and commercial specialty applications in the United States and overseas. The acquisition was financed principally by bank borrowings. The acquisition has been accounted for as a purchase and, accordingly, the results of operations of PPI are included in the consolidated financial statements from the date of acquisition. In lieu

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE B -- ACQUISITION OF POWER PARAGON INC. (CONTINUED)

of cash, certain minority stockholders of PPI exchanged options for the purchase of stock in PPI for options to purchase shares of the Company's common stock. The fair value of the PPI options exchanged, totalling approximately \$2,324,000, was recorded as additional paid-in capital at the date of the acquisition.

NOTE C -- INVENTORIES

Inventories and inventoried costs relating to long-term contracts consist of the following:

Materials and purchased parts	\$ 8,939,257
Work-in-process, primarily on U.S. Government contracts	33,786,558
Finished goods	1,874,897

	44,600,712
Less progress billings related to long-term contracts and programs	9,390,974

	\$35,209,738
	=====

Under the contractual arrangements by which progress payments are received, the United States government asserts that it has a security interest in the contracts in process identified with the related contracts.

NOTE D -- INTANGIBLE ASSETS

Intangible assets consist of the following:

Goodwill	\$ 78,171,995
Deferred financing costs	1,721,025

	79,893,020
Less accumulated amortization	(1,458,755)

	\$ 78,434,265
	=====

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE E -- LONG-TERM DEBT

Long-term debt is summarized as follows:

Term loan A payable in quarterly installments of principal plus interest at a variable rate (9.5% at December 31, 1997) maturing June 30, 2002	\$37,550,000
Term loan B payable in quarterly installments of principal plus interest at a variable rate (9.75% at December 31, 1997) maturing June 30, 2004	24,950,000
Revolving loan payable bearing interest at a variable rate (9.5% at December 31, 1997) maturing June 30, 2002	18,949,707
Capital lease obligation payable in monthly installments of \$6,261 through January 2002 less amount representing interest of \$47,285	259,520

	81,709,227
Less current maturities	6,305,700

	\$75,403,527
	=====

Substantially all of the assets and capital stock of the Company's subsidiaries are pledged as collateral for borrowings under the term and revolving loans. The loan agreement limits the payment of dividends and provides for mandatory prepayments based upon excess cash flow, as defined. The agreement also contains various restrictive financial covenants including interest coverage and leverage ratios and limitations on annual capital expenditures. Commencing January 1, 1998, the Company has the option to elect a fixed rate of interest based on LIBOR. At December 31, 1997, approximately \$16,000,000 is available on the revolving loan payable.

The following is a summary of the annual maturities of long-term debt:

Year ending December 31,	
1998	\$ 6,305,700
1999	7,561,100
2000	8,816,100
2001	10,320,300
2002	29,081,000
Thereafter	19,625,027

	\$81,709,227
	=====

NOTE F -- COMMITMENTS AND CONTINGENCIES

The Company conducts a substantial portion of its business utilizing leased facilities and equipment with terms lasting through June 2009. The terms of one principal facility lease include an option to purchase the leased premises based on 50% of the fair market value of the land and 100% of the fair market value of the building. The Company can renew the lease for two additional five-year terms.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE F -- COMMITMENTS AND CONTINGENCIES (CONTINUED)

At December 31, 1997, future minimum payments under noncancellable operating leases with remaining terms of more than one year were as follows:

Year ending December 31,	
1998	\$ 4,086,000
1999	3,870,000
2000	2,892,000
2001	2,488,000
2002	2,464,000
Thereafter	7,942,000

	\$23,742,000
	=====

Rent expense for operating leases was approximately \$3,344,000 for the year ended December 31, 1997.

As a defense contractor for the U.S. Government, the books, records and other supporting documentation of the Company used to establish certain contract prices are subject to audit to determine the allowability and reasonableness of costs. The Company routinely undergoes audits by the Government on both a pre-award and post-award basis.

The Company contributed approximately \$1,000 in 1997 to multiemployer pension plans for employees covered by collective bargaining agreements. Under the Multiemployer Pension Plan Amendments Act of 1980, if the plan terminates or the Company withdraws, the Company could be subject to a "withdrawal liability."

NOTE G -- PREFERRED STOCK AND COMMON STOCK WARRANT AND OPTIONS

The preferred stock has a stated value of \$100 per share and provides for cumulative dividends at 8%. All shares of preferred stock are subject to mandatory redemption at the stated value in the event of a sale of securities of the Company or a sale of substantially all of the assets or a significant subsidiary of the Company.

In connection with the acquisition discussed in Note A, the Company issued a warrant for the purchase of 1,000 shares of common stock at an exercise price of \$1.00 to the principal stockholder of the Company. The warrant expires on December 31, 2006.

In connection with the acquisition discussed in Note B, the Company issued options for the purchase of 4,397 shares of the Company's common stock at an exercise price of \$68.37 per share. The options are exercisable in four years or if the Company is acquired. The Company issued additional options to acquire an aggregate of 14,740 Class B Nonvoting common shares to employees and directors. The options are exercisable at \$1.00 per share and expire on July 1, 2007. These options become exercisable only upon the closing of an initial public offering or a sale of the Company for an amount in excess of a "minimum threshold amount." One-half of the options vest in 12 1/2% increments over the initial four-year period. The remaining one-half of the options vest in four equal installments beginning on December 31, 1998, based upon the attainment of certain performance goals.

The Company has determined that a compensation charge will be recorded once it is determined that it is likely that the options will become exercisable, as defined above. The amount of the compensation charge will be based upon the difference between the fair value of the shares of the Company's common stock at the date of exercise and the exercise price. No compensation charge has been recorded as of December 31, 1997.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE H -- POSTRETIREMENT BENEFITS

1. PENSION PLAN

Substantially all the employees of the Company are covered under two defined benefit pension plans in the United States and one defined benefit plan in Germany. The following table sets forth the plans' funded status and amounts recognized in the Company's balance sheet at December 31, 1997:

	UNITED STATES	GERMANY
	-----	-----
Actuarial present value of benefit obligations		
Accumulated benefit obligations including		
vested benefits in the United States of		
\$61,292,666 and in Germany of \$325,971	\$ 61,698,595	\$494,879
	=====	=====
Projected benefit obligation for services		
rendered to date	\$ 65,881,023	\$682,412
Plan assets at fair value, primarily fixed income		
investments and common stocks	62,312,893	--
	-----	-----
Projected benefit obligation in excess of		
plan assets - pension liability	\$ 3,568,130	\$682,412
	=====	=====
Net periodic pension cost includes the following components:		
	United States	Germany
	-----	-----
Service cost - benefit earned during the year	\$ 1,562,196	\$ 21,731
Interest cost on projected benefit obligation	4,956,982	23,171
Actual (return) on plan assets	(7,532,589)	--
Net amortization and deferral	2,477,131	--
	-----	-----
Net periodic pension cost	\$ 1,463,720	\$ 44,902
	=====	=====

The weighted average discount rates used in determining the present value of the projected benefit obligations was 8.15%. The projected rate of increase in future compensation levels was 5% - 5.5%. The expected long-term rate of return on assets was 8% - 9.5%. The Company's policy is to fund pension cost under its pension plan to the extent necessary under the Employee Retirement Income Security Act of 1974. For the year ended December 31, 1997, the Company recorded actuarial and other gains on its pension plans totalling approximately \$3,239,000 principally resulting from better than projected performance of plan assets.

2. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

Certain subsidiaries of the Company have a defined benefit postretirement plan that provides medical benefits for retirees. The Company does not fund retiree benefits in advance. In 1993, the predecessor company established plan cost maximums to account for and control future medical costs more effectively. The Company requires that the projected future cost of providing postretirement benefits, principally health care, be accrued over the period earned rather than expensed as claims are incurred.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE H -- POSTRETIREMENT BENEFITS (CONTINUED)

Net periodic postretirement benefit cost for the year ended December 31, 1997, included the following components:

Service cost benefits attributed to service during the period	\$ 117,000
Interest cost on the accumulated postretirement benefit obligation	2,088,000
Net amortization and deferral	(2,114,000)

Net periodic postretirement benefit cost	\$ 91,000
	=====

Cost was determined by application of the terms of the medical plan, including the effects of established maximums on covered costs, together with relevant actuarial assumptions and health care cost trend rates projected at annual rates progressively declining from 12% in 1995. Future benefits for union-represented employees will be capped at the limits in effect for December 31, 1996. The effect of a 1% annual increase in these assumed cost trend rates would increase the accumulated postretirement benefit obligation by approximately \$919,000 in 1997; the annual costs would not be materially affected. For the year ended December 31, 1997, the Company recognized prior service costs of approximately \$4,362,000 relating to additional costs of salaried employees whose employer contributions do not have a cap and approximately \$6,476,000 of net gains resulting from various underwriting changes including lower expected medical cost premiums as a result of more salaried employees choosing HMO's.

The following table provides information on the status of the plan at December 31, 1997:

Accumulated postretirement benefit obligation	
Retirees	\$18,420,000
Fully eligible active plan participants	5,984,000
Other active plan participants	1,777,000

Accumulated postretirement benefit obligation	\$26,181,000
	=====

Measurement of the accumulated postretirement benefit obligation was based on an assumed discount rate of 8.15% in 1997. The health care cost trend rate for salaried employees was 9% in 1997.

3. EMPLOYEES' SAVINGS AND PROFIT-SHARING PLAN

The Company maintains various employee 401(k) savings plans. The Company contributes a guaranteed minimum of eligible employee contributions. Additional company contributions are voluntary and at the discretion of the Board of Directors. Profit-sharing expense was approximately \$754,000 for the year ended December 31, 1997.

4. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Company has two supplemental executive retirement plans which are nonqualified plans maintained primarily for the purpose of providing additional deferred compensation for a select group of management or highly compensated employees, as defined by the Employee Retirement Income Security Act of 1974. Participation in, benefits under, and the duration of the plans are subject to the Company's discretion.

Participants in the plans accrue benefits each fiscal year based on the Company's discretionary contribution for each participant. The Company has accrued \$132,000 of estimated yearly contributions to be paid for the year ended December 31, 1997.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE H -- POSTRETIREMENT BENEFITS (CONTINUED)

In conjunction with the establishment of the plans, the Company established rabbi trusts to aid in the payment of plan benefits. The trusts are revocable and the assets contributed to the trusts can only be used to pay participant benefits, with certain exceptions. Although the rabbi trusts established are revocable by the Company, the trust agreements provide that, after a change in control, the rabbi trusts shall not be revocable until all protected benefits have been paid in full. The assets held in the trusts at December 31, 1997 (included in other assets) amounted to approximately \$576,000. Earnings on trust assets are allocated to participants' accounts and are included in the trust assets amount.

NOTE I -- INCOME TAXES

Income tax expense is comprised of the following:

Currently payable	
Federal	\$2,377,000
State	708,000
Germany	15,000

	3,100,000

Deferred	
Federal	2,842,000
State	711,000
Germany	(282,000)

	3,271,000

	\$6,371,000
	=====

The following is a reconciliation of the statutory Federal income tax rate to the effective rate reported in the financial statements:

Expected provision for Federal income taxes	34.0%
State and local taxes, net of Federal income tax benefit	5.1
Research and development credits	(4.9)
Amortization of goodwill	2.8
Other	(2.2)

	34.8%
	=====

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 1997

NOTE I -- INCOME TAXES (CONTINUED)

Deferred income taxes at December 31, 1997 relate to the following:

	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
	-----	-----
Pension and postretirement benefits	\$ 12,773,000	
Net operating loss of German subsidiary	1,245,466	
Inventory costs	2,097,000	
Contract costs		\$2,663,000
Vacation pay accrual	1,180,000	
Warranty costs	519,000	
Other temporary differences	2,822,000	318,000
Valuation allowance	(10,628,000)	
	-----	-----
	\$ 10,008,466	\$2,981,000
	=====	=====

The Federal income tax returns of PPI for the year ended June 30, 1995 are under examination by the Internal Revenue Service. As of December 31, 1997, no adjustments have been proposed.

PPI's subsidiaries in Germany have a net operating loss carryforward of approximately \$2,600,000 which has no expiration date.

NOTE J -- CASH FLOW INFORMATION

The following is supplemental cash flow information:

Cash paid for	
Interest	\$2,850,000
Income taxes	4,431,000

In connection with the acquisitions of SPD Technologies Inc. and Power Paragon Inc., liabilities were assumed as follows:

Fair value of assets acquired	\$161,974,000
Cash paid	84,921,000

Liabilities assumed	\$ 77,053,000
	=====

NOTE K -- ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities are summarized as follows:

Accrued employment costs	\$ 7,365,243
Accrued interest	2,112,342
Allowance for contract adjustments	2,258,777
Accrued warranties	1,287,972
Customer advances	1,315,714
Other current liabilities	4,468,598

	\$18,808,646
	=====

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT CERTIFIED
PUBLIC ACCOUNTANTS
SPD TECHNOLOGIES INC. AND SUBSIDIARIES
DECEMBER 31, 1996 AND 1995

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
SPD TECHNOLOGIES INC.

We have audited the accompanying consolidated balance sheets of SPD Technologies Inc. and Subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of earnings and accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SPD Technologies Inc. and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their consolidated cash flows for the years then ended in conformity with generally accepted accounting principles.

New York, New York
February 28, 1997

/s/ Grant Thornton LLP

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,

	1996	1995
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash	\$ 738,344	\$ 689,013
Accounts receivable, less allowance for doubtful accounts of \$825,000 and \$1,147,000 in 1996 and 1995, respectively	12,536,032	10,570,568
Inventories	15,622,720	13,261,009
Unbilled costs	6,896,859	6,146,263
Deferred income tax benefit	3,185,000	3,279,000
Prepaid expenses and other	185,954	446,548
	-----	-----
Total current assets	39,164,909	34,392,401
EQUIPMENT AND LEASEHOLD IMPROVEMENTS -- AT COST		
Machinery and equipment	15,312,374	13,874,680
Furniture and fixtures	2,627,740	1,958,226
Leasehold improvements	895,940	815,572
	-----	-----
	18,836,054	16,648,478
Less accumulated depreciation and amortization	13,834,973	13,041,802
	-----	-----
	5,001,081	3,606,676
DEFERRED INCOME TAX BENEFIT	2,900,000	2,900,000
INTANGIBLE ASSETS -- NET	2,476,449	3,473,475
OTHER ASSETS	211,961	224,016
	-----	-----
	\$49,754,400	\$44,596,568
	=====	=====

The accompanying notes are an integral part of these statements.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,

	1996	1995
	-----	-----
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Note payable	\$ 2,187,087	\$ 3,604,724
Current maturities of long-term debt	2,500,000	2,500,000
Accounts payable	6,000,531	2,760,861
Accrued employment costs	3,902,930	3,182,689
Pension and postretirement benefits liability	6,091,716	8,651,354
Other liabilities and accrued expenses	7,258,908	5,170,895
Income taxes payable	55,100	521,000
	-----	-----
Total current liabilities	27,996,272	26,391,523
LONG-TERM DEBT, LESS CURRENT MATURITIES	2,500,000	5,000,000
POSTRETIREMENT BENEFITS LIABILITY	26,138,784	26,432,090
PENSION LIABILITY	2,870,173	3,750,000
DEFERRED INCOME TAXES	285,000	379,000
MINORITY INTEREST IN SUBSIDIARY		116,955
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' DEFICIENCY		
Common stock -- authorized, 1,000,000 shares of \$.01 par value; issued and outstanding, 102,750 shares, in 1996 and 1995, respectively	1,027	1,027
Additional paid-in capital	2,394,281	2,394,281
Accumulated deficit	(12,294,547)	(19,868,308)
	-----	-----
	(9,899,239)	(17,473,000)
Less: 2,355 shares of common stock in treasury -- at cost at December 31, 1996	136,590	
	-----	-----
	(10,035,829)	(17,473,000)
	-----	-----
	\$ 49,754,400	\$ 44,596,568
	=====	=====

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND ACCUMULATED DEFICIT

YEAR ENDED DECEMBER 31,

	1996	1995
	-----	-----
Net revenues	\$ 93,340,918	\$ 87,181,721
Cost of goods sold	61,902,538	57,193,503
	-----	-----
Gross profit	31,438,380	29,988,218
	-----	-----
Operating expenses		
Selling, general and administrative	10,328,101	11,432,406
Engineering, research and development	7,213,821	5,487,788
Actuarial gain from postretirement plan		(3,000)
	-----	-----
	17,541,922	16,917,194
	-----	-----
Earnings from operations	13,896,458	13,071,024
Other income (expenses)		
Interest expense, net	(1,179,697)	(1,728,787)
	-----	-----
Earnings before provision for income tax expense (benefit)		
and minority interest	12,716,761	11,342,237
Income taxes -- currently payable	5,143,000	3,042,000
	-----	-----
Earnings before minority interest	7,573,761	8,300,237
Minority interest		125,414
	-----	-----
NET EARNINGS	7,573,761	8,425,651
Accumulated deficit at beginning of year	(19,868,308)	(28,293,959)
	-----	-----
Accumulated deficit at end of year	\$ (12,294,547)	\$ (19,868,308)
	=====	=====

The accompanying notes are an integral part of these statements.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,

	1996	1995
	-----	-----
Cash flows from operating activities		
Net earnings	\$ 7,573,761	\$ 8,425,651
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	1,179,610	988,886
Actuarial gain from postretirement plan		(3,000)
Provision for losses on accounts receivable	(74,200)	9,495
Loss on sale of equipment		25,198
Minority interest		(142,214)
Changes in operating assets and liabilities		
Accounts receivable	(1,891,264)	823,833
Inventories	(2,361,711)	1,437,531
Unbilled costs	(750,596)	(613,467)
Prepaid expenses and other	272,649	(134,658)
Accounts payable	3,239,670	(1,383,543)
Pension and postretirement benefits liability	(2,971,220)	(4,915,779)
Other liabilities	2,247,311	501,886
Net cash provided by operating activities	6,464,010	5,019,819
Cash flows from investing activities		
Capital expenditures	(2,338,539)	(1,202,917)
Proceeds from sale of equipment		24,069
Net cash used in investing activities	(2,338,539)	(1,178,848)
Cash flows from financing activities		
Net (decrease) increase in borrowings	(1,417,638)	3,345,454
Term loan borrowing		7,500,000
Principal payments on long-term debt	(2,500,000)	(14,500,000)
(Purchase) sale of company stock	(136,590)	2,351
Purchase of minority interest	(21,912)	
Net cash used in financing activities	(4,076,140)	(3,652,195)
NET INCREASE IN CASH	49,331	188,776
Cash at beginning of year	689,013	500,237
Cash at end of year	\$ 738,344	\$ 689,013
	=====	=====

The accompanying notes are an integral part of these statements.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND 1995

NOTE A -- BUSINESS AND SUMMARY OF ACCOUNTING POLICIES

SPD Technologies, Inc. ("SPD") and Subsidiaries (the "Company") develop, manufacture and service circuit protection systems, ship control systems and combat systems, and perform overhaul and repairs for naval vessels primarily under fixed-price contracts. At December 31, 1996, Merrill Lynch Capital Corp. ("MLCC") owned 77.9% of the Company. Reference is made to Note L.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of SPD and its wholly-owned subsidiaries, SPD Switchgear Inc., PacOrd Inc. and Henschel, Inc. All material intercompany accounts and transactions have been eliminated. In 1996, the Company purchased the minority interest of Henschel, Inc. for \$21,912.

2. REVENUE RECOGNITION

Substantially all of the Company's revenues and accounts receivable arise from contracts with the U.S. Navy or its suppliers.

Production-type contracts, not classified as long-term, provide a substantial portion of the Company's revenues. Revenues are recognized as units are shipped or are substantially ready to be shipped subject to customer inspection. Revenues on long-term, production-type contracts, service contracts and engineering and development contracts are recognized on the percentage-of-completion method. Under the Company's methodology, revenues and gross profit are recognized based on billings rather than on a level-of-effort basis. The Company believes its approach is more conservative and generally results in lower revenues and gross profits in the early stages of a contract when estimates are more susceptible to change. Provisions for anticipated losses are made in the period in which they first become determinable.

3. INVENTORIES

Inventories are stated at the lower of cost or market, with appropriate provision to reduce excess and obsolete inventory to net realizable values. In general, cost is currently adjusted standard cost, which approximates actual cost on a first-in, first-out basis, and the weighted moving average method.

4. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Depreciation and amortization are computed by the straight-line method over their estimated useful lives for financial reporting purposes and straight-line and accelerated methods for tax reporting purposes.

5. INCOME TAXES

Deferred income taxes arise from temporary differences between income tax and financial reporting and principally relate to postretirement benefits other than pensions, pension costs, depreciation, inventory and various accrued expenses.

6. ACCOUNTING ESTIMATES

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE B -- INVENTORIES

Inventories primarily relate to production-type contracts and include expenditures for materials, purchased parts and work-in-process beyond what is required for recorded orders. These expenditures are incurred primarily to help maintain stable production schedules.

Inventories consist of the following:

	1996	1995
	-----	-----
Materials and purchased parts	\$ 2,906,353	\$ 2,960,879
Work-in-process, primarily on U.S. Government contracts	10,624,008	9,248,883
Finished goods	2,092,359	1,051,247
	-----	-----
	\$15,622,720	\$13,261,009
	=====	=====

NOTE C -- INTANGIBLE ASSETS

Intangible assets consist of the following:

	1996	1995
	-----	-----
Engineering drawings	\$ 699,013	\$ 699,013
Less accumulated amortization	(699,013)	(463,538)
	-----	-----
	--	235,475
Intangible asset - pension	2,476,449	3,238,000
	-----	-----
	\$2,476,449	\$3,473,475
	=====	=====

NOTE D -- REVOLVING CREDIT FACILITY

During 1995, the Company entered into a \$15,000,000 revolving credit facility with a financial institution which expires on November 29, 1998. Borrowings are based upon eligible accounts receivable and inventory of the Company, as defined. Borrowings bear interest at the lender's prime rate plus .50% (9% at December 31, 1996).

The agreement contains certain restrictive covenants, including, among other matters, the requirement to maintain certain financial ratios, and restricts the payment of dividends. Borrowings under this facility are collateralized by the Company's inventories and accounts receivable. Available borrowings under this credit arrangement are subject to a 0.37 percent commitment fee.

NOTE E -- LONG-TERM DEBT

Long-term debt consists of the following:

	1996	1995
	-----	-----
Term Loan due to Heller Financial Inc.	\$5,000,000	\$7,500,000
Less current maturities	2,500,000	2,500,000
	-----	-----
	\$2,500,000	\$5,000,000
	=====	=====

The term loan due to Heller Financial Inc. is payable in quarterly installments of \$625,000, and bears interest at prime plus .75% per annum, payable monthly (9.25% as of December 31, 1996).

The term loan is collateralized by substantially all of the Company's equipment and leasehold improvements. The loan agreement restricts payment of dividends and contains certain restrictive covenants regarding the maintenance of financial ratios.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE F -- COMMITMENTS AND CONTINGENCIES

The Company conducts a substantial portion of its business utilizing leased facilities and equipment with terms lasting through January 31, 2005. The terms of the facility lease include an option to purchase the leased premises based on 50% of the fair market value of the land and 100% of the fair market value of the building. The Company can renew the lease for two additional five-year terms.

A subsidiary of the Company also conducts its business in a leased facility. The lease has a non-cancellable initial term of ten years expiring in December 1999 with two five-year renewal options.

At December 31, 1996, future minimum payments under noncancellable operating leases with remaining terms of more than one year were as follows:

Year ending December 31, 1997	\$1,450,000
1998	1,337,000
1999	1,324,000
2000	720,000
2001	651,000
Thereafter	778,000

	\$6,260,000
	=====

Total rental expense for operating leases was approximately \$1,875,000 and \$1,787,000 for the years ended December 31, 1996 and 1995, respectively.

As a defense contractor for the U.S. Government, the books, records and other supporting documentation of the Company used to establish certain contract prices are subject to audit to determine the allowability and reasonableness of costs. The Company routinely undergoes audits by the Government on both a pre-award and post-award basis.

NOTE G -- COMMON STOCK AND INCENTIVE STOCK OPTIONS

In 1995, the Company sold 2,355 shares of common stock previously held in treasury to two employees and a director.

The Company has options outstanding to key executives for the purchase of 954 shares of common stock at an exercise price of \$1.00 per share. The options expire on December 31, 2002.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE H -- POSTRETIREMENT BENEFITS

1. PENSION PLAN

Substantially all the employees of the Company are covered under a defined benefit pension plan. The following table sets forth the plan's funded status and amounts recognized in the Company's balance sheets at December 31, 1996 and 1995:

	1996	1995
	-----	-----
Actuarial present value of benefit obligations		
Accumulated benefit obligations including vested benefits of		
\$59,278,594 in 1996 and \$52,700,092 in 1995.....	\$ 60,303,661	\$ 58,252,380
	=====	=====
Projected benefit obligation for services rendered to date	\$ 63,413,303	\$ 61,142,368
Plan assets at fair value, primarily fixed income investments and		
common stocks	54,588,989	49,449,375
	-----	-----
Projected benefit obligation in excess of plan assets	8,824,314	11,692,993
Unrecognized net loss	(3,054,968)	(3,056,450)
Unrecognized prior service costs	(2,596,625)	(3,238,223)
Unrecognized net transition asset	65,502	77,783
Minimum liability adjustment	2,476,449	3,326,902
	-----	-----
Pension liability	\$ 5,714,672	\$ 8,803,005
	=====	=====
Net periodic pension cost includes the following components:		
	1996	1995
	-----	-----
Service cost - benefit earned during the year	\$ 1,327,831	\$ 1,300,886
Interest cost on projected benefit obligation	4,872,752	4,743,858
Actual (return) on plan assets	(4,854,957)	(6,663,443)
Net amortization and deferral	879,262	3,511,186
	-----	-----
Net periodic pension cost	\$ 2,224,888	\$ 2,892,487
	=====	=====

The weighted average discount rates used in determining the present value of the projected benefit obligations was 8.15% in 1996 and 1995. The projected rate of increase in future compensation levels was 5.0% for both years. The expected long-term rate of return on assets was 9.5% for both years. Prior service costs are amortized using a straight-line method over the average remaining service period of employees expected to receive benefits under the plan. The Company's policy is to fund pension cost under its pension plan to the extent necessary under the Employee Retirement Income Security Act of 1974.

2. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company has a defined benefit postretirement plan that provides medical benefits for retirees. The Company does not fund retiree benefits in advance. In 1992, the Company established plan cost maximums to account for and control future medical costs more effectively. The Company requires that the projected future cost of providing postretirement benefits, principally health care, be accrued over the period earned rather than expensed as claims are incurred.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE H -- POSTRETIREMENT BENEFITS (CONTINUED)

Net periodic postretirement benefit cost for the years ended December 31, 1996 and 1995, included the following components:

	1996	1995
	-----	-----
Service cost benefits attributed to service during the period	\$ 9,000	\$ 13,000
Interest cost on the accumulated postretirement benefit obligation	2,216,000	2,305,000
Net amortization and deferral	(104,000)	

Net periodic postretirement benefit cost	\$2,121,000	\$2,318,000
	=====	=====

Cost was determined by application of the terms of the medical plan, including the effects of established maximums on covered costs, together with relevant actuarial assumptions and health care cost trend rates projected at annual rates progressively declining from 12% in 1995. Future benefits will be capped at the limits in effect for December 31, 1996. The effect of a 1% annual increase in these assumed cost trend rates would increase the accumulated postretirement benefit obligation by approximately \$-0- in 1996 and \$32,000 in 1995; the annual costs would not be materially affected. In addition to net periodic postretirement cost, the Company recognized an actuarial gain of \$3,000 in 1995.

The following tables provide information on the status of the plan at December 31, 1996 and 1995.

	1996	1995
	-----	-----
Accumulated postretirement benefit obligation		
Retirees	\$23,193,000	\$23,144,000
Fully eligible active plan participants	4,197,000	4,552,000
Other active plan participants	142,000	183,000
	-----	-----
Accumulated postretirement benefit obligation	27,532,000	27,879,000
Unrecognized net gain (loss)	1,854,000	2,135,000
	-----	-----
Accrued postretirement benefit cost recognized in the consolidated balance sheet	\$29,386,000	\$30,014,000
	=====	=====

Measurement of the accumulated postretirement benefit obligation was based on an assumed discount rate of 8.15% in 1996 and 1995. The health care cost trend rate was 0% in 1996 and 12% in 1995.

3. EMPLOYEES' SAVINGS AND PROFIT-SHARING PLAN

The Company maintains an hourly and salaried employees' savings plan. The Company contributes a guaranteed minimum of eligible employee contributions. Additional company contributions of up to 25% of eligible employee contributions are voluntary and at the discretion of the Board of Directors. Profit-sharing expense was approximately \$642,000 and \$506,000 for the years ended December 31, 1996 and 1995, respectively.

4. MULTIEMPLOYER PLAN

The Company contributed \$1,000 in 1996 and 1995 to multiemployer pension plans for employees covered by collective bargaining agreements. These plans are not administered by the Company and contributions are determined in accordance with provisions of the negotiated labor contract. Information with respect to the Company's proportionate share of the excess, if any, of the actuarially computed value of vested benefits over the total of the pension plans' net assets is not available from the plans' administrators.

SPD TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE H -- POSTRETIREMENT BENEFITS (CONTINUED)

The Multiemployer Pension Plan Amendments Act of 1980 (the "Act") significantly increased the pension responsibilities of participating employers. Under the provisions of the Act, if the plan terminates or the Company withdraws, the Company could be subject to a "withdrawal liability."

NOTE I -- INCOME TAXES

Income tax expense is comprised of the following:

	1996	1995
	-----	-----
Currently payable		
Federal	\$4,133,000	\$2,269,000
State	1,010,000	773,000
	-----	-----
	\$5,143,000	\$3,042,000
	=====	=====

The effective tax rate varies from the statutory rate primarily due to state and local income taxes and for the year ended December 31, 1995 due to adjustment of prior year's tax provision.

Deferred income taxes at December 31 relate to the following:

	1996		1995	
	-----	-----	-----	-----
	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES
	-----	-----	-----	-----
Pension and postretirement benefits	\$ 13,821,000	\$ --	\$ 15,462,000	\$ --
Other temporary differences	1,683,000	285,000	2,252,000	379,000
Inventory costs	1,640,000	--	1,713,000	--
Vacation pay accrual	644,000	--	625,000	--
Warranty costs	484,000	--	652,000	--
Valuation allowance	(12,187,000)	--	(14,525,000)	--
	-----	-----	-----	-----
	\$ 6,085,000	\$285,000	\$ 6,179,000	\$379,000
	=====	=====	=====	=====

NOTE J -- CASH FLOW INFORMATION

The following is supplemental cash flow information:

	1996	1995
	-----	-----
Cash paid for		
Interest	\$1,179,000	\$1,665,000
Income taxes	5,621,000	3,916,000

NOTE K -- OTHER LIABILITIES AND ACCRUED EXPENSES

Other liabilities and accrued expenses are summarized as follows:

	1996	1995
	-----	-----
Allowance for contract adjustments	\$2,499,449	\$ 783,513
Accrued warranties	1,160,613	1,490,294
Customer advances	797,931	851,364
Other current liabilities	2,800,915	2,045,724
	-----	-----
	\$7,258,908	\$5,170,895
	=====	=====

SPD TECHNOLOGIES INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE L -- SUBSEQUENT EVENTS

In January 1997, a newly formed company, by an investor group and certain minority stockholders of the Company, acquired all the outstanding stock of the Company. The acquisition was financed through the issuance of preferred and common stock and bank borrowings.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma financial information gives effect to the following transactions as if they had occurred on January 1, 1997: (i) the Company's purchase of the stock of SPD Technologies, Inc. ("SPD"); (ii) the acquisition (the "L-3 Acquisition") by L-3 Communications Holdings, Inc., ("Holdings" or the "Company") of ten business units from Lockheed Martin Corporation (the "Predecessor Company"); (iii) the acquisitions by the Company of the assets of the Ocean Systems business ("Ocean Systems") of Allied Signal, Inc., the assets of ILEX Systems ("ILEX") and the assets of the Satellite Transmission Systems division ("STS") of California Microwave, Inc. (collectively, the "Other Acquisitions"); and (iv) the sale of 6.9 million shares by Holdings of its common stock in an initial public offering, the issuance by the Company of \$180.0 million of 8 1/2% Senior Subordinated Notes, and the amendment of the Company's credit facilities to increase its revolving credit facility to \$200.0 million (collectively, the "Offerings"). The pro forma financial information is based on (i) the unaudited condensed consolidated financial statements of the Company and SPD as of June 30, 1998 and for the six months ended June 30, 1998, (ii) the consolidated statement of operations of the Company for the nine-month period ended December 31, 1997, (iii) the combined statement of operations of the Predecessor Company for the three months ended March 31, 1997, and (iv) the statements of operations of SPD and the Other Acquisitions for the year ended December 31, 1997, using the purchase method of accounting and the assumptions and adjustments in the accompanying notes to the unaudited pro forma condensed consolidated financial statements.

The pro forma adjustments are based upon preliminary estimates of purchase prices and the related purchase price allocations for SPD and the Other Acquisitions. Actual adjustments will be based on final appraisals and other analyses of fair values which are in process. Management does not expect that differences between the preliminary and final allocations will have a material impact on the Company's pro forma financial position or results of operations. The pro forma statement of operations does not reflect any cost savings that management of the Company believes would have resulted had the Transactions occurred on January 1, 1997. The pro forma financial information should be read in conjunction with (i) the unaudited condensed consolidated financial statements of SPD for the six months ended June 30, 1998, (ii) the audited consolidated financial statements of SPD for the year ended December 31, 1997, (iii) the unaudited condensed consolidated financial statements of the Company for the six months ended June 30, 1998, (iv) the audited consolidated (combined) financial statements of the Company and the Predecessor Company as of December 31, 1997 and for the nine months ended December 31, 1997 and the three months ended March 31, 1997, (v) the audited financial statements of STS for the year ended June 30, 1997, (vi) the unaudited condensed financial statements of STS as of December 31, 1997 and for the six months ended December 31, 1997 and 1996, (vii) the audited consolidated financial statements of ILEX for the year ended December 31, 1997, and (viii) the audited combined financial statements of Ocean Systems for the year ended December 31, 1997. The historical financial statements of the Company, Ocean Systems, ILEX and STS referred to above are included in the Company's previously filed Annual Report on Form 10-K, as amended, for the year ended December 31, 1997 and Quarterly Report on Form 10-Q for the quarter ended June 30, 1998. The unaudited pro forma condensed financial information may not be indicative of the financial position and results of operations of the Company that actually would have occurred had the Transactions been in effect on the dates indicated or the financial position and results of operations that may be obtained in the future.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

	COMPANY JUNE 30, 1998	SPD JUNE 30, 1998(6)	PRO FORMA ADJUSTMENTS(7)	PRO FORMA JUNE 30, 1998
<hr/>				
ASSETS				
Current assets:				
Cash and cash equivalents.	\$ 100.5	\$ 0.2	(\$ 95.2)	\$ 5.5
Contracts in process	266.3	59.4	2.0	327.7
Other current assets.	17.7	8.7	--	26.4
	-----	-----	-----	-----
Total current assets.	384.5	68.3	(93.2)	359.6
	-----	-----	-----	-----
Property, plant and equipment, net.	101.4	12.9	--	114.3
Intangibles, primarily cost in excess of net assets acquired, net of amortization	393.7	78.0	136.5	608.2
Other assets.	73.7	1.3	14.5 (9)	89.5
	-----	-----	-----	-----
Total assets	\$ 953.3	\$ 160.5	\$ 57.8	\$ 1,171.6
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term debt	\$ --	\$ 6.3	(\$ 6.3)	\$ --
Accounts payable and accrued expenses	82.4	27.9	--	110.3
Customer advances and amounts in excess of costs incurred	75.5	2.1	--	77.6
Other current liabilities	49.6	4.2	--	53.8
	-----	-----	-----	-----
Total current liabilities	207.5	40.5	(6.3)	241.7
	-----	-----	-----	-----
Pension, postretirement benefits and other liabilities	56.7	30.8	10.0	97.5
Revolving credit facility	--	--	143.3	143.3
Senior subordinated notes	405.0	--	--	405.0
SPD debt	--	69.7	(69.7)	--
Shareholders' equity	284.1	19.5	(19.5)	284.1
	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$ 953.3	\$ 160.5	\$ 57.8	\$ 1,171.6
	=====	=====	=====	=====

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1998

	COMPANY	SPD(6)	SPD PRO FORMA ADJUSTMENTS
	(in millions, except per share data)		
STATEMENT OF OPERATIONS:			
Sales	\$ 417.0	\$ 105.5	\$ --
Costs and expenses	383.4	94.4	1.6 (7)
	-----	-----	-----
Operating income (loss)	33.6	11.1	(1.6)
Interest and investment income (expense)	1.5	--	--
Interest expense	21.6	5.0	--
	-----	-----	-----
Income (loss) before income taxes	13.5	6.1	(1.6)
Income tax expense (benefit)	5.3	2.2	(0.6)(9)
	-----	-----	-----
Net income (loss)	\$ 8.2	\$ 3.9	\$ (1.0)
	=====	=====	=====
EARNINGS PER COMMON SHARE(10):			
Basic	\$ 0.37		
Diluted	\$ 0.36		
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING(10):			
Basic	21.9		
Diluted	23.0		

	OTHER ACQUISITIONS(2)(3)	OTHER ACQUISITIONS PRO FORMA ADJUSTMENTS(4)	FINANCING TRANSACTIONS(5)(8)	PRO FORMA
	(in millions, except per share data)			
STATEMENT OF OPERATIONS:				
Sales	\$ 20.7	\$ --	\$ --	\$ 543.2
Costs and expenses	23.2	0.5	--	503.1
	-----	-----	-----	-----
Operating income (loss)	(2.5)	(0.5)		40.1
Interest and investment income (expense)	--	--	(1.5)	--
Interest expense	0.1	--	0.1	26.8
	-----	-----	-----	-----
Income (loss) before income taxes	(2.6)	(0.5)	(1.6)	13.3
Income tax expense (benefit)	(0.6)	(0.2)	(0.6)(9)	4.7
	-----	-----	-----	-----
Net income (loss)	\$ (2.0)	\$ (0.3)	\$ (1.0)	\$ 7.8
	=====	=====	=====	=====
EARNINGS PER COMMON SHARE(10):				
Basic				\$ 0.29
Diluted				\$ 0.27
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING(10):				
Basic			6.9	27.2
Diluted			6.9	28.4

YEAR ENDED DECEMBER 31, 1997

	COMPANY NINE MONTHS ENDED DECEMBER 31, 1997	PREDECESSOR COMPANY THREE MONTHS ENDED MARCH 31, 1997(1)	PRO FORMA ADJUSTMENTS L-3 ACQUISITION(1)	PRO FORMA L-3 ACQUISITION	SPD(6)
		(in millions, except per share data)			
Statement of Operations:					
Sales	\$ 546.5	\$ 158.9	\$ (1.8)	\$ 703.6	\$ 130.0
Costs and expenses	495.0	151.0	(7.6)	638.4	106.9
	-----	-----	-----	-----	-----
Operating income (loss)	51.5	7.9	5.8	65.2	23.1
Interest and investment income (expense)	1.4	--	--	1.4	--
Interest expense	29.9	8.4	1.5	39.8	4.8
	-----	-----	-----	-----	-----
Income (loss) before income taxes	23.0	(0.5)	4.3	26.8	18.3
Income tax expense (benefit)	10.7	(0.2)	--	10.5	6.4
	-----	-----	-----	-----	-----
Net income (loss)	\$ 12.3	\$ (0.3)	\$ 4.3	\$ 16.3	\$ 11.9
	=====	=====	=====	=====	=====
EARNINGS PER COMMON SHARE(10):					
Basic	\$ 0.62				
Diluted	\$ 0.61				
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING(10):					
Basic	20.0				
Diluted	20.0				

	SPD PRO FORMA ADJUSTMENTS	OTHER ACQUISITIONS(2)(3)	PRO FORMA ADJUSTMENTS OTHER ACQUISITIONS(2)	FINANCING TRANSACTIONS(5)(8)	PRO FORMA
	-----	-----	-----	-----	-----
	(in millions, except per share data)				
Statement of Operations:					
Sales.	\$ -	\$ 190.4	\$ --	\$ --	\$ 1,024.0
Costs and expenses	4.0 (7)	196.3	1.1 (4)	--	946.7
	-----	-----	-----	-----	-----
Operating income (loss)	(4.0)	(5.9)	(1.1)	--	77.3
Interest and investment income					
(expense).	--	(0.1)	--	(1.3)	--
Interest expense.	--	0.5	--	8.5	53.6
	-----	-----	-----	-----	-----
Income (loss) before income					
taxes	(4.0)	(6.5)	(1.1)	(9.8)	23.7
Income tax expense (benefit)	(1.6)(9)	(4.0)	(0.4)(9)	(3.8)(9)	7.1
	-----	-----	-----	-----	-----
Net income (loss)	\$ (2.4)	\$ (2.5)	\$ (0.7)	\$ (6.0)	\$ 16.6
	=====	=====	=====	=====	=====
EARNINGS PER COMMON SHARE(10):					
Basic					\$ 0.62
Diluted.					\$ 0.60
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING(10):					
Basic				6.9	26.9
Diluted.				6.9	27.7

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following facts and assumptions were used in determining the pro forma effect of the Transactions.

1. The Company's historical financial statements reflect the results of operations of the Company since the effective date of the L-3 Acquisition, April 1, 1997, and the Predecessor Company historical financial statements reflect the results of operations of the Predecessor Company for the three months ended March 31, 1997. The adjustments made to the pro forma statement of operations for the three months ended March 31, 1997 and for the year ended December 31, 1997, relating to the L-3 Acquisition are: (a) the elimination of \$1.8 million of sales and \$1.8 million of costs and expenses related to the Hycor business which was acquired as part of the L-3 Acquisition and which has been accounted for as "net assets of acquired business held for sale", (b) a reduction to costs and expenses of \$0.8 million to record amortization expenses on the excess of the L-3 Acquisition purchase price over net assets acquired of \$303.2 million over 40 years, net of the reversal of amortization expenses of intangibles included in the Predecessor Company historical financial statements, (c) a reduction to costs and expenses of \$0.6 million to record estimated pension cost on a separate company basis net of the reversal of the allocated pension cost included in the Predecessor Company historical financial statements, (d) a net increase to interest expense of \$1.5 million, comprised of a \$0.2 million allocated interest expense reduction related to the Hycor business and a net \$1.7 million increase, reflecting pro forma interest expense of \$10.2 million based on actual borrowings of \$400.0 million and the effective cost of borrowing rate incurred by the Company to finance the L-3 Acquisition less interest expense of approximately \$8.5 million included in the historical financial statements of the Predecessor Company, and (e) the reversal of a \$4.4 million noncash compensation charge related to the initial capitalization of the Company included in the Company's historical results of operations for the nine months ended December 31, 1997 which is nonrecurring in nature. A statutory (federal, state and foreign) tax rate of 39.0% was assumed on these pro forma adjustments except for adjustment (e), where no tax effect has been reflected.
2. On February 5, 1998, the Company purchased the assets of STS for \$27.5 million of cash including expenses. On March 4, 1998, the Company purchased substantially all the assets of ILEX for \$51.5 million of cash including expenses (net of acquired cash of \$2.4 million) plus additional consideration contingent upon post-acquisition performance of ILEX. On March 30, 1998, the Company purchased the assets of Ocean Systems for \$68.7 million of cash including expenses. The STS and ILEX purchase prices are subject to adjustment based upon the actual closing net assets as defined. The aggregate purchase prices including expenses of the Other Acquisitions of \$147.7 million were substantially all financed with the proceeds from the Offerings (See Note 5 below). The Other Acquisitions are included in the Company's historical balance sheet as of June 30, 1998.
3. The pro forma statements of operations include the following historical financial data for the Other Acquisitions:

The pro forma statement of operations for the six months ended June 30, 1998 includes the following historical data for the Other Acquisitions.

	STS (A)	ILEX (A)	OCEAN SYSTEMS (B)	OTHER ACQUISITIONS
	-----	-----	-----	-----
	(in millions)			
Sales	\$ 2.3	\$ 4.5	\$ 13.9	\$ 20.7
Costs and expenses	5.9	4.4	12.9	23.2
	-----	-----	-----	-----
Operating (loss) income	(3.6)	0.1	1.0	(2.5)
Interest and investment income (expense)	--	--	--	--
Interest expense	--	--	0.1	0.1
	-----	-----	-----	-----
Income (loss) before income taxes	(3.6)	0.1	0.9	(2.6)
Income tax (benefit) provision	(1.0)	--	0.4	(0.6)
	-----	-----	-----	-----
Net (loss) income	\$ (2.6)	\$ 0.1	\$ 0.5	\$ (2.0)
	=====	=====	=====	=====

(a) Represents results for the one-month period ended January 31, 1998

(b) Represents results for the three-month period ended March 31, 1998

The pro forma statement of operations for the year ended December 31, 1997 includes the following historical data for the Other Acquisitions.

	STS (A)	ILEX (A)	OCEAN SYSTEMS (B)	OTHER ACQUISITIONS
	-----	-----	-----	-----
	(in millions)			
Sales	\$ 53.9	\$ 63.5	\$ 73.0	\$ 190.4
Costs and expenses	61.7	55.9	78.7	196.3
	-----	-----	-----	-----
Operating (loss) income	(7.8)	7.6	(5.7)	(5.9)
Interest and investment income (expense)	--	(0.2)	0.1	(0.1)
Interest expense	--	--	0.5	0.5
	-----	-----	-----	-----
Income (loss) before income taxes	(7.8)	7.4	(6.1)	(6.5)
Income tax (benefit) provision	(2.1)	0.5	(2.4)	(4.0)
	-----	-----	-----	-----
Net (loss) income	\$ (5.7)	\$ 6.9	\$ (3.7)	\$ (2.5)
	=====	=====	=====	=====

(a) Represents fiscal year ended June 30, 1997 plus the six month period ended December 31, 1997 minus the six month period ended December 31, 1996.

4. The aggregate estimated excess of purchase price including expenses over fair value of net assets acquired related to the Other Acquisitions is \$94.6 million, comprised of \$38.6 million and \$56.0 million, respectively, for ILEX and Ocean Systems and is being amortized over 40 years resulting in a charge of \$2.4 million per annum. Based upon preliminary estimates of fair value, the acquisition of STS resulted in no goodwill being recorded since the purchase price was equal to the net assets acquired.

Adjustments to costs and expenses in the pro forma statements of operations relating to the Other Acquisitions were comprised of the following:

	SIX MONTHS ENDED JUNE 30, 1998	YEAR ENDED DECEMBER 31, 1997
	-----	-----
	(in millions)	
(a) Amortization expense of estimated purchase cost in excess of net assets	\$ 0.4	\$ 2.4
(b) Elimination of goodwill amortization expense included in the historical financial statements for the 1998 Acquisitions	(0.1)	(2.1)
(c) Estimated rent expense on the Sylmar facility of Ocean Systems which was not be acquired by L-3 Communications	0.3	1.1
(d) Elimination of depreceiation expense on buildings and improvements on the Sylmar facility of Ocean Systems which was not acquired by L-3 Communications	(0.1)	(0.3)
	-----	-----
Total increase to costs and expenses	\$ 0.5	\$ 1.1
	=====	=====

5. The Offerings include the sale of 6.9 million shares of Holdings' common stock in an Initial Public Offering ("IPO") for \$22 per share or \$139.5 million, after underwriting discounts and commissions and expenses of \$12.3 million and the sale of \$180.0 million aggregate principal amount of 8 1/2% Senior Subordinated Notes due May 15, 2008 (the "1998 Notes"), whose proceeds amounted to \$173.8 million after debt issuance costs of \$6.2 million. The net proceeds from the Offerings of \$313.3 million have been used to (i) prepay all \$171.0 million of borrowings outstanding under the term loan facilities, and (ii) finance substantially all of the aggregate purchase prices of the Other Acquisitions (See Note 2 above). The Offerings were completed on May 19, 1998 and their effect is included in Company's historical balance sheet as of June 30, 1998.

6. On August 13, 1998, the Company acquired 100% of the the stock of SPD for \$230.0 million of cash, subject to adjustment based on final closing adjusted net assets, as defined. For purposes of the pro forma financial information an estimated purchase price of \$238.5 million including expenses (net of cash acquired of \$0.2 million) was assumed reflecting the contract price of \$230.0 million and an estimated purchase price adjustment of \$8.5 million based on the June 30, 1998 net assets of SPD. The SPD acquisition was assumed to be financed using \$95.2 million of cash on hand and \$143.3 million of borrowings under the Company's revolving credit facility. The SPD balance sheet as of June 30, 1998, and the SPD statements of operations for the six months ended June 30, 1998 and the year ended December 31, 1997 have been derived from SPD's historical financial statements included elsewhere herein.

7. The estimated excess of purchase price over fair value of net assets acquired for SPD of \$209.5 million and is being amortized over 40 years resulting in a charge of \$5.2 million per annum. Further, the pro forma balance sheet includes the elimination of (i) \$78.0 million of intangibles, primarily cost in excess of net assets acquired, included in the SPD historical balance sheet, (ii) \$76.0 of SPD debt which was repaid in connection with SPD acquisition, and (iii) \$25.7 million of SPD's historical shareholders' equity. The pro forma balance sheet also reflects these adjustments related to preliminary purchase price allocation:

- (a) an estimated increase to contracts in process of \$2.0 million related to valuing certain commercial work-in-process and finished goods inventory at their fair values. The non-recurring charge to income resulting from the above mentioned inventoried adjustment is not material to the pro forma statement of operations;
- (b) an adjustment of \$5.0 million to intangible assets to reflect the estimated value of acquired identifiable intangibles which are being amortized over an estimated 15-year period relating in a change of \$0.3 million per annum;

- (c) an increase to pension and postretirement benefits liabilities of \$10.0 million to reflect the use of the Company's discount rate which is lower than the discount rate used in the SPD historical financial statements; and
- (d) an increase in deferred tax asset of \$14.5 million to reflect (i) the elimination of a valuation allowance of \$10.6 million included in the SPD historical financial statements to reflect the Company's ability to realize the acquired SPD deferred tax assets on a consolidated basis and (ii) a deferred tax benefit of \$3.9 million related to the above-mentioned increase in the SPD pension and postretirement benefits liabilities.

Adjustments to costs and expenses relating to the SPD acquisition in the pro forma statements of operations for the six months ended June 30, 1998 and the year ended December 31, 1997 were increases of \$1.6 million and \$4.0 million, respectively, and were comprised of (i) amortization expense of estimated intangibles, primarily cost in excess of net assets acquired, of \$2.8 million and \$5.5 million, respectively, and (ii) the elimination of goodwill amortization expense included in the historical financial statements of SPD of \$1.2 million and \$1.5 million, respectively.

8. Adjustments to the pro forma statements of operations include the elimination of interest income of \$1.5 million and \$1.3 million for the six months ended June 30, 1998 and the year ended December 31, 1997, respectively, to reflect the use of cash on hand to partially finance the aggregate purchase prices for the Other Acquisitions and SPD acquisition.

Assuming the SPD acquisition, the Other Acquisitions, and the Offerings were completed on January 1, 1997, adjustments to pro forma interest expense for the six months ended June 30, 1998 and the year ended December 31, 1997 include increases of \$0.1 million and \$8.5 million, respectively. The details of interest expense, after such pro forma adjustments follow:

	SIX MONTHS ENDED JUNE 30, 1998	YEAR ENDED DECEMBER 31, 1997
	-----	-----
	(in millions)	
Interest on the 1997 Notes (10.375% on \$225.0 million) ..	\$ 11.7	\$ 23.3
Interest on the 1998 Notes (8.50% on \$180.0 million).....	7.7	15.3
Interest on borrowings under facility (8.0% on \$146.0 million)	5.8	11.7
Commitment fee of 0.5% on unused portion of revolving credit facility (0.5% on \$54.0 million)	0.1	0.3
Amortization of deferred debt issuance costs	1.5	3.0
	-----	-----
Total pro forma interest expense	\$ 26.8	\$ 53.6
	=====	=====

In accordance with SEC regulations, the pro forma statements of operations do not reflect interest income on the \$5.5 million pro forma cash balance at June 30, 1998.

9. The pro forma adjustments were tax-effected, as appropriate, using a statutory (federal, state and foreign) tax rate of 39.0%.
10. Pro forma basic earnings per common share are computed based upon the weighted-average number of shares of common stock outstanding, giving effect to the Holdings IPO. Pro forma diluted earnings per common stock are computed based upon: (a) the weighted average number of shares of common stock and potential common stock outstanding, to the extent the potential common stock is not anti-dilutive, giving effect to the IPO; and (b) an assumed average market price of common stock for the year ended December 31, 1997 of \$22.00 per share based on the IPO price and of \$23.87 per share for the six months ended June 30, 1998 based on the IPO price of \$22.00 for the period January 1, 1998 to May 19, 1998 (the IPO date) and actual average market prices of the Company's common stock for the period May 20, 1998 to June 30, 1998, were used for the assumed purchase of common shares for treasury.

AMENDED AND RESTATED

AGREEMENT AND PLAN OF MERGER

dated as of

August 13, 1998

by and among

L-3 COMMUNICATIONS CORPORATION,

SPD MERGER CO.,

SPD TECHNOLOGIES, INC.

and

MIDMARK CAPITAL, L.P.

TABLE OF CONTENTS

	Page
-----	-----
AGREEMENT AND PLAN OF MERGER	1
ARTICLE I	3
THE MERGER	3
Section 1.1 Conversion of SPD Shares and Options	3
Section 1.2 Payment and Exchange of Certificates	6
Section 1.3 Effective Time of Merger: Closing Date	7
Section 1.4 Working Capital Adjustment	8
Section 1.5 Holder Allocable Expenses	17
ARTICLE II	18
REPRESENTATIONS AND WARRANTIES OF SPD	18
Section 2.1 Corporate Organization of SPD	18
Section 2.2 Subsidiaries	18
Section 2.3 Capitalization of SPD	19
Section 2.4 Capitalization of Subsidiaries of SPD	19
Section 2.5 Due Authorization	20
Section 2.6 No Conflict	20
Section 2.7 Financial Statements	21
Section 2.8 Contracts, No Defaults	22
Section 2.9 Government Contracts	25
Section 2.10 Machinery, Equipment and Other Tangible Property	29
Section 2.11 Intellectual Property	29
Section 2.12 Real Property	30
Section 2.13 Litigation and Proceedings	31
Section 2.14 Employee Benefit Plans	31
Section 2.15 Labor Relations	35
Section 2.16 Legal Compliance	36
Section 2.17 Environmental Matters	36
Section 2.18 Taxes	37
Section 2.19 Governmental Authorities: Consents	39
Section 2.20 Licenses, Permits and Authorizations	40
Section 2.21 Insurance	40
Section 2.22 Brokers' Fees	41
ARTICLE III	44
REPRESENTATIONS AND WARRANTIES OF ACQUIROR AND MERGER SUB	44
Section 3.1 Corporate Organization	44
Section 3.2 Due Authorization	45
Section 3.3 No Conflict	45
Section 3.4 Litigation and Proceedings	46
Section 3.5 Governmental Authorities; Consents	46
Section 3.6 Financial Ability	47
Section 3.7 Brokers' Fees	47
ARTICLE IV	47
COVENANTS OF SPD	47
Section 4.1 Conduct of Business	47
Section 4.2 Inspection	49
Section 4.3 HSR Act and Foreign Antitrust Approvals	50
Section 4.4 No Solicitations	51

Section 4.4 No Solicitations	51
ARTICLE V	51
Section 5.2 Indemnification and Insurance	52
ARTICLE VI	53
JOINT COVENANTS	53
Section 6.1 Confidentiality	53
Section 6.2 Support of Transaction	55
Section 6.3 Update Information	55
ARTICLE VII	58
CLOSING	58
Section 7. 1 Filing	58
Section 7.2 Closing	58
ARTICLE VIII	59
CONDITIONS TO OBLIGATIONS	59
Section 8.1 Conditions to Obligations of Acquiror, Merger Sub and SPD	59
Section 8.2 Conditions to Obligations of Acquiror and Merger Sub ..	60
Section 8.3 Conditions to the Obligations of SPD	62
ARTICLE IX	63
TERMINATION/EFFECTIVENESS	63
Section 9.1 Termination	63
Section 9.2 Effect of Termination	65
ARTICLE X	66
CERTAIN DEFINITIONS	66
ARTICLE XI	72
HOLDER REPRESENTATIVE	72
Section 11. 1 Designation and Replacement of Holder Representative	72
Section 11.2 Authority and Rights of Holder Representative; Limitations on Liability	72
ARTICLE XII	74
SURVIVAL AND INDEMNIFICATION	74
MISCELLANEOUS	79
Section 12.2 Waiver	79
Section 12.3 Notices	79
Section 12.4 Assignment	80
Section 12.5 Rights of Third Parties	81
Section 12.6 Reliance	81
Section 12.7 Expenses	81
Section 12.8 Construction	82
Section 12.9 Captions, Counterparts	82
Section 12.10 Entire Agreement	82
Section 12.11 Amendments	83
Section 12.12 Publicity	83

AMENDED AND RESTATED
AGREEMENT AND PLAN OF MERGER

This Amended and Restated Agreement and Plan of Merger dated as of August 13, 1998 (this "Agreement"), is entered into by and among L-3 COMMUNICATIONS CORPORATION, a Delaware corporation ("ACQUIROR"), SPD MERGER CO., a Delaware corporation and a wholly-owned subsidiary of ACQUIROR ("Merger Sub"), SPD TECHNOLOGIES, INC., a Delaware corporation ("SPD"), and MIDMARK CAPITAL, L.P. ("MidMark"), a Delaware limited partnership, solely in its capacity as the initial Holder Representative hereunder.

WHEREAS, the parties have previously entered into an Agreement and Plan of Merger dated as of July 2, 1998 (the "Original Agreement"); and

WHEREAS, the parties wish to modify a number of the agreements and understandings set forth in such Agreement and Plan of Merger by entering into the Amended and Restated Agreement and Plan of Merger;

NOW, THEREFORE, the parties agree as follows:

PLAN OF MERGER

A. ACQUIROR, Merger Sub and SPD (Merger Sub and SPD sometimes being referred herein to as the "Constituent Corporations") are hereby adopting a plan of merger, providing for the merger of Merger Sub with and into SPD, with SPD being the surviving corporation. This merger (the "Merger") will be consummated in accordance with this Agreement and evidenced by a Certificate of Merger between Merger Sub and SPD in substantially the form of Annex A hereto (the "Certificate of Merger "), such Merger to be consummated as of the Effective Time of the Merger (as defined below).

B. Upon consummation of the Merger, the separate corporate existence of Merger

Sub shall cease and SPD, as the surviving corporation in the Merger (hereinafter referred to for the periods on and after the Effective Time of the Merger as the "Surviving Corporation"), shall continue its corporate existence under the Delaware General Corporation Law (the "DGCL") as a wholly-owned Subsidiary of ACQUIROR.

C. On and after the Effective Time of the Merger, the Surviving Corporation shall thereupon and thereafter possess all of the rights, privileges, powers and franchises, of a public as well as a private nature, of the Constituent Corporations, and shall become subject to all the restrictions, disabilities and duties of each of the Constituent Corporations; and all rights, privileges, powers and franchises of each Constituent Corporation, and all property, real, personal and mixed, and all debts due to each such Constituent Corporation, on whatever account, and all choices in action belonging to each such corporation, shall become vested in the Surviving Corporation, and all property, rights, privileges, powers and franchises, and all and every other interest shall become thereafter the property of the Surviving Corporation as they are of the Constituent Corporations; and the title to any real property vested by deed or otherwise or any other interest in real estate vested by any instrument or otherwise in either of such Constituent Corporations shall not revert or become in any way impaired by reason of the Merger; but all Liens upon any property of either Constituent Corporation shall therefore attach to the Surviving Corporation and shall be enforceable against it to the same extent as if said debts, liabilities and duties had been incurred or contracted by it; all of the foregoing in accordance with the applicable provisions of the DGCL and this Agreement.

D. At the Effective Time of the Merger, the Certificate of Incorporation and Bylaws of the Surviving Corporation shall be the Certificate of Incorporation and Bylaws of SPD, until thereafter amended as provided therein and under the DGCL, and the directors and officers of the

Surviving Corporation shall be the directors and officers of Merger Sub immediately prior to the Effective Time of the Merger.

E. Concurrently with the execution of this Agreement, ACQUIROR and SPD Principal Stockholders have entered into a No-Shopping Agreement.

F. For certain limited purposes, and subject to the terms set forth herein, the Holder Representative shall serve as a representative of the holders of SPD Shares and Options (as each is defined below).

G. Certain capitalized terms used herein have the meanings ascribed to such terms in Article X hereof.

AGREEMENT

In order to consummate the Merger, and in consideration of the mutual agreements hereinafter contained, ACQUIROR, Merger Sub and SPD agree as follows:

ARTICLE I THE MERGER

Section 1.1 Conversion of SPD Shares and Options.

(a) At the Effective Time of the Merger, each share (a "SPD Share") of the Voting Class A Common Stock, par value \$.01 per share, of SPD (the "SPD Class A Common Stock"); each share of Non-Voting Class B Common Stock, par value \$.01 per share, of SPD (the "SPD Class B Common Stock" and, together with SPD Class A Common Stock, the "SPD Common Stock"); and each share of Series A Preferred Stock, par value \$0.01 per share (the "SPD Preferred Stock" and, together with SPD Common Stock, the "SPD Stock") that is then issued and outstanding (other than shares, if any, held in the treasury of SPD, which treasury shares shall be canceled as part of the Merger), and each outstanding, unexercised option and

warrant or other security to purchase or acquire SPD Shares from SPD (whether or not vested) (such warrants, options and other securities being referred to as the "Options"), which shall be canceled by SPD, and shall thereupon be converted into and become the right to receive the applicable portion of the Merger Consideration (defined below), as determined pursuant to Section 1.1(d) (with each Employee Option (defined below) being canceled immediately prior to the Effective Time of the Merger).

(b) At the Effective Time of the Merger, each share of common stock, par value \$0.01 per share, of Merger Sub shall be converted into one share of common stock, par value \$0.01 per share, of the Surviving Corporation.

(c) Subject to the adjustments set forth in Section 1.4, the "Merger Consideration" shall consist of a cash payment equal to (i) \$230 million, plus (ii) the difference between the Adjusted Net Assets (as defined below) of SPD as of December 31, 1997 (\$18,497,770) and the parties' agreed-upon good faith estimate of Adjusted Net Assets of SPD as of the Closing (as defined below) (which good faith estimate shall be mutually agreed upon by the parties at least five days in advance of the Closing), less (iii) the aggregate principal amount of Funded Debt of SPD and its consolidated Subsidiaries, if any, and all accrued interest thereon, that remains outstanding as of the Closing, plus (iv) the amount of cash and cash equivalents of SPD and its consolidated Subsidiaries as of the Closing, if any, less (v) the amount of Holder Allocable Expenses paid by ACQUIROR to the Holder Representative at Closing in accordance with Section 1.5.

(d) The Merger Consideration shall be allocated among the holders of SPD Shares and the Options as set forth below in this subsection 1.1(d). Each holder of SPD Preferred Shares shall be entitled to receive a portion of the Merger Consideration equal to (x) \$100, plus

accrued and unpaid dividends of eight percent (8%) per annum calculated from January 1, 1997 to the Closing Date, multiplied by (y) the number of SPD Preferred Shares held by such holder as of the Effective Time of the Merger (the aggregate amount paid in respect of SPD Preferred Shares, the "Preferred Consideration"). Each holder of SPD Common Shares shall be entitled to receive a portion of the Merger Consideration equal to (x) the Cash Per Fully-Diluted Common Share (as defined below), multiplied by (y) the number of SPD Common Shares held by such holder as of the Effective Time of the Merger (but not including any SPD Common Shares issuable upon the exercise of any Options held by such holder) (the "Common Consideration"). Each holder of Options shall (x) surrender to the Exchange Agent and/or the Holder Representative all Options held, and shall execute a Holder Acknowledgement acknowledging that all such Options, including Employee Options are being purchased back and canceled by SPD, and in all cases that such Options shall thereafter be extinguished and no longer outstanding for all purposes; and (y) shall thereafter be entitled to receive a portion of the Merger Consideration equal to (i) the Cash Per Fully-Diluted Common Share, multiplied by the aggregate number of SPD Common Shares issuable upon exercise in full of all Options held by such holder as of the Effective Time of the Merger, minus (ii) the aggregate cash exercise price payable upon exercise of all Options held by such holder. For purposes of the foregoing, the "Cash Per Fully-Diluted Common Share" shall mean (1) the sum of (A) the Merger Consideration, less (B) the Preferred Consideration, plus (C) the Aggregate Option Exercise Price (defined below), divided by (ii), the Aggregate Fully-Diluted SPD Common Shares. The "Aggregate Fully-Diluted SPD Common Shares" shall be the sum of SPD Common Shares held by all holders, plus SPD Common Shares issuable upon the exercise in full of all Options held by all holders, and the "Aggregate Option Exercise Price" shall mean the sum of the cash exercise

prices payable upon exercise in full of all Options held by all holders.

(e) For purposes of clarification, under no circumstances shall the provisions of Section 1.1(d) result in any increase or decrease in the Merger Consideration or cause any holder of SPD Shares or Options to become entitled to receive any amount in excess of the portion of the Merger Consideration allocated to him pursuant to the terms of such section, it being the intention of the parties that Section 1.1(d) deal solely with the allocation of the Merger Consideration among the holders of SPD Shares and Options.

Section 1.2 Payment and Exchange of Certificates.

(a) Immediately prior to the Effective Time of the Merger, ACQUIROR will pay to an exchange agent (the "Exchange Agent") selected by SPD and reasonably acceptable to ACQUIROR, by wire transfer of immediately available funds, an amount (the "Funding Amount") equal to the Merger Consideration, determined prior to giving effect to the adjustments provided for in Section 1.4 hereof. Upon (i) payment by ACQUIROR to the Exchange Agent of the Funding Amount and (ii) payment by ACQUIROR to the Holder Representative of the estimated Holder Allocable Expenses pursuant to Section 1.5 hereof, ACQUIROR shall be deemed to have satisfied its obligations to make payments in respect of the Merger Consideration other than Acquiror's obligation to make payments required by Section 1.4 hereof, if any. The Exchange Agent shall invest the Funding Amount as directed by the Holder Representative in writing with any income earned on such investments being paid to the Holder Representative for the benefit of holders of SPD Shares and Options; such income shall not become a part of the Funding Amount.

(b) After the Effective Time of the Merger, each holder of an outstanding certificate or certificates for SPD Shares and/or Options (collectively, the "Certificates") upon surrender of

such Certificates to the Exchange Agent (or, in the case of a holder of Options, upon delivery of a Holder Acknowledgement to the Exchange Agent), shall be entitled to receive from ACQUIROR (or from the Exchange Agent on Acquiror's behalf) in exchange therefor, (subject to the provisions of Section 1.4 below) such percentage (the "Applicable Percentage") of the Merger Consideration into which such holder's SPD Shares and/or Options shall have been converted as a result of the Merger, provided that any payment with respect to Options held by employees of SPD or any of its Subsidiaries ("Employee Options") shall be reduced by the amount of any taxes required to be withheld under applicable law with respect to such payments and amounts so withheld shall be paid by the Exchange Agent to the Surviving Corporation for disbursement to the applicable taxing authority. Pending such surrender and exchange (or, in the case of a holder of Options, upon such delivery of a Holder Acknowledgment), a holder's certificate or certificates for SPD Shares and/or Options shall be deemed for all purposes (other than the exchange contemplated by this Section 1.2) to evidence such holder's Applicable Percentage of the Merger Consideration into which such SPD Shares and/or Options shall have been converted by the Merger.

(c) On the one-year anniversary of the Closing Date, any amounts on deposit with the Exchange Agent shall be delivered to the Holder Representative, and thereafter any holder of Certificates shall look only to the Holder Representative for payment of Merger Consideration with respect thereto.

Section 1.3 Effective Time of Merger: Closing Date. As soon as practicable following the satisfaction (or, to the extent permitted, the waiver) of all conditions to the Merger set forth in this Agreement, and provided that this Agreement has not been terminated pursuant to the provisions hereof, Merger Sub and SPD shall cause the Certificate of Merger to be executed and

filed with the Secretary of State of Delaware as provided in Section 251 of the DGCL. For purposes of this Agreement, the "Effective Time of the Merger" shall mean the close of business on the date on which the Certificate of Merger has been duly filed in the Office of the Secretary of State of Delaware and has become effective in accordance with the DGCL; and the term "Closing Date" shall mean the date on which the Effective Time of the Merger occurs.

Section 1.4 Adjusted Net Assets Adjustment.

(a) As soon as reasonably practicable following the Closing Date, and in any event within ninety (90) calendar days thereof, the Holder Representative shall prepare and deliver to ACQUIROR (i) a consolidated balance sheet of SPD and its consolidated Subsidiaries as of the Closing which shall be audited by Grant Thornton LLP ("Grant Thornton") (together with the related audit report of such firm, the "Closing Balance Sheet"), (ii) a calculation of Adjusted Net Assets (defined below) of SPD and its consolidated Subsidiaries as set forth on the Closing Balance Sheet ("Closing Date Adjusted Net Assets"), and (iii) federal and applicable state tax returns of SPD and its consolidated Subsidiaries for the tax year beginning on January 1, 1998 and ending on the Closing Date (the "Stub Period Tax Returns"). The Closing Balance Sheet shall be prepared in accordance with United States generally accepted accounting principles ("GAAP") consistent with the preparation of the historical consolidated financial statements of SPD and its consolidated Subsidiaries, shall fairly present the consolidated financial position of SPD and its consolidated Subsidiaries as of the Closing, and shall be based upon a physical inventory count taken by Grant Thornton and observed by ACQUIROR's accountants, such count to be taken after the Closing Date on such date as the parties may mutually agree, and adjusted back to the Closing Date through the application of inventory records. Following the Closing, ACQUIROR shall provide the Holder Representative with

access to the records and employees of SPD to the extent necessary for the preparation of the Closing Balance Sheet and the Stub Period Tax Returns and shall cause the employees of SPD to cooperate with the Holder Representative in connection with its preparation of the Closing Balance Sheet and Stub Period Tax Returns. "Adjusted Net Assets" as of any date shall, except as provided below, mean (i) the consolidated assets of SPD and its consolidated Subsidiaries as of such date, adjusted to exclude (1) cash and cash equivalents, (2) goodwill and related accumulated amortization, (3) deferred financing costs and related accumulated amortization, and (4) (a) any Tax refund receivable related to the cancellation of the Employee Options on or prior to the Closing Date or (b) any asset relating to the Loss CarryBack, minus (ii) the consolidated liabilities of SPD and its consolidated subsidiaries adjusted to (1) exclude the current and long-term portions of Funded Debt and all accrued interest thereon as of such date and (2) include any accrued tax liabilities which would otherwise have been reduced or eliminated by reason of the application of any current tax deductions arising out of the cancellation of Employee Options pursuant to Section 1.1(d) of this Agreement. The parties shall apply the following additional agreements and clarifications with respect to the determination of the Closing Date Adjusted Net Assets:

(i) Adjustment of Reserves and Valuation Accounts. In the determination of the Closing Date Adjusted Net Assets, the amount of any reserves or valuation accounts shall be determined by applying methods, practices, assumptions, policies, factors, and underlying data consistent with those used in determining the reserves or valuation accounts included in the December 31, 1997 Balance Sheet, and there shall be no changes made to any reserves or valuation accounts (including, without limitation, contract reserves, purchase accounting reserves, deferred tax asset valuation accounts, allowances for bad debts, inventory reserves of

any kind, warranty reserves and other reserves) except to the extent that such changes are required by changes in facts and events occurring after December 31, 1997 and before the Closing Date, it being further understood that there shall be no increase in the Closing Date Adjusted Net Assets as a result of any reversal, reduction or other usage of reserves unless such reversal or usage arises out of facts or events that occur after December 31, 1997 and before the Closing Date.

(ii) Contract Estimates at Completion ("EAC"). In the determination of the Closing Date Adjusted Net Assets, there shall be no changes to the contract EACs from those contract EACs used in the preparation of the December 31, 1997 Balance Sheet, except to the extent that such changes are required by changes in facts and events occurring after December 31, 1997 and before the Closing Date.

(iii) Loss Contracts. In the determination of the Closing Date Adjusted Net Assets, there shall be no changes made to the provisions for loss contracts from those used in the preparation of the December 31, 1997 Balance Sheet, except to the extent that such changes are required by changes in facts and events occurring after December 31, 1997 and before the Closing Date.

(iv) Tax Liability. For purposes of calculating the Adjustment Amount under Section 1.4(c), tax liability shall be the actual liability reflected on the final Stub Period Tax Returns to be prepared in accordance with Section 1.4(a)(iii) and not the accrued tax liability determined for the tax period of SPD and/or any of its consolidated affiliates estimated on the Closing Date.

(b) Upon delivery of the Closing Balance Sheet and Stub Period Tax Returns, the Holder Representative will provide ACQUIROR and its respective accountants full access to

SPD's records, and will provide ACQUIROR and its accountants access to the work papers of Grant Thornton in accordance with Grant Thornton's usual practices, to the extent reasonably related to Acquiror's evaluation of the Closing Balance Sheet, the calculation of Closing Date Adjusted Net Assets and the Stub Period Tax Returns. If ACQUIROR shall disagree with the calculation of Closing Date Adjusted Net Assets and/or with the Stub Period Tax Returns (including the inclusion on the Stub Period Tax Returns of any current tax deduction arising out of the exercise of the Employee Options prior to the Closing Date), it shall notify the Holder Representative of such disagreement in writing, setting forth in detail the particulars of such disagreement, within thirty (30) days after its receipt of the Closing Balance Sheet and the Stub Period Tax Returns. In the event that ACQUIROR does not provide such a notice of disagreement within such thirty (30) day period, ACQUIROR shall be deemed to have accepted the Closing Balance Sheet, the calculation of the Closing Date Adjusted Net Assets and the Stub Period Tax Returns delivered by the Holder Representative, which shall be final, binding and conclusive for all purposes hereunder. In the event any such notice of disagreement is timely provided, ACQUIROR and the Holder Representative shall use their reasonable best efforts for a period of thirty (30) days (or such longer period as they may mutually agree) to resolve any disagreements with respect to the calculation of Closing Date Adjusted Net Assets or with respect to the Stub Period Tax Returns. If, at the end of such period, they are unable to resolve such disagreements, then another independent accounting firm of recognized national standing as may be mutually selected by ACQUIROR and the Holder Representative (the Auditor") shall resolve any remaining disagreements. The Auditor shall determine as promptly as practicable, but in any event within thirty (30) days of the date on which such dispute is referred to the Auditor, whether the Closing Balance Sheet was prepared in accordance with the standards set

forth in Section 1.4(a); and (only with respect to the remaining disagreements submitted to the Auditor) whether and to what extent (if any) Closing Date Adjusted Net Assets or the Stub Period Tax Returns require adjustment. The fees and expenses of the Auditor shall be paid one-half by ACQUIROR and one-half as a Holder Allocable Expense pursuant to Section 1.5 hereof. The determination of the Auditor shall be final, conclusive and binding on the parties. The date on which Closing Date Adjusted Net Assets and the Stub Period Tax Returns is finally determined in accordance with this Section 1.4(b) is hereinafter referred as to the "Determination Date."

(c) The "Adjustment Amount," which may be positive or negative, shall mean the Closing Date Adjusted Net Assets, minus the agreed-upon good faith estimate of Adjusted Net Assets as of Closing used for purposes of calculating the Merger Consideration pursuant to Section 1.1(c), and (2) the actual tax savings reflected on the Stub Period Tax Returns due to the deductions resulting from the cancellation of Employee Options on or prior to the Closing Date. The actual tax savings reflected on any Stub Period Tax Return due to the deductions resulting from the cancellation of the Employee Options on or prior to the Closing Date shall equal the difference, if any, from that reflected on the pro forma Stub Period Tax Return, prepared without taking such deductions into account, and the actual Stub Period Tax Return. If the Adjustment Amount is a positive number, then the Merger Consideration will be increased by the Adjustment Amount, and if the Adjustment Amount is a negative number, the Merger Consideration will be decreased by the Adjustment Amount.

(d) Notwithstanding the foregoing provisions of this Article I, on the Closing Date, out of the Merger Consideration paid to the Exchange Agent, an amount equal to either (i) \$2,000,000, if the difference between the Adjusted Net Assets of SPD as of December 31, 1997

(\$18,497,770) and the parties' agreed-upon good faith estimate of Adjusted Net Assets of SPD as of Closing is \$10,000,000 or less, or (ii) twenty-five percent (25%) of such difference, if such difference is greater than \$10,000,000 (such amount being hereinafter referred to as the "Adjustment Escrow Amount"), shall be held, invested and disbursed by the Exchange Agent as "Escrow Agent" in accordance with the terms of the Adjustment Escrow Agreement substantially in the form attached hereto as Annex B. If the Adjustment Amount is a positive number, then, promptly following the Determination Date, and in any event within five (5) business days of the Determination Date, (i) the Escrow Agent shall pay to the Holder Representative for distribution to the holders of SPD Common Shares and Options entitled to receive the Merger Consideration (pro rata, in accordance with their respective Applicable Percentages) the Adjustment Escrow Amount, together with any interest earned thereon, and (ii) the Acquiror shall pay to the Holder Representative, for distribution to the holders of SPD Shares and Options, the Adjustment Amount, together with interest thereon from the Closing Date to the date of payment at the rate of interest published in the "Money Rates" column of the Eastern Edition of The Wall Street Journal (or the average of such rates if more than one rate is indicated) on the Closing Date. If the Adjustment Amount is a negative number, then, promptly following the Determination Date, and in any event within five (5) business days of the Determination Date, (i) the Escrow Agent shall pay to ACQUIROR out of the Adjustment Escrow Amount an amount equal to the lesser of the Adjustment Amount or the Adjustment Escrow Amount, together with all interest earned thereon (with any remaining Adjustment Escrow Amount to be paid to the Holder Representative for distribution to the holders of SPD Shares and Options), and (ii) to the extent that the Adjustment Escrow Amount is less than the Adjustment Amount, the holders of SPD Shares and Options shall be liable to pay to ACQUIROR, and the Holder Representative shall cause the holders of SPD Shares and Options and/or shall withhold from such holders out of the Merger Consideration such amounts as shall be necessary to pay to

ACQUIROR such shortfall together with interest thereon from the Closing Date to the date of payment at the rate of interest published in the "Money Rates" column of the Eastern Edition of The Wall Street Journal (or the average of such rates if more than one rate is indicated) on the Closing Date. Notwithstanding the foregoing, any distributions to the holders of Employee Options pursuant to this Section 1.4(d) shall be net of the amount of any taxes required to be withheld from such distributions under applicable law, and the amounts so withheld shall be paid over to the Surviving Corporation for payment by the Surviving Corporation to the applicable governmental authority as required by law.

(e) Notwithstanding the foregoing provisions of this Article I, on the Closing Date, \$10,000,000 (the "Indemnification Escrow Amount") of the Merger Consideration shall be paid by ACQUIROR to the Exchange Agent to be held in escrow as set forth herein. The Indemnification Escrow Amount shall be held and invested by the Exchange Agent as "Escrow Agent" in accordance with the terms of an Indemnification Escrow Agreement substantially in the form attached hereto as Annex C hereto (the "Indemnification Escrow Agreement").

(f) Following the Closing, the Holder Representative, with the assistance of such employees of SPD as the Holder Representative may reasonably request (during normal working hours, and without payment to SPD for such employees time), shall cause Grant Thornton to prepare and file federal and state tax returns of SPD and/or any of its consolidated subsidiaries for the following periods: (i) amended returns for the tax period ending December 31, 1997, and (ii) amended returns for the tax period ending December 31, 1996 (or, in the case of Power Paragon, Inc., its tax period ending June 30, 1997); in each case carrying back any and

all available tax deductions, including any tax deductions resulting from the Loss CarryBack. ACQUIROR shall cause SPD to execute and file such amended tax returns. The Holder Representative shall have the exclusive right and authority to prepare such returns, including the making of any elections which the Holder Representative may deem to be necessary or desirable thereunder, provided, that, the ACQUIROR shall be given the opportunity to (i) review such amended tax returns, and, (ii) to the extent such amended tax returns as prepared would adversely effect a post-closing tax period, or portion thereof, ACQUIROR, SPD or any of their Affiliates, may suggest any reasonable changes to such amended tax returns, which shall be incorporated into the filing of such amended tax returns. The Holder Representative must be notified of any proposed change pursuant to clause (ii) of the preceding sentence within 30 days after ACQUIROR reviews such amended return, and in the event of a dispute as to the reasonableness as to the change, then such dispute shall be resolved in the same manner as disputes are resolved under Section 1.4(b). SPD shall deliver all refunds resulting from the filing of such amended returns to the Holder Representative for distribution to the holders of SPD Shares and Options (pro rata, in accordance with their respective Applicable Percentages) provided, that, any refunds relating to loss or credit carrybacks (other than the Loss CarryBack) from a post-closing year or portion thereof, shall be for the benefit of the ACQUIROR. In the event that the amount of any refund that would otherwise be payable to the Holder Representative under this Section 1.4(f) is in any manner reduced or offset due to the sole action or inaction of SPD and/or ACQUIROR after the Closing Date (other than an action or inaction undertaken or foregone to avoid an adverse affect on the post-Closing tax liability of ACQUIROR, SPD or any of their Affiliates), ACQUIROR shall make payment to the Holder Representative in an amount equal to such reduction or offset. In the event there is a determination disallowing such refund, the related

liability for Taxes shall be borne by the Holders of SPD Shares and Options and paid by the Holder Representative.

(g) In the event that any tax deductions resulting from the cancellation of the Employee Options are not fully utilized to reduce tax liabilities on the Stub Period Tax Returns or any of the returns for the tax periods referenced in Section 1.4(f), such tax deductions shall be carried forward by SPD and/or the ACQUIROR (to the extent permitted under applicable tax law) to reduce future tax liabilities provided, that, such tax deductions are part of a net operating loss carryforward arising from such tax periods. If such net operating loss carryforward results in an actual reduction of tax liability of SPD, ACQUIROR and/or any of their respective Affiliates, ACQUIROR shall promptly remit to the Holder Representative, for distribution to the holders of SPD Shares and Options, the amount of such tax savings. The actual reduction of tax liability resulting from the net operating loss carryforward shall equal the difference in the tax liability, if any, from that reflected on the tax return for the year to which the carryforward is utilized and if such carryforward were not utilized (determined by taking into account only the portion of the carryforward attributable to the deductions from the cancellation of the Employee Options). ACQUIROR, SPD and their Affiliates shall use their respective good faith efforts to utilize any tax deductions, including any net operating loss carryforward, arising from the cancellation of the Employee Options in a manner to maximize and accomplish the realization of the tax savings, and will not voluntarily waive their ability to utilize the same, unless the utilization of such tax deduction would adversely effect the tax liability for a post-closing tax period, or portion thereof, of ACQUIROR, SPD or any of their Affiliates.

(h) Notwithstanding anything to the contrary in this Agreement, it is the intention of the parties that the economic benefit of any tax savings recognized as a result of deductions

attributable to the cancellation of the Employee Options (the "Tax Savings"), whether by SPD, ACQUIROR, and/or any of the respective Affiliates, shall be for the benefit of, and shall be additional Merger Consideration payable to the holders of SPD Shares and Options.

Section 1.5 Holder Allocable Expenses. On or prior to the Closing Date, the Holder Representative will provide to ACQUIROR an estimate (which estimate shall include such reserves as the Holder Representative determines in good faith to be appropriate for any Holder Allocable Expenses that are not then known or determinable) of the following fees and expenses that may be incurred by the Holder Representative on behalf of SPD and the holders of SPD Shares and Options in connection with the preparation, negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby: (i) the fees and disbursements of counsel to SPD and/or the Holder Representative incurred in connection with the transactions contemplated hereby, (ii) the fees and expenses of any other agents, advisors, consultants and experts employed by SPD and/or the Holder Representative in connection with the Merger, (iii) if necessary, one-half of the fees and expenses of the Auditor and (iv) the expenses of the Holder Representative incurred in such capacity (the "Holder Allocable Expenses"). On the Closing Date, ACQUIROR shall pay to the Holder Representative cash in the amount of such estimated Holder Allocable Expenses and the Holder Representative shall use such cash to pay the Holder Allocable Expenses. In no event will ACQUIROR be responsible for payment of Holder Allocable Expenses in excess of the cash amounts paid to the Holder Representative by ACQUIROR under this Section 1.5.

ARTICLE II
REPRESENTATIONS AND WARRANTIES OF SPD

SPD represents and warrants to ACQUIROR and Merger Sub as follows:

Section 2.1 Corporate Organization of SPD. SPD has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has the corporate power and authority to own or lease and to operate its properties and to conduct its business as it is now being conducted. The copies of the Certificate of Incorporation and Bylaws of SPD previously made available by SPD to ACQUIROR are true, correct and complete. SPD 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 character of its activities is such as to require it to be so licensed or qualified, except where the failure to be so licensed or qualified could not reasonably be expected to have a material adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole.

Section 2.2 Subsidiaries. Set forth on Schedule 2.2 is a complete and accurate list of all Subsidiaries of SPD. Each Subsidiary of SPD has been duly organized or formed and is validly existing under the laws of the jurisdiction of its organization or formation and has the corporate power and authority to own or lease and to operate its properties and to conduct its business as it is now being conducted. SPD has previously provided to ACQUIROR copies of the organizational documents of each Subsidiary of SPD. Such copies are true, correct and complete. Each such Subsidiary is duly licensed or qualified and in good standing in each jurisdiction in which its ownership of property or the character of its activities is such as to require such Subsidiary to be so licensed or qualified, except where the failure to be so licensed or qualified could not reasonably be expected to have a material adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole. Set forth on Schedule 2.2 is a list of the jurisdiction of incorporation or formation of each such Subsidiary.

Section 2.3 Capitalization of SPD.

(a) The authorized capital stock of SPD consists solely of 500,000 shares of SPD Class A Common Stock, of which 99,000 shares are issued and outstanding; 500,000 shares of SPD Class B Common Stock, no shares of which are issued and outstanding; and 1,000,000 shares of Preferred Stock, of which 38,010 shares are issued and outstanding. All of the issued and outstanding shares of SPD Stock have been duly authorized and validly issued and are fully paid and nonassessable and are owned beneficially and of record by the Persons listed in Schedule 2.3, free and clear of liens.

(b) Except as set forth on Schedule 2.3, there are not any outstanding options, warrants, rights or other securities convertible into or exchangeable or exercisable for shares of SPD Stock or any other undertakings, commitments or agreements providing for the issuance of additional shares or for the sale of treasury shares, or for the repurchase or redemption of shares of any capital stock of SPD, or any agreement of any kind which may obligate any Subsidiary to issue, purchase, register for sale, redeem or otherwise acquire any of its capital stock.

Section 2.4 Capitalization of Subsidiaries of SPD. The outstanding shares of capital stock of each Subsidiary of SPD have been duly authorized and validly issued and are fully paid and nonassessable. Except as set forth on Schedule 2.4, (i) each Subsidiary of SPD is wholly-owned of record and beneficially by SPD or another wholly-owned Subsidiary of SPD and (ii) the ownership interests of SPD in each such Subsidiary are owned of record and beneficially by SPD (or another Subsidiary of SPD), free and clear of any Liens. Except as set forth on Schedule 2.4, there are no outstanding options, warrants, rights or other securities exercisable or exchangeable for any capital stock of any Subsidiary of SPD, any other undertaking of commitments or

agreements providing for the issuance of additional shares, the sale of treasury shares, or for the repurchase or redemption of shares of any Subsidiary's capital stock, or any agreements of any kind which may obligate any Subsidiary to issue, purchase, register for sale, redeem or otherwise acquire any of its capital stock.

Section 2.5 Due Authorization.

SPD has all requisite corporate power and authority to execute and deliver this Agreement and (subject to the approvals discussed below) to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved by the Board of Directors and the holders of SPD Class A Common Stock of SPD and no other corporate proceeding on the part of SPD or its stockholders is necessary to authorize this Agreement. This Agreement has been duly and validly executed and delivered by SPD and constitutes a legal, valid and binding obligation of SPD, enforceable against SPD in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

Section 2.6 No Conflict. Except as set forth in Schedule 2.6, the execution and delivery of this Agreement by SPD and the consummation of the transactions contemplated hereby does not and will not violate any provision of, or result in the breach of, any applicable, law, statute, ordinance, rule, regulation, order, judgment or decree of any court or governmental or regulatory agency or authority applicable to SPD or any of its Subsidiaries, the Certificate of Incorporation, Bylaws or other organizational documents of SPD or any of its Subsidiaries, or any contract, note, lease, mortgage, agreement, indenture or other instrument to which SPD or any of its

Subsidiaries is a party or by which SPD or any of its Subsidiaries may be bound, or constitute a default under, violate or conflict with, result in the acceleration of or give any party the right to terminate, modify or cancel, or result in the loss of any rights, privileges, options or alternative under any such contract, note, lease, mortgage, agreement, indenture or instrument, or result in the creation of any Lien upon any of the properties or assets of SPD or its Subsidiaries, or constitute an event which, after notice or lapse of time or both, would result in any such violation, breach, acceleration, termination or creation of a Lien or result in a violation or revocation (or right of acceleration, termination or modification) of any required license, permit, contract right or approval from any government or other third party, except to the extent that the occurrence of any of the foregoing could not reasonably be expected to have an adverse effect on (i) the ability of SPD to enter into and perform its obligations under this Agreement, or (ii) the business, the properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole.

Section 2.7 Financial Statements. SPD has previously delivered to ACQUIROR the following financial statements, all of which have been prepared in accordance with GAAP (subject, in the case of the financial statements referenced in paragraph (b), to the absence of footnotes and to normal year-end adjustments not material in amount), and present fairly, in all material respects, the consolidated financial position of SPD and its consolidated Subsidiaries at the dates stated in such financial statements and the results of their operations for the periods stated therein (provided, however, that with respect to the financial statements of PTS Holdings, Inc. referred to in subsection 2.7(c), this representation is made to the knowledge of SPD only):

(a) the audited consolidated Balance Sheet of SPD and its consolidated Subsidiaries as of December 31, 1997, 1996 and 1995, and the audited consolidated Statements

of Income and Cash Flows of SPD and its consolidated Subsidiaries for the years ended December 31, 1997, 1996 and 1995, together with the auditors' reports thereon;

(b) the unaudited consolidated Balance Sheet of SPD and its consolidated Subsidiaries as of May 31, 1998 and the unaudited consolidated Statements of Income and Cash Flows of SPD and its consolidated Subsidiaries for the five-month period ended May 31, 1998; and

(c) the audited consolidated Balance Sheet of PTS Holdings, Inc. and its consolidated Subsidiaries as of June 30, 1996 and July 2, 1995, and the audited consolidated Statements of Income and Cash Flows of PTS Holdings, Inc. and its consolidated Subsidiaries for the years ended June 30, 1996 and July 2, 1995, together with the auditors' reports thereon.

Section 2.8 Contracts, No Defaults.

(a) Schedule 2.8 contains a listing of all Contracts described in clauses (i) through (xvi) below to which SPD or any of its Subsidiaries is a party (it being understood that such listing may omit documents subject to disclosure restrictions pursuant to government regulations applicable to classified documents provided that the documents so omitted have been made available to an individual within ACQUIROR's organization having the requisite clearances). To the extent permitted by government regulations applicable to classified documents, true, correct and complete copies of contracts referred to below have been delivered to or made available to ACQUIROR and its agents and representatives.

(i) Each Government Contract which involves performance of services or delivery of goods and/or materials by SPD or any of its Subsidiaries of an amount or value in excess of \$100,000;

(ii) Each note, debenture, other evidence of indebtedness, guarantee, loan,

credit or financing agreement or instrument or other contract for or relating to money borrowed, including any agreement or commitment for future loans, credit or financing;

(iii) Each Contract not in the ordinary course of business involving expenditures or receipts of SPD and its Subsidiaries in excess of \$100,000;

(iv) Each lease, rental or occupancy agreement, license, installment and conditional sale agreement, and other Contract affecting the ownership of, leasing of, title to, use of, or any leasehold or other interest in, any real or personal property and involving aggregate payments in excess of \$100,000;

(v) Each material licensing agreement with respect to Intellectual Property;

(vi) Each joint venture Contract, partnership agreement. or limited liability company agreement;

(vii) Each Contract explicitly requiring capital expenditures after the date hereof in an amount in excess of \$100,000;

(viii) each agreement with any officer, director or stockholder of SPD and its Subsidiaries, or with any affiliate or relative of any such officer, director or stockholder;

(ix) each contract of employment, consulting, agency or other similar agreement or arrangement relating to or for the benefit of employees, sales representatives, distributors, dealers, agents, independent contractors or consultants;

(x) each agreement with any labor union, or other labor organization;

(xi) each agreement which requires, individually, annual payments of more than \$100,000 or aggregate payments over the life of the contract of more than \$250,000;

(xii) each agreement which has for a remaining term of more than one year and is not cancelable as to all its provisions upon 90 days or less notice without payment of any

material penalty;

(xiii) each asset purchase agreement or other acquisition or investment agreement;

(xiv) each contract or arrangement with respect to the representation of SPD and any of its Subsidiaries in foreign countries;

(xv) each agreement which restricts or limits in any manner the operation of the business of SPD and any of its Subsidiaries; and

(xvi) each other agreement which is material to the business of SPD and any of its Subsidiaries and was entered into outside of the normal course of business.

(b) Except as set forth on Schedule 2.8, all the Contracts listed pursuant to paragraph (a) of this Section 2.8 are (i) in full force and effect and (ii) represent the legal, valid and binding obligations of SPD or the Subsidiary of SPD party thereto and, to the best knowledge of SPD, represent the legal, valid and binding obligations of the other parties thereto. Except as set forth on Schedule 2.8, no condition exists or event has occurred which, with notice or lapse of time or both, would constitute a default (or an event of default that would give any other party to any such Contract the right to terminate or otherwise fail to perform its obligations) under such Contracts by SPD or any Subsidiary of SPD which is a party thereto or, to the best knowledge of SPD, any other party thereto, except where the occurrence of such event or existence of any such condition could not reasonably be expected to have a material adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole.

(c) As of the date hereof, and prior to Closing, neither SPD nor any of its Subsidiaries (either prior to or during the time that any such corporation was a Subsidiary of

SPD) has presented any claim for indemnification pursuant to the applicable provisions of the Purchase and Sale Agreement dated as of November 18, 1994 by and between Magnetek, Inc., Magnetek Tempe, Inc., Magnetek Deutschland Holding GMBH, and PTS Holdings, Inc. (the "Magnetek Agreement").

Section 2.9 Government Contracts. (a) For purposes of this Agreement, the following definitions shall apply:

"Government Contract" means any prime contract, subcontract, teaming agreement or arrangement, joint venture, basic ordering agreement, pricing agreement, letter contract, purchase order, delivery order, change order, Government bid or other arrangement of any kind between SPD and any of its Subsidiaries and (i) the U.S. Government, (ii) any prime contractor of the U.S. Government in its capacity as a prime contractor or (iii) any subcontractor with respect to any contract of a type described in clauses (i) or (ii) above.

"Government Bid" means any quotation, bid or proposal made by SPD or any of its Subsidiaries or any of affiliates primarily in connection with the business that is accepted or award would lead to a Contract with the U.S. Government of the design, manufacture and sale of products or the provision for services by business.

(b) With respect to each and every Government Contract or bid to obtain a Government Contract to which SPD or any of its Subsidiaries is a party and except as set forth in Schedule 2.9: (i) SPD and its Subsidiaries have fully complied with all material terms and conditions of such Government Contract or bid for a Government Contract as required as of the date hereof and as of the Closing Date; (ii) SPD and its Subsidiaries have fully complied with all material requirements of statute, rule or regulation pertaining to such Government Contract or Government Bid; (iii) all representations and certifications executed with respect to such

Government Contract were accurate in every material respect as of their effective date and the Company and its Subsidiaries have fully complied with all such representations and certifications in every material respect; and (iv) no termination or default, cure notice or show cause notice has been issued or, to the best knowledge of the executive officers of SPD and its Subsidiaries, will be issued.

(c) To the best knowledge of SPD, except as set forth in Schedule 2.9: (i) none of SPD's or any of its Subsidiaries' respective employees, consultants or agents is (or during the last three years has been) under administrative, civil or criminal investigation, indictment or information by any Governmental Authority, (ii) there is not any pending audit or investigation of SPD, any of its Subsidiaries, its officers, employees or representatives nor within the last three years has there been any audit or investigation of SPD, any of its Subsidiaries, officers, employees or representatives resulting in a material adverse finding with respect to any alleged irregularity, misstatement or omission arising under or relating to any Government Contract or bid; and (iii) during the last three years, neither SPD nor any of its Subsidiaries has made a voluntary disclosure to the U.S. Government or any non-U.S. government, with respect to any alleged irregularity, misstatement or omission arising under or relating to a Government Contract or bid. Except as set forth in Schedule 2.9, to the best knowledge of SPD neither SPD nor any of its Subsidiaries has had any irregularities, misstatements or omissions arising under or relating to any Government Contract or bid that has led or is expected to lead, either before or after the Closing Date, to any of the consequences set forth in clause (i) or (ii) of the immediately preceding sentence of any other material damage, penalty assessment, recoupment or payment or disallowance of cost.

(d) Except as set forth in Schedule 2.9, there are (i) no outstanding claims

against SPD or its Subsidiaries, either by the U.S. Government or by any non-U.S. government or by any prime contractor, subcontractor, vendor or other third party, arising under or relating to the any Government Contract or bid referred to in Schedule 2.9 and (ii) no disputes between SPD and its Subsidiaries and the U.S. Government or any non-U.S. government under the Contract Disputes Act or any other Federal statute or between SPD and its Subsidiaries and any prime contractor, subcontractor or vendor arising under or relating to any such Government Contract or bid. Except as set forth in Schedule 2.9, to the best knowledge of SPD and its Subsidiaries, there are no facts that could reasonably be expected to result in a claim or a dispute under clause (i) or (ii) of the immediately preceding sentence.

(e) Except as set forth in Schedule 2.9, neither SPD nor any of its Subsidiaries nor any of their respective employees, consultants or agents is (or during the last three years has been) suspended or debarred from doing business with the U.S. Government or any non-U.S. government or is (or during such period was) the subject of a finding of non-responsibility or ineligibility for U.S. Government or non-U.S. government contracting. Except as set forth in Schedule 2.9, SPD and its Subsidiaries conducted their operations in compliance with all requirements of all material laws pertaining to all Government Contracts and bids.

(f) Except as set forth in Schedule 2.9, no statement, representation or warranty made by SPD or any of its Subsidiaries in any Government Contract, any exhibit thereto or in any certificate, statement, list, schedule or other document submitted or furnished to the U.S. Government or any non-U.S. government in connection with any Government Contract or bid (i) contained on the date so furnished or submitted any untrue statement of a material fact, or failed to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they were made, not misleading or (ii) contains on the date hereof any

untrue statement of a material fact, or fails to state a material fact necessary to make the statements contained therein, in light of the circumstances in which they are made, nor misleading, except in the case of both clauses (i) and (ii) any untrue statement or failure to state a material fact that would not result in any material liability to the Company or the Subsidiary as a result of such untrue statement or failure to state a material fact.

(g) Schedule 2.9 incorporates the most recent schedule delivered to the U.S. Government or any non-U.S. government which identifies by description or inventory number certain equipment and fixtures loaned, bailed or otherwise furnished to or held by SPD or its Subsidiaries by or on behalf of the United States or any foreign country. To the best knowledge of SPD, such schedule was accurate and complete on its date and, if dated as of the Closing Date, would contain only those additions and omit only those deletions of equipment and fixtures that could not reasonably be expected to have a material adverse effect on the operations of SPD and its Subsidiaries.

Section 2.10 Machinery, Equipment and Other Tangible Property. Except as set forth on Schedule 2. 10, SPD or one of its Subsidiaries owns and has good title to all material machinery, equipment and other tangible property reflected on the books of SPD and its Subsidiaries as owned by SPD or its Subsidiaries (the "Machinery and Equipment"), free and clear of all Liens other than Permitted Liens. The Machinery and Equipment, taken as a whole, is suitable for the purposes for which it is presently used.

Section 2.11 Intellectual Property. Schedule 2.11 lists each patent, registered trademark, service mark or trade name, registered copyright or mask work, or material patents reduced to practice and applications for any of the foregoing (together with all other intellectual property rights, "Intellectual Property") owned or held by SPD or any of its Subsidiaries and all licenses to

Intellectual Property between SPD or any of its Subsidiaries and any other Person. Except as set forth on Schedule 2. 11, (i) SPD or one or more of its Subsidiaries has good and exclusive title to each item of Intellectual Property owned by it, free and clear of any Lien; (ii) SPD and its Subsidiaries own or have the right to use pursuant to license, sublicense, agreement or permission all items of Intellectual Property used in the operation of the business of SPD and its Subsidiaries, as presently conducted, except where the failure to have such rights could not reasonably be expected to have a material adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole; (iii) the Intellectual Property owned or used by SPD or any of its Subsidiaries does not infringe or otherwise impair or conflict with ("Infringe"), and is not being infringed by, the Intellectual Property of any other person; (iv) no Governmental Order or Action is pending, or to SPD's best knowledge, threatened, which would limit, cancel or question the validity of, or SPD's or any of its Subsidiaries' rights to own, hold or use any Intellectual Property, and to SPD's best knowledge, no valid basis exists for same; (v) SPD and its Subsidiaries have taken reasonable steps to protect, maintain and safeguard their Intellectual Property, and have taken all actions, executed all agreements, made all filings and paid or properly accrued all fees and taxes in connection with the foregoing.

Section 2.12 Real Property. (a) Schedule 2.12 lists (I) all Owned Real Property, (ii) all Leased Real Property and (iii) the address of all real property now used or occupied by SPD and its Subsidiaries and the name of the record owner thereof. Except as set forth on Schedule 2.12, SPD or one of its Subsidiaries has good and marketable fee simple title to all Owned Real property, and good and valid title to all Leased Real property, subject only to any (i) Permitted Liens and (ii) Liens which, individually or in the aggregate, could not reasonably be expected to

have a material adverse effect on the business, properties, assets, results of operation or financial condition of SPD and its Subsidiaries, taken as a whole.

(b) Each lease covering Leased Real property is a legal, valid and binding agreement enforceable in accordance with its terms and there is not under any of such leases any existing default on the party of SPD or any of its Subsidiaries or, to the best of knowledge of SPD, and other party thereto nor any facts that would, with the passage of time or notice, or both, constitute such a default.

(c) SPD and its Subsidiaries enjoy peaceful and quiet possession of the real property owned or leased by SPD and its Subsidiaries. ACQUIROR, its agents and representatives have been provided with a true and complete copy of each lease and all amendments thereto pertaining to any leased real property. The rental set forth in each lease is the actual rental being paid, and there are no separate agreements or understandings with respect to the same. Except as listed in Schedule 2.13, neither the execution of this Agreement nor the consummation of the transactions contemplated hereby shall cause a default under any lease or require prior written consent of any landlord under any lease.

Section 2.13 Litigation and Proceedings. Except as set forth on Schedule 2.13, there are no lawsuits, actions, suits, claims or other proceedings at law or in equity, or to the knowledge of SPD, investigations, before or by any court or governmental authority or instrumentality or before any arbitrator pending or, to the knowledge of SPD, threatened, against SPD or any of its Subsidiaries. Except as set forth on Schedule 2.13, there is no unsatisfied judgment, order or decree against or any injunction binding upon SPD or any of its Subsidiaries.

Section 2.14 Employee Benefit Plans.

(a) Definitions. The following terms, when used in this Section 2.14, shall

have the following meanings. Any of these terms may, unless the context otherwise requires, be used in the singular or the plural depending on the reference.

(i) Benefit Arrangement. "Benefit Arrangement" shall mean any employment, consulting, severance or other similar contract, arrangement or policy and each plan, arrangement (written or oral), program, agreement or commitment providing for insurance coverage (including without limitation any self-insured arrangements), workers' compensation, severance benefits, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits, life, health, disability or accident benefits (including without limitation any "voluntary employees' beneficiary association" as defined in Section 501(c)(9) of the Code providing for the same or other benefits) or for deferred compensation, profit-sharing bonuses, stock options, stock appreciation rights, stock purchases or other forms of incentive compensation or post-retirement insurance, compensation or benefits which (A) is not a Welfare Plan, Pension Plan or Multiemployer Plan, (B) is entered into, maintained, contributed to or required to be contributed to, as the case may be, by SPD or any ERISA Affiliate or for which SPD or any ERISA Affiliate has any liability, and (C) covers any employee or former employee of SPD or any Subsidiary (with respect to their relationship with any such entity). Schedule 2.14(a)(i) contains a true and complete list of all Benefit Arrangements.

(ii) Employee Plans. "Employee Plans" shall mean all Benefit Arrangements, Multiemployer Plans, Pension Plans and Welfare Plans.

(iii) ERISA. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

(iv) ERISA Affiliate. "ERISA Affiliate" shall mean any entity which is (or at any relevant time was) a member of a "controlled group of corporations" with, under "common

control" with, or a member of an "affiliated service group" with. SPD as defined in Section 414(b), (c), (m) or (o) of the Code.

(v) Multiemployer Plan. "Multiemployer Plan" shall mean any "multiemployer plan," as defined in Section 4001(a)(3) of ERISA, (A) to which SPD or any ERISA Affiliate maintains, administers, contributes or is required to contribute or has any liability with respect to and (B) which covers any employee or former employee of SPD or any ERISA Affiliate (with respect to their relationship with such entities).

(vi) PBGC. "PBGC" shall mean the Pension Benefit Guaranty Corporation.

(vii) Pension Plan. "Pension Plan" shall mean any "employee pension benefit plan" as defined in Section 3(2) of ERISA (other than a Multiemployer Plan) (A) which SPD or any ERISA Affiliate maintains, administers, contributes to or is required to contribute to or has any liability with respect to and (B) which covers any employee or former employee of SPD or any ERISA Affiliate (with respect to their relationship with such entities).

(viii) Welfare Plan. "Welfare Plan" shall mean any "employee welfare benefit plan" as defined in Section 3(1) of ERISA, (A) which SPD or any ERISA Affiliate maintains, administers, contributes to or is required to contribute to or has any liability with respect to, and (B) which covers any employee or former employee of SPD or any Subsidiary (with respect to their relationship with such entities).

b) Disclosure. Schedule 2.14 contains a complete list of Employee Plans.

c) Representations. Except as set forth in Schedule 2.14, SPD represents and warrants as follows:

(i) Pension Plans

(A) 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 Pension Plan with respect to any plan year, whether or not waived. Neither SPD 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 Pension Plan.

(B) Neither SPD nor any ERISA Affiliate is required to provide security to a Pension Plan which covers employees or former employees of SPD or any of its Subsidiaries under Section 401(a)(29) of the Code.

(C) Each Pension Plan and each related trust agreement, annuity contract or other funding instrument which covers employees or former employees of SPD or any of its Subsidiaries (with respect to their relationship with such entities) is qualified (within the meaning of Code Section 401(a)) and has been determined by the Internal Revenue Service to be qualified and tax-exempt under the provisions of Code Sections 401(a) and 501(a), or application for such determination has been made and nothing has occurred since such determination or application that could reasonably be expected to cause the loss of such qualification.

(D) Each Pension Plan, each related trust agreement, annuity contract or other funding instrument which covers employees or former employees of SPD or any of its Subsidiaries (with respect to their relationship with such entities) ("SPD Pension Plan") is in material compliance with its terms and, both as to form and in operation, with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such plans, including without limitation ERISA and the Code.

(E) SPD or an ERISA Affiliate has paid all premiums (and

interest charges and penalties for late payment, if applicable) due the PBGC with respect to each Pension Plan for each plan year thereof for which such premiums are required. Neither SPD nor any ERISA Affiliate has engaged in, or is a successor or parent corporation to an entity that has engaged in, a transaction which is described in Section 4069 of ERISA. There has been no "reportable event" (as defined in Section 4043(b) of ERISA and the PBGC regulations under such Section) requiring notice to the PBGC with respect to any Pension Plan. Neither SPD nor any ERISA Affiliate has, at any time, (1) become subject to the provisions of Section 4062 of ERISA or terminated any Pension Plan other than pursuant to ERISA Section 4041(b), (2) withdrawn as a substantial employer so as to become subject to the provisions of Section 4063 of ERISA, or (3) ceased making contributions on or before the Closing Date to any Pension Plan subject to Section 4064(a) of ERISA to which SPD or any ERISA Affiliate made contributions during the six years prior to the Closing Date.

(ii) Multiemployer Plans. There are no Multiemployer Plans.

(iii) Welfare Plans. Each Welfare Plan is in material compliance with its terms and, both as to form and operation, with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Welfare Plan, including without limitation ERISA and the Code.

(iv) Benefit Arrangements. Each Benefit Arrangement is in material compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations which are applicable to such Benefit Arrangement.

(v) Fiduciary Duties and Prohibited Transactions. Neither SPD nor any of its Subsidiaries has any liability with respect to any transaction in violation of Sections 404 or 406 of ERISA or any "prohibited transaction," as defined in Section 4975(c)(1) of the Code, for

which no exemption exists under Section 408 of ERISA or Section 4975(c)(2) or (d) of the Code to which any Welfare Plan or SPD Pension Plan is subject. Neither SPD nor any of its Subsidiaries has participated in a violation of Part 4 of Title 1, Subtitle B of ERISA by any plan fiduciary of any Welfare Plan or Pension Plan and has no unpaid civil penalty under Section 502(1) of ERISA.

Section 2.15 Labor Relations. Except as set forth on Schedule 2.15, neither SPD nor any of its Subsidiaries is a party to any collective bargaining agreements. The Contracts listed on Schedule 2.15 include all written employment or severance agreements to which either SPD or any of its Subsidiaries is a party with respect to any employee or former employee whose compensation or benefits during the fiscal year ended December 31, 1997 exceeded \$100,000 and which may not be terminated at will, or by giving notice of 30 days or less, without cost or penalty. SPD has delivered or made available to ACQUIROR true, correct and complete copies of each such Contract, as amended to date.

Section 2.16 Legal Compliance. Except with respect to (i) matters set forth on Schedule 2.16, (ii) compliance with Environmental Laws (as to which certain representations and warranties are made pursuant to Section 2.17) and (iii) compliance with laws applicable to Government Contracts (as to which certain representations and warranties are made pursuant to Section 2.9) each of SPD and its Subsidiaries is in compliance in all material respects with all laws, statutes, ordinances, rules, regulations, orders, judgments or decrees applicable to it and its business and neither SPD nor any of its Subsidiaries has received any notice that any violation or potential violation or any action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand or notice has been filed or SPD or any of its Subsidiaries alleging failure to comply.

Section 2.17 Environmental Matters. Except as set forth on Schedule 2.17, to the best

knowledge of SPD, (i) SPD and its Subsidiaries are in substantial compliance with all Environmental Laws, except where any such instance of non-compliance could not reasonably be expected to have a material adverse effect on the business, operation or financial condition of SPD and its Subsidiaries, taken as a whole, and (ii) neither SPD nor any of its Subsidiaries has any liability under any Environmental Law which is material to the properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole. Except as set forth on Schedule 2.17, (i) no notices of any violation or alleged violation of, or any liability under, any Environmental Law relating to the operations or properties of SPD or its Subsidiaries have been received by SPD or any of its Subsidiaries, except where any such instance of noncompliance could not reasonably be expected to have a materially adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole, and (ii) there are no writs, injunctions, decrees, orders or judgments outstanding, or any actions, suits, claims, proceedings or investigations pending or, to the knowledge of SPD, threatened, relating to compliance with or liability under any Environmental Law, except where any such instance of non-compliance could not reasonably be expected to have a materially adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole.

Section 2.18 Taxes. Except as otherwise disclosed in Schedule 2.18:

(a) All federal, state, local and foreign tax returns including any declaration, report or similar statement required to be filed with respect to any taxes (including any attached schedules), including, without limitation, any information return, claim or refund, amended return and declaration of estimated tax, of SPD and its Subsidiaries ("Tax Returns"), including those Tax Returns relating to United States federal, state, local or foreign income, profits, estimated, gross

receipts, windfall profits, severance, intangible, occupation, production, license, emergency excise, capital gains, capital stock, withholding, transfer, stamp, payroll, goods and services, value added, alternative or add-on minimum tax, employment, franchise, property, sales and use, and excise taxes, and any other taxes, custom, duty or governmental fee, or other like assessment or charge of any kind whatsoever, together with any interest, penalties, fines, related liabilities or additions to tax that may become payable in respect thereof imposed by any governmental or regulatory authority due from and/or withheld by or required to be withheld by SPD and its Subsidiaries (collectively, "Taxes") have been duly and timely filed and are correct and complete in all material respects, except for those returns for which the time for filing thereof has been validly extended.

(b) All Taxes or estimates thereof that are due have been timely and appropriately paid, except for amounts being contested in good faith by appropriate proceedings and for which an adequate reserve (other than a reserve for deferred taxes reflecting the difference between the tax and book basis in assets and liabilities) has been established on SPD's financial statements. With respect to any period or portion thereof ending on or before the date of the balance sheet referred to in Section 2.7(b) for which Tax Returns have not yet been filed, or for which Taxes have accrued but are not yet due or owing, SPD has made due and sufficient reserves (other than reserves for deferred taxes reflecting the difference between the tax and book basis in assets and liabilities) for such Taxes on the balance sheet referred to in Section 2.7(b). SPD and its Subsidiaries have collected all material sales and use Taxes and withholding Taxes required to be collected, and have remitted, or will remit on a timely basis, such amounts to the appropriate governmental authorities, or have been furnished properly completed exemption certificates and have maintained all such records and supporting documents in the manner required by all

applicable sales and use Tax and payroll withholding statutes and regulations for all periods for which the statute of limitations has not expired.

(c) None of the Tax Returns for any taxable period the statute of limitations on which has not yet expired has been audited or is being audited by any taxing authority.

(d) No assessment, audit or other proceeding by any taxing authority, court or other governmental or regulatory authority is proposed, pending, or, to the knowledge of SPD, threatened with respect to the Taxes or Tax Returns of SPD or its Subsidiaries.

(e) There are no outstanding agreements, waivers or arrangements extending the statutory period of limitations applicable to any claim for or the period for the collection or assessment of Taxes due for any taxable period. There is no contract or agreement, plan or arrangement by SPD or any of its Subsidiaries covering any person that, individually or collectively, could give rise to the payment of any amount that would not be deductible by SPD by reason of section 280G of the Code. Neither SPD nor its Subsidiaries have been a United States real property holding corporation within the meaning of section 897 (c)(2) of the Code during the applicable period specified in Section 897 (c)(1) (A) (ii) of the Code.

(f) Neither SPD nor its Subsidiaries (i) has been a member of an affiliated group filing a consolidated federal income Tax Return (other than the current group of which SPD is the common parent) or (ii) has liability for the Taxes of any person under Treasury Regulation section 1.1502-6(a) (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(g) There are no Liens with respect to Taxes upon any of the assets or properties of SPD or its Subsidiaries, other than with respect to Taxes not yet due and payable.

(h) As of the Closing, neither SPD nor its Subsidiaries shall be a party to, be

bound by or have any obligation under, any Tax sharing agreement or similar contract or arrangement or any agreement that obligates it to make any payment computed by reference to the Taxes, taxable income or taxable losses of any other person.

Section 2.19 Governmental Authorities: Consents. Assuming the truth and completeness of the representations and warranties of ACQUIROR contained in this Agreement, no consent, approval or authorization of, or designation, declaration or filing with, any Governmental Authority or other third party is required on the part of SPD with respect to SPD's execution or delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) applicable requirements of the HSR Act or any similar foreign law, (ii) any filings required under the DOD National Industrial Security Program Manual for Safeguarding Classified Information, (iii) any filings required under U.S. Export Control Laws, (iv) the consents listed on Schedule 2.19.

Section 2.20 Licenses, Permits and Authorizations. SPD possesses all of the licenses, approvals, consents, franchises and permits necessary to permit SPD and its Subsidiaries to own, operate, use and maintain their assets in the manner in which they are now operated and maintained and to conduct the business of SPD and its Subsidiaries as currently conducted, except where the absence of any such license, approval, consent, franchise or permit could not reasonably be expected to have a materially adverse effect on the business, properties, assets, results of operations or financial condition of SPD and its Subsidiaries, taken as a whole. All such licenses, franchises and other permits are in full force and effect and there are no proceedings pending or, to the best knowledge of SPD, threatened that seek the revocation, cancellation, suspension or adverse modification thereof. Within ten days of the date hereof, SPD will supply ACQUIROR with a list of all material licenses, franchises and other permits of

or with any Governmental Authority, whether foreign, federal, state or local, which are held by SPD or any of its Subsidiaries.

Section 2.21 Insurance. Schedule 2.21 contains a summary description of all policies of property, fire and casualty, product liability, workers' compensation, and other forms of insurance held by SPD or any of its Subsidiaries. True, correct and complete copies of such insurance policies have been made available to ACQUIROR. Such policies are in full force and effect and all premium due thereon have been paid or accrued. No notice of cancellation, termination or reduction of coverage, and no notice of intention to cancel, terminate or reduce coverage, has been received by SPD or any of its Subsidiaries.

Section 2.22 Brokers' Fees. Except for the fees payable to the entities described on Schedule 2.22 (which fees shall be paid as a Holder Allocable Expense), no broker, finder, investment banker or other Person is entitled to any brokerage fee, finders' fee or other commission in connection with the transactions contemplated by this Agreement based upon arrangements made by SPD or any of its Subsidiaries or Affiliates.

Section 2.23 Inventory. All inventory of SPD and its Subsidiaries consists of a quality and quantity consistent with good business practices net of any reserves reflected in (i) the case of inventory on the date hereof, the balance sheet referred to in Section 2.7(b) or (ii) the Closing Balance Sheet in the case of inventory on the Closing Date and are salable in the ordinary course consistent with past practice.

Section 2.24 Accounts Receivable. The accounts receivable of SPD and its Subsidiaries reflected in the balance sheet referred to in Section 2.7(b) represent bona fide sales actually made in the ordinary course of business, and have been properly accrued in accordance with GAAP, net of any reserves reflected in the balance sheet referred to in Section 2.7(b). To

the best knowledge of SPD, there are no facts or circumstances (other than general economic conditions) which would result in any material increase in the uncollectibility of the accounts receivable as a class in excess of the reserves therefor set forth in the Closing Balance Sheet.

Section 2.25 Absence of Changes. Except as set forth on Schedule 2.25:

Since December 31, 1997, there has not been (a) any material adverse change (or any event specifically relating to SPD that could reasonably be expected to result in such a change) in the business, financial condition or results of operations of SPD or its Subsidiaries, or any change that could materially delay or impair the ability of SPD to effect the Closing or materially and adversely affect the operation of the business of SPD after the Closing Date; (b) any damage, destruction or loss (whether or not covered by insurance) individually or in the aggregate in excess of \$100,000; (c) any labor, dispute or any labor union organizing activity, or any actual or threatened strike, work stoppage, slowdown or lockout, or any material change in its relationship with employees, customers, distributors or suppliers; (d) any sale, lease, transfer or other disposition of any asset of SPD or its Subsidiaries having a fair material value in excess of \$100,000 or for proceeds in excess of \$100,000, or (e) any discharge or satisfaction of any obligation or liability of SPD or its Subsidiaries other than in the ordinary course of business in accordance with the terms of such obligation or liability.

Except as set forth on Schedule 2.25: Since December 31, 1997, neither SPD or any of its Subsidiaries has engaged in any of the following transactions: (i) issued or committed to issue any shares of common stock (except upon exercise of duly issued stock options which were outstanding as of such date) or ownership interest of SPD or any of its Subsidiaries, or any obligations, understanding or commitment regarding the issuance of capital stock or any option, right, warrant or other security exercisable or exchange for or convertible into capital stock of

SPD or any of its Subsidiaries, (ii) redeemed, purchased or otherwise acquired or committed to acquire or committed to acquire any shares or other ownership interest of SPD or any of its Subsidiaries, (iii) effected a split or reclassification of any shares of SPD or any of its Subsidiaries or a recapitalization of SPD or any of its Subsidiaries, (iv) made any change in the compensation of, or increased benefits available to, any officer, other employee, sales agent or representative of SPD or any of its Subsidiaries under any bonus or pension plan or other contract or commitment, or paid or agreed or promised to pay, whether conditionally or otherwise, any bonus, incentive, retention or compensation, or increased or agreed or promised to increase any retirement, welfare, fringe or severance benefits or vacation pay, to or in respect of any officer, other employee, sales agent or representative of SPD or any of its Subsidiaries, other than, with respect to any employee other than officers, in the ordinary course of business and consistent with past practice, (v) incurred, assumed or guaranteed any obligation or liability whether absolute, accrued, contingent or otherwise, or any indebtedness for borrowed money, except current liabilities for trade or business obligations incurred in connection with the purchase of goods or services in the ordinary course of the business consistent with past practice, (vi) mortgaged, pledged or subjected to any Lien any property or assets, tangible or intangible of SPD or any of its Subsidiaries, (vii) transferred or granted any rights under, or entered into any settlement regarding the breach or infringement of, any Intellectual Property, or modified any existing rights with respect thereto, (viii) received any notice of termination or of default or breach of any material contract, lease or other agreement, (ix) made any capital expenditures, or commitments to make any capital expenditure in excess of \$250,000 in the aggregate, (x) entered into any transaction, contract or commitment with any affiliate of SPD or (xi) entered into any transaction, contract or commitment other than in the ordinary course of business.

Section 2.26 Undisclosed Liabilities. SPD and its Subsidiaries have no debts, claims, liabilities or obligations (whether absolute, contingent or otherwise) which are material to the business of SPD and its Subsidiaries which would be required to be disclosed in a balance sheet or in a footnote to a financial statement prepared under GAAP except for (a) those reflected, reserved against or otherwise disclosed in the balance sheet referred to in Section 2.7(b) or the notes thereto and not heretofore paid or discharged or (b) those incurred in the ordinary course of business of SPD and its Subsidiaries since the date of the balance sheet referred to in Section 2.7(b) to the extent reflected in the Closing Date Balance Sheet.

Section 2.27 Customers and Suppliers. Schedule 2.27 lists the ten largest customers of SPD and its Subsidiaries and the ten largest suppliers for the most recent fiscal year. To the best knowledge of SPD and its Subsidiaries, since January 1, 1998, there has been no material adverse change in the business relationship of the Company with any customer or supplier named on Schedule 2.27.

Section 2.28 Affiliate Transactions. Except set forth in Schedule 2.28, there are no agreements, arrangements, undertakings or other transactions between SPD or any of its Subsidiaries with any of their Affiliates.

Section 2.29 Full Disclosure. No representation or warranty of SPD in this Agreement, nor any statement or certificate furnished or to be furnished to ACQUIROR pursuant to this Agreement, or in connection herewith, contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not false or misleading.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF ACQUIROR AND MERGER SUB

ACQUIROR and Merger Sub represent and warrant to SPD as of the date of this Agreement as follows:

Section 3.1 Corporate Organization. Each of ACQUIROR and Merger Sub has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware, and has the power and authority to own or lease its properties and to conduct its business as it is now being conducted. The copies of the Certificate of Incorporation of each of ACQUIROR and Merger Sub, certified by the Secretary of State of Delaware, and their Bylaws, previously delivered by ACQUIROR to SPD, are true, correct and complete. Each of ACQUIROR and Merger Sub is duly licensed or qualified and in good standing as a foreign corporation in all jurisdictions in which its ownership of property or the character of its activities is such as to require it to be so licensed or qualified, except where failure to be so licensed or qualified could not reasonably be expected to have a material adverse effect on the ability of ACQUIROR or Merger Sub to enter into this Agreement or consummate the transactions contemplated hereby.

Section 3.2 Due Authorization. Each of ACQUIROR and Merger Sub has all requisite power and authority to execute and deliver this Agreement and to perform all obligations to be performed by it thereunder. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized and approved by the Board of Directors of ACQUIROR and Merger Sub and approved by the stockholder of Merger Sub, and no other proceeding on the part of ACQUIROR or Merger Sub is necessary to

authorize this Agreement. This Agreement has been duly and validly executed and delivered by each of ACQUIROR and Merger Sub and this Agreement constitutes a valid and binding obligation of ACQUIROR and Merger Sub, enforceable against ACQUIROR and Merger Sub in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

Section 3.3 No Conflict. Except as set forth in Schedule 3.3, the execution and delivery of this Agreement by ACQUIROR and Merger Sub and the consummation of the transactions contemplated hereby does not and will not violate any provision of, or result in the breach of any applicable law, rule or regulation of any governmental body, the Certificate of Incorporation, Bylaws, as amended, or other organizational documents of ACQUIROR and Merger Sub, or any agreement, indenture or other instrument to which ACQUIROR or Merger Sub is a party or by which ACQUIROR or Merger Sub may be bound, or of any order, judgment or decree applicable to ACQUIROR or Merger Sub, or terminate or result in the termination of any such agreement, indenture or instrument, or result in the creation of any Lien upon any of the properties or assets of ACQUIROR or Merger Sub or constitute an event which, after notice or lapse of time or both, would result in any such violation, breach, acceleration, termination or creation of a Lien, except to the extent that the occurrence of the foregoing could not reasonably be expected to have a material adverse effect on the ability of ACQUIROR and Merger Sub to enter into and perform their obligations under this Agreement.

Section 3.4 Litigation and Proceedings. There are no lawsuits, actions, suits, claims or other proceedings at law or in equity, or, to the knowledge of ACQUIROR, investigations, before or by any court or governmental authority or instrumentality or before any arbitrator pending or,

to the knowledge of ACQUIROR, threatened, against ACQUIROR or Merger Sub which, if determined adversely, could reasonably be expected to have a materially adverse effect on the ability of ACQUIROR or Merger Sub to enter into and perform its obligations under this Agreement. There is no unsatisfied judgment or any open injunction binding upon ACQUIROR or Merger Sub, which could reasonably be expected to have a materially adverse effect on the ability of ACQUIROR or Merger Sub to enter into and perform its obligations under this Agreement.

Section 3.5 Governmental Authorities; Consents. Assuming the truth and completeness of the representations and warranties of SPD contained in this Agreement, no consent, approval or authorization of, or designation, declaration or filing with, any governmental authority or other third party is required on the part of ACQUIROR or Merger Sub with respect to ACQUIROR or Merger Sub's execution or delivery of this Agreement or the consummation of the transactions contemplated hereby, except for (i) applicable requirements of the HSR Act or any similar foreign law, (ii) any filings required under the DOD Industrial Security Manual for Safeguarding Classified Information, (iii) any filings required under U.S. Export Control Laws, and (iv) as otherwise disclosed in Schedule 3.5.

Section 3.6 Financial Ability. ACQUIROR and Merger Sub have the financial resources necessary to consummate the transactions contemplated by this Agreement, including, without limitation, the ability to pay the Merger Consideration at Closing.

Section 3.7 Brokers' Fees. No broker, finder, investment banker or other Person is entitled to any brokerage fee, finders' fee or other commission in connection with the transactions contemplated by this Agreement based upon arrangements made by ACQUIROR or any of its Affiliates.

Section 3.8 Liquidation. ACQUIROR represents that at this point in time it has no immediate intention of liquidating SPD following the Closing Date.

ARTICLE IV
COVENANTS OF SPD

Section 4.1 Conduct of Business. From the date hereof through the Closing, SPD and each of its Subsidiaries shall, except as contemplated by this Agreement, or as consented to by ACQUIROR in writing, operate its business in the ordinary course and substantially in accordance with past practice and will use its reasonable best efforts (i) not to take any action inconsistent with this Agreement, (ii) to keep available the services of the present officers and employees of SPD and its Subsidiaries, and (iii) to preserve the present relationship of SPD and its Subsidiaries with all entities or persons having significant business dealings with either of them. Without limiting the generality of the foregoing, unless consented to by ACQUIROR in writing, SPD shall not, and SPD shall cause each of its Subsidiaries not to, except as specifically contemplated by this Agreement:

(a) change or amend the Certificate of Incorporation, Bylaws or other organizational documents of SPD or any of its Subsidiaries.

(b) enter into, extend, materially modify, terminate or renew any Contract of a type required to be listed on Schedule 2.8 or Schedule 2.15, except that SPD and its Subsidiaries may enter into any contract, agreement or commitment in the ordinary course of business that could not result in a loss in excess of \$100,000 and would not involve aggregate consideration in excess of \$2.5 million.

(c) sell, assign, transfer, convey, lease or otherwise dispose of any material assets or properties except inventory sales in the ordinary course of business;

(d) (i) except as otherwise required by law take any action with respect to the grant of any severance or termination pay (otherwise than pursuant to policies or agreements of SPD or its Subsidiaries in effect on the date hereof and disclosed to ACQUIROR) which will become due and payable on or after the Closing Date; (ii) make any change in the key management structure of SPD or any of its Subsidiaries, including, without limitation, the hiring of additional officers or the terminations 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 Plan; or (iv) increase the compensation or fringe benefits of any present or former director, officer or employee of SPD or any of its Subsidiaries except for the payment of increases in salary or wages of employees (other than officers) in the ordinary course of business consistent with past practice), and except for the payment of certain bonuses to the management of SPD's Power Paragon divisions in an amount not to exceed \$500,000, which amount will be accrued on the Closing Date Balance Sheet if not paid prior to the Closing;

(e) 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;

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

(g) make or change any tax election, change any method of accounting with respect to Taxes, file any amended Tax Return, or settle or compromise any federal, state, local or foreign Tax liability.

(h) enter into any agreement, or otherwise become obligated, to do any action

prohibited hereunder.

(i) incur or increase any indebtedness for borrowed money or guarantee the debt of any other person (other than any incurrence or increase in the ordinary course of business and then only if the amount of such incurrence or increase (to the extent not repaid prior to the Closing Date) is reflected on the Closing Balance Sheet; or

(j) make any capital expenditure, or commit to make any capital expenditure, in excess of \$100,000 in the aggregate.

Section 4.2 Inspection. Subject to confidentiality obligations and similar restrictions that may be applicable to information furnished to SPD by third-parties that may be in SPD's possession from time to time (including restrictions on the disclosure of government-classified information), SPD shall, and shall cause its Subsidiaries to, afford to ACQUIROR and its accountants, counsel and other representatives reasonable access, during normal business hours to all of their respective properties, books, contracts, commitments, tax returns, records and appropriate officers and employees of SPD and its Subsidiaries, and shall furnish such representatives with all financial and operating data and other information concerning the affairs of SPD and its Subsidiaries as they may reasonably request. SPD shall, and shall cause its Subsidiaries to, afford to ACQUIROR and its environmental consultants, counsel and other representatives reasonable access, during normal business hours and, if reasonably necessary week-ends, to all real property and equipment owned, operated or leased by SPD, and to appropriate employees of SPD and its subsidiaries and shall furnish ACQUIROR's representatives with adequate water and power, as well as any environmental or operating data reasonably necessary to complete an environmental or operating audit and site assessment of each site.

Section 4.3 HSR Act; Foreign Antitrust Approvals

(a) In connection with the transactions contemplated by this Agreement, SPD (and, to the extent required, its Affiliates) shall (i) comply with the notification and reporting requirements of the HSR Act within six business days of the execution of this Agreement and use its reasonable best efforts to obtain early termination of the waiting period under the HSR Act (provided that SPD shall not be permitted to dispose or discontinue or modify or agree to discontinue or modify any assets or operations without ACQUIROR's consent), and (ii) make such other filings with any foreign Governmental Authorities as may be required under any applicable foreign law. SPD shall substantially comply with any additional requests for information, including requests for production of documents and production of witnesses for interviews or depositions, by any Antitrust Authority.

(b) SPD shall exercise all reasonable efforts to prevent the entry in any Action brought by an Antitrust Authority or any other Person of any Governmental Order which would prohibit, make unlawful or delay the consummation of the transactions contemplated by this Agreement on or before September 15, 1998.

Section 4.4 No Solicitations. From the date hereof through the Closing, neither SPD nor any of its Subsidiaries shall, and SPD shall not knowingly permit its Affiliates, officers, directors, employees, representatives and agents to, directly or indirectly, encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any Person or group of Persons (other than ACQUIROR, Merger Sub or any of their respective Affiliates) concerning any merger, sale of assets, sale of shares of capital stock or similar transactions involving SPD or any Subsidiary or division of SPD.

Section 4.5 Research and Experimental Expenses. Holder Representative will use its

reasonable best efforts to cause to be furnished to ACQUIROR as soon as reasonably practicable, but in no event more than 120 days after Closing, all information reasonably requested relating to the base period research expenses and any other information to allow ACQUIROR to claim research and experimental credits in accordance with the relevant sections of the Code and Treasury regulations promulgated thereunder.

ARTICLE V
COVENANTS OF ACQUIROR

Section 5.1 HSR Act; Foreign Antitrust Approvals

(a) In connection with the transactions contemplated by this Agreement, ACQUIROR (and, to the extent required, its Affiliates) shall (i) comply with the notification and reporting requirements of the HSR Act within six business days of the execution of this Agreement and use its reasonable best efforts to obtain early termination of the waiting period under the HSR Act, and (ii) make such other filings with any foreign Governmental Authorities as may be required under any applicable foreign law. ACQUIROR shall substantially comply with any additional requests for information, including requests for production of documents and production of witnesses for interviews or depositions, by any Antitrust Authorities.

(b) ACQUIROR shall exercise all reasonable efforts to prevent the entry in any Action brought by an Antitrust Authority or any other Person of any Governmental Order which would prohibit, make unlawful or delay the consummation of the transactions contemplated by this Agreement on or before September 15, 1998.

Section 5.2 Indemnification and Insurance.

(a) From and after the Effective Time of the Merger, ACQUIROR agrees that it will cause the Surviving Corporation to continue to indemnify and hold harmless each present

and former director and officer of SPD or any of its Subsidiaries against any costs or expenses (including reasonable attorneys' fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to matters existing or occurring at or prior to the Effective Time of the Merger, whether asserted or claimed prior to, at or after the Effective Time of the Merger, to the fullest extent that SPD or its Subsidiaries, as the case may be, would have been permitted under Delaware law and its charter or by-laws in effect on the date hereof to indemnify such person (including the advancing of expenses as incurred to the fullest extent permitted under applicable law), provided the person to whom such expenses are advanced provides an undertaking to the Surviving Corporation to repay such advances if it is ultimately determined that such person is not entitled to indemnification; provided further, that any determination required to be made with respect to whether an officer's or director's conduct complies with the standards set forth under Delaware law and the charter and by-laws of SPD or its applicable Subsidiary shall be made by independent counsel selected by the Surviving Corporation.

(b) For five (5) years from the Effective Time of the Merger, ACQUIROR shall use its reasonable best efforts to maintain in effect directors' and officers' liability insurance covering those Persons who are currently covered by SPD's directors' and officers' liability insurance policy (a true, correct and complete copy of which has been heretofore delivered to ACQUIROR) on terms not materially less favorable than the terms of such current insurance coverage; provided, however, that if any claim is asserted or made within such five-year period, such insurance will be continued in respect of such claim until the final disposition thereof, and provided, further, that ACQUIROR shall not be required to pay premiums in excess of two times

the current premium paid by SPD for such coverage.

ARTICLE VI
JOINT COVENANTS

Section 6.1 Confidentiality.

(a) Use of Evaluation Materials. Except for any governmental filings required in order to complete the transactions contemplated herein, and, except as ACQUIROR and SPD may agree or consent in writing, each party hereto shall keep the Evaluation Materials confidential and, no party shall, except as required by applicable law or legal process disclose any Evaluation Materials or any information contained therein to any Person; provided, however, that any such information may be disclosed to those of such party's directors, officers, employees, agents and representatives and financing sources who need to know such information for the purposes of evaluating the transactions contemplated hereby (it being understood that such directors, officers, employees, agents and representatives shall be informed by such party of the confidential nature of such information and shall be directed by such party, and shall each agree to treat such information confidentially in accordance with this Section 6.1 (a)). Without limiting the generality of the foregoing, in the event that the transactions contemplated hereby are not consummated, neither party hereto nor its directors, officers, employees, agents or representatives shall use any of the Evaluation Materials furnished to it by another party hereto for any purpose.

(b) Compelled Disclosure. In the event that any party hereto or any of its representatives receives a request or is required (by applicable law, regulation or legal process) to disclose all or any part of the information contained in the Evaluation Materials, such party or its representatives, as the case may be, shall (i) promptly notify the disclosing party of the existence,

terms and circumstances surrounding such a request, (ii) consult with the disclosing party on the advisability of taking legally available steps to resist or narrow such request and (iii) assist the disclosing party in seeking a protective order or other appropriate remedy. In the event that such protective order or other remedy is not obtained or that the disclosing party waives compliance with the provisions hereof, (i) such party or its representatives, as the case may be, may disclose only that portion of the Evaluation Materials which such party is advised by opinion of legal counsel is legally required to be disclosed and shall exercise reasonable efforts to assist the disclosing party in obtaining assurance that confidential treatment will be accorded such and (ii) such party shall not be liable for such disclosure unless disclosure to any such tribunal was caused by or resulted from a previous disclosure by such party or its representatives not permitted by this Section 6.1.

Section 6.2 Support of Transaction. ACQUIROR and SPD, and their respective Subsidiaries shall each (i) use its reasonable best efforts to assemble, prepare and file any information (and, as needed, to supplement such information) as may be reasonably necessary to obtain as promptly as practicable all governmental and regulatory consents required to be obtained in connection with the transactions contemplated hereby, (ii) use its reasonable best efforts to obtain all material consents and approvals of third parties that any of ACQUIROR and SPD, or their respective Affiliates are required to obtain in order to consummate the Merger and, (iii) take such other action as may reasonably be necessary or as another party may reasonably request to satisfy the conditions of Article VIII or otherwise to comply with this Agreement. Without limiting the foregoing, each party agrees to cooperate with the others to accomplish (i) the payoff of all Funded Debt of SPD as of the Closing Date and the release of all Liens securing the same, and (ii) to structure the transfer of SPD's German Subsidiaries in such manner as may be mutually

agreed upon as being most advantageous to the parties from a legal, tax and business perspective.

Section 6.3 Update Information. Not less than 5 days before the date scheduled for Closing, SPD and ACQUIROR shall correct and supplement in writing any information furnished on Schedules that, to the knowledge of SPD or ACQUIROR, respectively, is incorrect or incomplete, and shall promptly furnish such corrected and supplemented information to the other, so that such information shall be correct and complete at the time such updated information is so provided. Thereafter, prior to the Closing, SPD and ACQUIROR shall each notify the other in writing of any changes or supplements to the updated information needed, to the knowledge of SPD or ACQUIROR, respectively, to make such information correct and complete as of the Closing.

Section 6.4 SEC Financial Reporting. SPD and its Subsidiaries and Grant Thornton shall each use its reasonable best efforts to prepare or aid the Acquiror to prepare on a timely basis the historical financial statements for SPD and its consolidated subsidiaries for (i) the fiscal years ending December 31, 1997, 1996, and 1995, and (ii) any interim periods after December 31, 1997 but before the Closing Date as required, in accordance with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), for purposes of SEC filings which must be undertaken by the Acquiror in connection with the consummation of transactions contemplated herein.

Section 6.5 Further Assurances. Each party hereto agrees that it will, from time to time after the date of this Agreement, execute and deliver such other certificates, documents and instruments and take such other action as may be reasonably requested by the other party to carry out the actions and transactions contemplated by this Agreement.

Section 6.6 Execution of Escrow Agreements. Each of ACQUIROR and SPD agrees

that, upon satisfaction (or waiver) of the conditions to its obligations hereunder, it will, at or prior to Closing, execute the Indemnification and Adjustment Escrow Agreements.

Section 6.7 Transaction Costs. SPD agrees that as of the Closing Date it will not have any outstanding payment obligations for services rendered in connection with the transactions contemplated under this Agreement, except as may be accrued on the Closing Date Balance Sheet.

Section 6.8 Closing of Tax Year on Closing Date. (a) The parties shall, to the extent permitted by applicable law, elect with each relevant taxing authority to close the taxable period of SPD and its Subsidiaries at the end of the business day on the Closing Date. In any case where applicable law does not permit SPD and its Subsidiaries to close their taxable year on the Closing Date, then Taxes attributable to the current taxable period of SPD and its Subsidiaries beginning before and ending after the Closing Date (including any Taxes resulting from a Tax audit or administrative or court proceeding) shall be apportioned between (a) the period beginning on the first day of the current tax year of SPD and its Subsidiaries and ending on the Closing Date and (b) the period beginning on the day after the Closing Date and ending on December 31, 1998 by means of a closing of the books and records of SPD and its Subsidiaries as of the close of the Closing Date and, to the extent not susceptible to such allocation, by apportionment on the basis of elapsed days unless such Tax is transaction based (such as sales, transfer and other similar Taxes) in which case such Tax shall be apportioned to the period in which the related transaction occurred/occurs.

(b) The ACQUIROR, SPD and the Holder Representative agree to allocate and otherwise treat, for Tax purposes, the purchase back and cancellation of the Options pursuant to Section 1.1(d) of this Agreement as occurring immediately prior to the Effective Time of the Merger and

as allocable to the portion of the day prior to the Acquiror's acquisition of SPD stock. The parties agree to act in accordance with such allocation in any relevant Tax Returns or filings.

(c) ACQUIROR agrees that neither it nor any of its Affiliates shall make an election under Section 338 of the Code with respect to the Merger if such election could have an adverse Tax impact on the holders of SPD Shares and Options.

Section 6.9 Review of Certain Agreements. Promptly and in any event within three business days of the date of the Original Agreement, SPD shall provide to ACQUIROR true and correct copies of the contracts and agreements set forth in Schedule 2.8 to the extent not previously provided to ACQUIROR. ACQUIROR shall have a period of two business days following the date of receipt of such contracts and agreements for a review thereof. If, upon such review, ACQUIROR determines in its reasonable good faith judgment that the consolidated business of SPD and its Subsidiaries is, in view of the terms of such contracts and agreements, materially and adversely different than such business would be in the absence of such contracts and agreements, ACQUIROR shall have the right to terminate this Agreement pursuant to Section 9.1(b)(vi) prior to the expiration of the second business day of the review period referred to above.

ARTICLE VII CLOSING

Section 7. 1 Filing. As soon as all of the conditions set forth in Article VIII of this Agreement have either been fulfilled or waived, and if this Agreement has not theretofore been terminated pursuant to its terms, the Boards of Directors of ACQUIROR, Merger Sub and SPD shall direct their officers forthwith to file and record all relevant documents with the appropriate government

officials to effectuate the Merger.

Section 7.2 Closing The Closing shall take place at a location and time mutually agreed upon by ACQUIROR and SPD on August 13, 1998 or such other date upon which the parties may agree (if on such date the conditions set forth in Section 8.1 have been satisfied or waived), and in any event within five (5) Business Days of the date on which all conditions set forth in Section 8.1, Sections 8.2(a) and (c) and Section 8.3(a) shall have been satisfied or waived. The term "Closing," when used in this Agreement, means the Effective Time of the Merger.

ARTICLE VIII
CONDITIONS TO OBLIGATIONS

Section 8.1 Conditions to Obligations of ACQUIROR, Merger Sub and SPD. The obligations of ACQUIROR, Merger Sub and SPD to consummate, or cause to be consummated, the Merger are subject to the satisfaction of the following conditions:

(a) All waiting periods under the HSR Act applicable to the Merger shall have expired or been terminated.

(b) All necessary permits, approvals, clearances, filings and consents of Governmental Authorities required to be procured by ACQUIROR, Merger Sub and SPD in connection with the Merger and the transactions contemplated by this Agreement shall have been procured, it being understood, however, that (i) any consents required in connection with United States Government security clearances, and (ii) any other consents, authorizations or approvals, the absence of which would not have a material adverse effect on the business, operations or financial condition of SPD and its Subsidiaries, taken as a whole, need not be obtained prior to Closing.

(c) There shall not be in force any order or decree, statute, rule or regulation

nor shall there be on file any complaint by a governmental agency seeking an order or decree, restraining, enjoining, restricting or prohibiting the consummation of the Merger in accordance with the terms hereof, and neither ACQUIROR nor Merger Sub nor SPD shall have received notice from any Governmental Authority that it has determined to institute any suit or proceeding to restrain or enjoin the consummation of the Merger or to nullify or render ineffective this Agreement if consummated, or to take any other action which would result in the prohibition or a material change in the terms of the Merger.

Section 8.2 Conditions to Obligations of ACQUIROR and Merger Sub. The obligations of ACQUIROR and Merger Sub to consummate or cause to be consummated the transactions contemplated by this Agreement are subject to the satisfaction of the following additional conditions, any one or more of which may be waived in writing by ACQUIROR and Merger Sub:

(a) Each of the representations and warranties of SPD contained in this Agreement shall be true and correct on the date hereof and (as to those representations and warranties not qualified by reference to materiality, in all material respects) as of the Closing, as if made at and as of that time, and each of the covenants and agreements of SPD to be performed as of or prior to the Closing shall have been performed in all material respects.

(b) SPD shall have delivered to ACQUIROR a certificate signed by the chief executive officer of SPD, dated the Closing, certifying that, to the best of the knowledge and belief of such officer, the conditions specified in subsection 8.2(a) have been fulfilled.

(c) Any consent, waiver, approval, license, or other authorization from, or filing with, any Person other than a Governmental Authority required for the consummation of the Merger or for the enjoyment by SPD and/or its Subsidiaries of the benefits of any Contract or other arrangement with such Person after the Merger (including, without

limitation, any consent of landlord required under any lease to which SPD and/or any Subsidiary is a party) shall have been obtained or made, except where the failure to obtain such consent would not have a material adverse effect on the business, operations or financial condition of SPD and its Subsidiaries taken as a whole.

(d) SPD and the Holder Representative shall have executed and delivered to ACQUIROR and Merger Sub the Indemnification and Adjustment Escrow Agreements.

(e) ACQUIROR shall have received an opinion, dated as of the Closing Date, from McCarter & English, LLP substantially in the form of Annex D.

(f) The form and substance of all actions, proceedings, instruments and documents required to consummate the transactions contemplated by this Agreement shall be satisfactory in all reasonable respects to ACQUIROR and its counsel.

(g) Seller shall have delivered to ACQUIROR a certificate(s) in form and substance reasonably satisfactory to ACQUIROR, duly executed and acknowledged, certifying any facts that would exempt the transactions contemplated hereby from withholding pursuant to the provisions of the Foreign Investment in Real Property Tax Act.

(h) Between the date of this Agreement and the Closing, there shall have been no material adverse change (or any event that would reasonably be expected to result in such change) in the condition (financial or otherwise), results of operation, prospects, business, assets or properties of SPD and its Subsidiaries;

(i) ACQUIROR shall have entered in employment agreements on terms reasonably satisfactory to it (including covenants not to compete) with each of the individuals listed in amended Schedule 8.2(i) attached to this Agreement;

(j) Each holder of SPD Shares and Options shall have provided an acknowledgement, in a form reasonably satisfactory to ACQUIROR, of his or its indemnification obligations, and other payment obligations pursuant to Section 1.4(d), under this Agreement [(provided, however, that the holders of SPD Shares may at their sole option determine voluntarily, and agree with ACQUIROR, to fund directly, on a pro rata basis, that portion of the indemnification obligations and other payment obligations pursuant to Section 1.4(d) of the holders of SPD Options which is not paid out of the Indemnification Escrow Amount and the Adjustment Escrow Amount, and thereafter to seek reimbursement from the holders of SPD Options for such amounts; in such case, the acknowledgement required by this Section 8.1(j) shall be required to be supplied only by the holders of SPD Shares)];

(k) ACQUIROR shall have been provided with evidence reasonably satisfactory to it that no holder of SPD Shares shall have exercised his or its dissenters rights. Section 8.3 Conditions to the Obligations of SPD. The obligation of SPD to consummate the transactions contemplated by this Agreement is subject to the satisfaction of the following additional conditions, any one or more of which may be waived in writing by SPD:

(a) Each of the representations and warranties of ACQUIROR contained in this Agreement shall be true and correct in all material respects both on the date hereof (as to those representations and warranties not qualified by reference to materiality, in all material respects) and as of the Closing, as if made at and as of that time, and each of the covenants and agreements of ACQUIROR to be performed as of or prior to the Closing shall have been performed in all material respects

(b) ACQUIROR shall have delivered to SPD a certificate signed by an officer of ACQUIROR, dated the Closing, certifying that, to the best of the knowledge and belief of such

officer, the conditions specified in subsection 8.3(a) have been fulfilled.

(c) ACQUIROR and Merger Sub shall have executed and delivered to SPD and the Holder Representative the Indemnification and Adjustment Escrow Agreements.

(d) SPD shall have received an opinion, dated as of the Closing Date, from Simpson Thacher & Bartlett, counsel to ACQUIROR substantially in the form of Annex E.

(e) The form and substance of all actions, proceedings, instruments and documents required to consummate the transactions contemplated by this Agreement shall be satisfactory in all reasonable respects to SPD and its counsel.

(f) The employment agreements referenced in Section 8.2(i) shall have been executed by ACQUIROR.

ARTICLE IX TERMINATION/EFFECTIVENESS

Section 9.1 Termination. This Agreement may be terminated and the transactions contemplated hereby abandoned:

(a) By mutual written consent of the parties authorized by their respective Boards of Directors, at any time prior to the Closing.

(b) Prior to the Closing, by written notice to SPD from ACQUIROR, authorized by the Board of Directors of ACQUIROR, if (i) there is any material breach of any covenant or agreement on the part of SPD set forth in this Agreement, or if a representation or warranty of SPD shall be untrue in any material respect, in either case, such that the condition specified in Section 8.2(a) hereof would not be satisfied at the Closing (a "Terminating SPD Breach"), except that, if such Terminating SPD Breach is curable by SPD through the exercise of its reasonable best efforts, then, for a period of up to 30 days, but only as long as SPD continues

to use its reasonable best efforts to cure such Terminating SPD Breach (the "SPD Cure Period"), such termination shall not be effective, and such termination shall become effective only if the Terminating SPD Breach is not cured within SPD Cure Period, (ii) the conditions set forth in Sections 8.1 and 8.2 of this Agreement have not been satisfied on or before August 15, 1998 (except in the event that as of such date a condition set forth in Section 8.1(a) or (b) has not been satisfied by reason of the failure to obtain any clearance from any Antitrust Authority, in which case such date shall be extended until September 15, 1998), (iii) the Closing has not occurred on or before August 15, 1998, other than as a result of a breach of a representation, warranty, covenant or agreement of ACQUIROR (except in the event that as of such date a condition set forth in Section 8.1(a) or (b) has not been satisfied by reason of the failure to obtain any clearance from any Antitrust Authority, in which case such date shall be extended until September 15, 1998), (iv) any governmental or regulatory consent or approval required for consummation of the transactions contemplated hereby is denied by or in a final order or other final action issued or taken by the appropriate Governmental Authority, (v) consummation of any of the transactions contemplated hereby is enjoined, prohibited or otherwise restrained by the terms of a final, non-appealable order or judgment of a court of competent jurisdiction, or (vi) ACQUIROR exercises its right to terminate this Agreement pursuant to Section 6.9.

(c) Prior to the Closing, by written notice to ACQUIROR from SPD, authorized by its Board of Directors, if (i) there is any material breach of any covenant or agreement on the part of ACQUIROR set forth in this Agreement, or if a representation or warranty of ACQUIROR shall be untrue in any material respect, in either case, such that the condition specified in Section 8.3(a) hereof would not be satisfied at the Closing (a "Terminating ACQUIROR Breach"), except that, if such Terminating ACQUIROR Breach is curable by ACQUIROR through the exercise of

its reasonable best efforts, then, for a period of up to 30 days, but only as long as ACQUIROR continues to exercise such reasonable best efforts to cure such Terminating ACQUIROR Breach (the "ACQUIROR Cure Period"), such termination shall not be effective, and such termination shall become effective only if the Terminating ACQUIROR Breach is not cured within the ACQUIROR Cure Period, (ii) the conditions set forth in Section 8.3 of this Agreement shall not have been satisfied on or before August 15, 1998 (except in the event that a request for additional information is made by any Antitrust Authority, in which case such date shall be extended until September 15, 1998), (iii) the Closing has not occurred on or before August 15, 1998 other than as a result of a breach of a representation, warranty, covenant or agreement of SPD(except in the event that a request for additional information is made by any Antitrust Authority, in which case such date shall be extended until September 15, 1998), (iv) any governmental or regulatory consent or approval required for consummation of the transactions contemplated hereby is denied by or in a final order or other final action issued or taken by the appropriate Governmental Authority or (v) consummation of any of the transactions contemplated hereby is enjoined, prohibited or otherwise restrained by the terms of a final, non-appealable order or judgment of a court of competent jurisdiction.

Section 9.2 Effect of Termination.

In the event of termination and abandonment of this Agreement pursuant to Section 9.1, this Agreement shall forthwith become void and have no effect, without any liability on the part of any party hereto or its respective Affiliates, officers, directors or stockholders, other than liability of SPD, ACQUIROR or Merger Sub, as the case may be, for any intentional and willful breach of this Agreement occurring prior to such termination, and any other liabilities

which any party may otherwise have pursuant to applicable law. The provisions of Sections 6.1 and 13.6 hereof shall survive any termination of this Agreement.

ARTICLE X
CERTAIN DEFINITIONS

As used herein, the following terms shall have the following meanings:

"ACQUIROR" has the meaning specified in the Preamble hereto.

"ACQUIROR Cure Period" has the meaning specified in Section 9. 1.

"ACQUIROR Indemnified Parties" has the meaning specified in Section 12.2.

"Action" means any claim, action, suit, audit, assessment, arbitration or inquiry, or any proceeding or investigation, by or before any Governmental Authority.

"Adjustment Escrow Agreement" has the meaning specified in Section 1.4.

"Adjustment Escrow Amount" has the meaning specified in Section 1.4.

"Affiliate" means, with respect to any specified Person, any Person that, directly or indirectly, controls, is controlled by, or is under common control with, such specified Person, through one or more intermediaries or otherwise.

"Aggregate Fully-Diluted SPD Common Shares" has the meaning specified in Section 1.1.

"Aggregate Option Exercise Price" has the meaning specified in Section 1. 1.

"Agreement" has the meaning specified in the Preamble hereto.

"Antitrust Authorities" means the Antitrust Division of the United States Department of Justice, the United States Federal Trade Commission or the antitrust or competition law authorities of any other jurisdiction (whether United States, state, local, foreign or multinational).

"Applicable Percentage" has the meaning specified in Section 1.2.

"Auditor" has the meaning specified in Section 1.4.

"Benefit Arrangement" has the meaning specified in Section 2.14.

"Cash Per Fully-Diluted Common Share" has the meaning specified in Section 1.1.

"Certificate of Merger" has the meaning specified in the Section entitled "Plan of Merger."

"Closing" has the meaning specified in Section 7.2.

"Closing Balance Sheet" has the meaning specified in Section 1.4.

"Closing Date Adjusted Net Assets" has the meaning specified in Section 1.4.

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

"Confidentiality Agreement" has the meaning specified in Section 13. 9.

"Constituent Corporations" shall have the meaning specified in the Section entitled "Plan of Merger."

"Contracts" means any contracts (including, without limitation, Government Contracts), agreements, subcontracts, leases, and purchase orders.

"Damages" has the meaning specified in Section 12.2.

"DGCL" has the meaning specified in the Section entitled "Plan of Merger."

"Determination Date" has the meaning specified in Section 1.4.

"Employee Options" has the meaning specified in Section 1.2.

"Employee Plans" has the meaning specified in Section 2.14.

"Environmental Laws" means, collectively, all applicable foreign, U.S. federal, state or local laws, statutes, ordinances, rules, regulations, codes or common law relating to health, safety, pollution or protection of the environment, as in effect as of the date hereof (including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended, the Resource Conservation and Recovery Act, as amended, the Clean Air Act, as

amended, and the California Hazardous Waste Control Act, as amended).

"ERISA" has the meaning specified in Section 2.14.

"ERISA Affiliate" has the meaning specified in Section 2.14.

"Evaluation Materials" means this Agreement (together with the Schedules and Annexes hereto) and, as to any party hereto, means all other non-public information furnished to such party by the other parties hereto (the "disclosing party") in connection with the transactions contemplated hereby relating to the disclosing party or the disclosing party's Affiliates, whether furnished orally or in writing, or gathered by inspection, together with analyses, compilations, studies or other documents prepared by any party, or by such party's agents, representatives (including attorneys, accountants and financial advisors) or employees, which contain or otherwise reflect such information, provided that the term Evaluation Materials shall not include information that (i) is or becomes generally available to the public other than as a result of a disclosure in violation of the terms hereof or the Confidentiality Agreement, (ii) was or becomes available to a party hereto on a nonconfidential basis from a source other than any other party hereto or their representatives and affiliates, provided that such source is not prohibited from disclosing such information by a contractual, legal or fiduciary obligation to any party hereto or any of their respective representatives, or (iii) has been or is independently developed by the party to which such information was furnished and not derived from the Evaluation Materials.

"Funded Debt" of any Person, means all obligations of such Person for borrowed money.

"GAAP" has the meaning specified in Section 1.4.

"Government Bid" has the meaning specified in Section 2.9.

"Government Contracts" has the meaning specified in Section 2.9.

"Governmental Authority" means any Federal, state, municipal, local or foreign government,

governmental authority, regulatory or administrative agency, governmental commission, department, board, bureau, agency or instrumentality, court, tribunal, arbitrator or arbitral body.

"Government Order" means any order, writ, rule, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

"Grant Thornton" has the meaning specified in Section 1.4.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Holder Acknowledgement" means an agreement or certificate signed by a holder of Options acknowledging cancellation of all Options held by such holder in form reasonably acceptable to the Surviving Corporation.

"Holder Allocable Expenses" has the meaning specified in Section 1.5.

"Holder Representative" has the meaning specified in Section 11.1.

"Indemnification Escrow Agreement" has the meaning specified in Section 1.4.

"Indemnification Escrow Amount" has the meaning specified in Section 1.4.

"Indemnified Party" has the meaning specified in Section 12.1.

"Indemnity Cap" has the meaning specified in Section 12.2.

"Intellectual Property" has the meaning specified in Section 2.11.

"Leased Real Property" means all the real property leased by SPD and its Subsidiaries with annual lease obligations in excess of \$10,000.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, encumbrance, security interest or other lien of any kind.

"Loss CarryBack" means the net operating loss as reflected on the Stub Period Tax Returns but only to the extent attributable to the cancellation of Employee Options pursuant to

Section 1.1(d) of this Agreement.

"Machinery and Equipment" has the meaning specified in Section 2.10.

"Majority Holders" has the meaning specified in Section 11. 1.

"Merger " has the meaning specified in the Section entitled "Plan of Merger."

"Merger Consideration" has the meaning specified in Section 1.1.

"Merger Sub" has the meaning specified in the Preamble hereto.

"MidMark" has the meaning specified in the Preamble hereto.

"Multiemployer Plan" has the meaning specified in Section 2.14.

"Net Working Capital" has the meaning specified in Section 1.4.

"Owned Real Property" means all real property owned by SPD or any of its Subsidiaries.

"PBGC" has the meaning specified in Section 2.14.

"Permitted Liens" means (i) mechanics, materialmen's and similar Liens with respect to any amounts not yet due and payable or which are being contested in good faith through appropriate proceedings, (ii) Liens for Taxes not yet due and payable or which are being contested in good faith through appropriate proceedings (and for which reserves are established on the financial statements of SPD), (iii) Liens arising in connection with the sale of foreign receivables, (iv) Liens on goods in transit incurred pursuant to documentary letters of credit, (v) Liens securing rental payments under capital lease agreements disclosed in Schedule 2.8, (vi) Liens arising in favor of the United States Government as a result of progress payment clauses contained in any Government Contract, and (vii) encumbrances and restrictions on real property (including easements, covenants, rights of way and similar restrictions of record) that do not materially interfere with the present uses or materially diminish the present value of such real property.

"Person" means any individual, firm, corporation, partnership, limited liability company, incorporated or unincorporated association, joint venture, joint stock company, governmental agency or instrumentality or other entity of any kind.

"Pre-Existing Environmental Condition" has the meaning specified in Section 12.2.

"SPD" has the meaning specified in the Preamble hereto.

"SPD Class A Common Stock" has the meaning specified in Section 1.1.

"SPD Class B Common Stock" has the meaning specified in Section 1.1.

"SPD Common Stock" has the meaning specified in Section 1.1.

"SPD Indemnified Party" has the meaning specified in Section 12.2.

"SPD Stock" has the meaning specified in Section 1.1.

"SPD Cure Period" has the meaning specified in Section 9.1.

"SPD Pension Plan" has the meaning specified in Section 2.14.

"SPD Principal Stockholders" means MidMark, Larry A. Colangelo and John C. Fleury.

"SPD Share" has the meaning specified in Section 1.1.

"Stub Period Tax Returns" has the meaning specified in Section 1.4.

"Subsidiary" means, with respect to any Person, a corporation or other entity of which 50% or more of the voting power of the equity securities or equity interests is owned, directly or indirectly, by such Person.

"Survival Period" has the meaning specified in Section 12.1.

"Surviving Corporation" has the meaning specified in the Section entitled "Plan of Merger."

"Terminating ACQUIROR Breach" has the meaning specified in Section 9.1.

"Terminating SPD Breach" has the meaning specified in Section 9.1.

"Options" has the meaning specified in Section 1.1.

ARTICLE XI
HOLDER REPRESENTATIVE

Section 11.1 Designation and Replacement of Holder Representative. The parties have agreed that it is desirable to designate a representative to act on behalf of holders of SPD Shares and Options for certain limited purposes, as specified herein (the "Holder Representative"). The parties have designated MidMark as the initial Holder Representative, and approval of this Agreement by the holders of SPD Shares and Options shall constitute ratification and approval of such designation. The Holder Representative may resign at any time, and the Holder Representative may be removed by the vote of Persons which collectively owned more than 50% of the Aggregate Fully-Diluted SPD Common Shares at the Effective Time of the Merger ("Majority Holders"). In the event that a Holder Representative has resigned or been removed, a new Holder Representative shall be appointed by a vote of Majority Holders, such appointment to become effective upon the written acceptance thereof by the new Holder Representative.

Section 11.2 Authority and Rights of Holder Representative; Limitations on Liability. The Holder Representative shall have such powers and authority as are necessary to carry out the functions assigned to it under this Agreement; provided, however, that the Holder Representative will have no obligation to act on behalf of the holders of SPD Shares and Options, except as expressly provided herein; and provided, further, that the Holder Representative shall obtain the oral or written consent of Larry A. Colangelo prior to taking any material actions in such capacity. Without limiting the generality of the foregoing, the Holder Representative shall have full power, authority and discretion to estimate and determine the amounts of Holder Allocable Expenses and to pay such Holder Allocable Expenses in accordance with Section 1.5 hereof. The Holder Representative will have no liability to ACQUIROR, SPD or the holders of SPD Shares

and Options with respect to actions taken or omitted to be taken in its capacity as Holder Representative, except with respect to the Holder Representative's gross negligence or willful misconduct. The Holder Representative will at all times be entitled to rely on any directions received from the Majority Holders; provided, however, that the Holder Representative shall not be required to follow any such direction, and shall be under no obligation to take any action in its capacity as Holder Representative, unless the Holder Representative is holding funds delivered to it under Section 1.5 of this Agreement and/or has been provided with other funds, security or indemnities which, in the sole determination of the Holder Representative, are sufficient to protect the Holder Representative against the costs, expenses and liabilities which may be incurred by the Holder Representative in responding to such direction or taking such action. The Holder Representative shall be entitled to engage such counsel, experts and other agents and consultants as it shall deem necessary in connection with exercising its powers and performing its function hereunder and (in the absence of bad faith on the part of the Holder Representative) shall be entitled to conclusively rely on the opinions and advice of such Persons. The Holder Representative shall be entitled to reimbursement from funds paid to it under Section 1.5 of this Agreement and/or otherwise received by it in its capacity as Holder Representative pursuant to or in connection with this Agreement, for all reasonable expenses, disbursements and advances (including fees and disbursements of its counsel, experts and other agents and consultants) incurred by the Holder Representative in such capacity, and for indemnification against any loss, liability or expenses arising out of actions taken or omitted to be taken in its capacity as Holder Representative (except for those arising out of the Holder Representative's gross negligence or willful misconduct), including the costs and expenses of investigation and defense of claims.

ARTICLE XII

SURVIVAL AND INDEMNIFICATION

Section 12.1 Survival. The representations and warranties contained in this Agreement shall survive the Closing for the period up to and including the date eighteen months following the Closing Date, except that (i) the representations and warranties in Sections 2.1, 2.2, 2.3, 2.4, 2.5 and 2.22 shall survive indefinitely; and (ii) the representation and warranties in Section 2.18 shall survive for the period up to and including 60 days following the expiration of the applicable statute of limitations (the "Survival Period"). No party seeking indemnification (the "Indemnified Party") shall be entitled to indemnification pursuant to this Article XII with respect to any representation or warranty unless the Indemnified Party shall have provided the Indemnifying Party with written notice thereof on or before the expiration of the applicable Survival Period.

Section 12.2 Indemnification.

(a) Subject to the other provisions of this Article XII, from and after the Closing until the expiration of the applicable Survival Period, ACQUIROR and their respective officers, directors, affiliates, shareholders and assigns (collectively, the "ACQUIROR Indemnified Parties") shall be entitled to indemnification from the holders of SPD Shares and Options from and against any costs or expense, losses, claims, judgments, liabilities, fines, amounts paid in settlement, and damages, net of any tax savings (including an increase in the event an indemnification payment is determined to be taxable) and any insurance recoveries actually received by the Indemnified Party (collectively, "Damages"), as incurred, to the extent they relate to, arise out of or are the result of (i) the breach of any of the representations and warranties of SPD contained in this Agreement, (ii) the breach of or nonperformance of any covenant or agreement of SPD contained in this Agreement, and (iii) any non-compliance by SPD or any of its Subsidiaries on or prior to the Closing Date of

any Environmental Law in effect on any such date or any remediation required by law of environmental contamination relating to conditions existing or events occurring on or prior to the Closing Date, regardless of whether or not the same would otherwise constitute a breach of a representation and warranty of SPD ("Pre-Existing Environmental Conditions"); provided that if, and to the extent that, a liability of SPD or any of its subsidiaries (including, without limitation, any Tax liability) is reserved for or accrued on the Closing Balance Sheet (other than reserves for deferred taxes reflecting the difference between book and tax basis in assets and liabilities) and provided, that such liability is included in the calculation of the Adjustment Amount, it shall not constitute Damages indemnifiable hereunder to the extent so reserved or accrued. Subject to the provisions of this Article XII, from and after the Closing, ACQUIROR shall indemnify in respect of, and hold the Holder Representative, the holders of SPD Shares and Options entitled to receive the Merger Consideration in connection with the Merger and their respective officers, directors, shareholders, employees, agents, subsidiaries, parents and assigns (a "SPD Indemnified Party"), harmless from any and all Damages resulting from any misrepresentation, breach of warranty, or nonfulfillment or failure to perform any covenant or agreement on the part of ACQUIROR contained in this Agreement.

(b) Notwithstanding the foregoing, in the absence of fraud or intentional misrepresentation, no ACQUIROR or SPD Indemnified Party shall be entitled to any claim for indemnification for any Damages with respect to a breach of a representation or warranty for which it would otherwise be entitled to indemnification pursuant to Section 12.2 (a) unless such a claim exceeds the sum of \$25,000 and the aggregate amount of all such claims for indemnification claimed by the ACQUIROR or SPD Indemnified Parties with respect to breaches of representations and warranties pursuant to such Section exceeds the sum of \$1,000,000, and

the rights of the ACQUIROR and SPD Indemnified Parties to seek indemnification hereunder for such Damages shall be limited to the amounts of such claims in excess of \$1,000,000.

(c) To the extent any ACQUIROR or SPD Indemnified Party is entitled to indemnification pursuant to this Section 12.2(a), the aggregate amount of all Damages for which all ACQUIROR or SPD Indemnified Parties, respectively, shall be entitled to indemnification for breaches of representations or warranties and for Pre-Existing Environmental Conditions shall not exceed \$10,000,000 (the "Indemnity Cap") (such Indemnity Cap being in addition to SPD's rights to be indemnified by certain third parties under (i) the existing \$5,000,000 escrow account related to the prior transaction between SPD and PTS Holdings, Inc. (\$2,000,000 of which survives through December 31, 1998 and \$3,000,000 of which survives through June 30, 1999) and the environmental indemnification pursuant to the Magnetek Agreement referred to in Section 2.8(c)). So long as the Indemnification Escrow Amount shall remain held in escrow pursuant to the terms of the Indemnification Escrow Agreement, all claims by any ACQUIROR Indemnified Party for indemnification pursuant to this Section 12.2 against the holders of SPD Shares or Options shall be satisfied out of the Indemnification Escrow Amount. Notwithstanding anything to the contrary otherwise contained in this Agreement, the indemnification obligations under Section 12.2(a) shall expire upon termination of the applicable Survival Period in Section 12.1; provided, however, that such indemnification obligations with respect to any claim for indemnification asserted in writing delivered to the Indemnifying Party prior to the expiration of such Survival Period shall survive the expiration of such Survival Period until such claim for indemnification is either resolved or satisfied. Notwithstanding anything to the contrary otherwise contained in this Agreement, the indemnification obligations under Section 12.2(a)(iii) for Pre-Existing Environmental Conditions shall expire upon that date which is eighteen months

following the Closing Date; provided, however, that such indemnification obligations with respect to any claim for indemnification asserted in writing delivered to the Indemnifying Party prior to the expiration of such period shall survive the expiration of such period until such claim for indemnification is either resolved or satisfied. To the extent that any claim for indemnification for a Pre-Existing Environmental Condition shall also serve as the basis for a claim for indemnification under the PTS Holdings, Inc. and/or Magnetek agreements referred to above, ACQUIROR agrees to pursue its remedies against such parties and to limit any claim against SPD under this Agreement to the amount that it is unsuccessful in collecting from such part(ies). To the extent that aggregate Damages for indemnification for Pre-Existing Environmental Conditions exceed \$4,000,000, all Damages for Pre-Existing Environmental Conditions in excess of such amount shall be payable only in an amount equal to one-half (50%) of such Damages.

(d) Method of Asserting Claims, Etc. All claims for indemnification by any Indemnified Party under this Section 12.2 shall be asserted and received as follows:

(i) In the event that any claims or demand in respect of which any Indemnified Party would be entitled to indemnification hereunder is asserted against such Indemnified party by a third party, said Indemnified Party shall with reasonable promptness notify the Indemnifying Party of such claim or demand, specifying the nature of and specific basis for such claims or demand and the amount or the estimated amount thereof to the extent then feasible (which estimate shall not be conclusive of the final amount of such claim and demand the "Claim Notice"). The Indemnifying Party shall have thirty (30) days from the personal delivery or mailing of the Claim Notice (the "Notice Period") to notify the Indemnified Party hereunder with respect to such claim or demand whether or not it desires to defend the Indemnified Party against such claim

or demand. In the event that the Indemnifying Party notifies the Indemnified party within the Notice Period that it desires to defend the Indemnified Party against such claim or demand and except as hereinafter provided, the Indemnifying Party shall have the right (but not the obligation) to defend by all appropriate proceedings, which proceedings shall be promptly settled or prosecuted by it to a final conclusion. If the Indemnified Party desires to participate in, but not control, any such defense or settlement it may do so at its sole cost and expense. If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any claim or demand which the Indemnifying Party elects to contest, or, if appropriate and related to the claim in question, in making any counterclaim against the Person asserting the third cross complaint against any Person. No claim may be settled without the consent of the Indemnifying Party, which consent shall not be unreasonably withheld.

(e) Exclusive Remedy. Following the Effective Time of the Merger, the rights of the Indemnified Parties to indemnification pursuant to this Section 12.2 shall be the sole and exclusive legal remedy of such Indemnified Parties for any breach of any representation or warranty set forth in this Agreement.

(f) Tax Related Adjustments. The parties agree that any indemnity payment made hereunder will be treated by the parties on their Tax Returns as an adjustment to the Merger Consideration.

ARTICLE XIII MISCELLANEOUS

Section 13.1 Waiver. Any party to this Agreement may, at any time prior to the Closing, or officers thereunto duly authorized, waive any of the terms or conditions of this Agreement or

agree to an amendment or modification to this Agreement by an agreement in writing executed in the same manner (but not necessarily by the same Persons) as this Agreement.

Section 13.2 Notices. All notices and other communications among the parties shall be in writing and shall be deemed to have been duly given when (i) delivered in person, or (ii) five days after posting in the United States mail having been sent registered or certified mail return receipt requested, or (iii) delivered by telecopy and promptly confirmed by delivery in person or post as aforesaid in each case, with postage prepaid, addressed as follows:

(a) If to ACQUIROR or Merger Sub, to:

L-3 Communications Corporation
600 Third Avenue
New York, New York 10016
Attention: Christopher C. Cambria, Esq.
telecopy No.: (212) 805-5494

with copies to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017-3954
Attention: William E. Curbow, Esq.
Telecopy No.: (212) 455-2502

(b) If to SPD, to:

SPD Technologies, Inc.
13500 Roosevelt Blvd.
Philadelphia, PA 19116
Attention: Larry A. Colangelo
Telecopy No.: (215) 677-1231

with copies to:

McCarter & English, LLP
100 Mulberry Street
Newark, NJ 07101

Attention: David F. Broderick, Esq.
Telecopy No.: (973) 624-7070

Obermayer, Rebmann, Maxwell & Hippel, LLP
One Penn Center
1617 John F. Kennedy Blvd., 19th Floor
Philadelphia, PA 19103-1895
Attention: John J. Ehlinger, Esq.
Telecopy No.: (215) 665-3165

(c) If to the Holder Representative, to:

MidMark Capital, L.P.
466 Southern Blvd.
Chatham, NJ 07928
Telecopy No.: (973) 822-8911

with copies to:

McCarter & English, LLP
100 Mulberry Street
Newark, NJ 07101
Attention: David F. Broderick, Esq.
Telecopy No.: (973) 624-7070

or to such other address or addresses as the parties may from time to time designate in writing.

Section 13.3 Assignment. No party hereto shall assign this Agreement or any part hereof without the prior written consent of the other parties (provided, however, that ACQUIROR may assign its obligations under this Agreement to any Affiliate). Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective permitted successors and assigns.

Section 13.4 Rights of Third Parties. Nothing expressed or implied in this Agreement is intended or shall be construed to confer upon or give any Person, other than the parties hereto, any right or remedies under or by reason of this Agreement.

Section 13.5 Reliance. Each of the parties to this Agreement shall be deemed to have relied upon the accuracy of the written representations and warranties made to it in or pursuant to this

Agreement, notwithstanding any investigations conducted by or on its behalf or notice, knowledge or belief to the contrary.

Section 13.6 Expenses. Each party hereto, other than the Holder Representative (whose expenses shall be paid out of funds paid to the Holder Representative under Section 1.5 in the event the transactions contemplated hereby are consummated), shall bear its own expenses incurred in connection with this Agreement and the transactions herein contemplated whether or not such transactions shall be consummated, including, without limitation, all fees of its legal counsel, financial advisers and accountants; provided, however, that the fees and expenses of the Auditors, if any, shall be paid one-half by ACQUIROR and one-half by the Holder Representative out of funds paid to the Holder Representative under Section 1.5. In the event the transactions contemplated hereby are not consummated each party hereto shall pay its own costs and expenses including, without limitation, all fees of its legal counsel, financial advisers and accountants, provided that, in the event that the transactions contemplated hereby are not consummated, SPD shall reimburse the Holder Representative for all costs and expenses incurred by the Holder Representative in connection with the transactions contemplated hereby.

Section 13.7 Transfer Tax. Stockholders shall be responsible for the timely payment of, and to such extent shall indemnify and hold harmless ACQUIROR Indemnified Parties against all sales (including without limitation, bulk sales), use, value added, documentary, stamp, gross receipts, registration, transfer, conveyance, excise, recording, license, stock transfer stamps and other similar Taxes and fees ("Transfer Costs") arising out of or in connection with or attributable to the transactions effected pursuant to this Agreement. Stockholders shall prepare and timely file all Tax Returns required to be filed in respect of Transfer Costs (including, without limitation, all notices required to be given with respect to bulk sales taxes), provided that

ACQUIROR shall prepare any such Tax Returns that are the primary responsibility of Buyer under applicable laws.

Section 13.8 Construction. This Agreement shall be construed and enforced in accordance with the laws of the State of New York. Unless otherwise stated, references to Sections, Articles or Annexes refer to the Sections, Articles and Annexes to this Agreement. As used herein, the phrase "to the knowledge" of any Person which is an entity shall mean the actual knowledge of such Person's executive officers.

Section 13.9 Captions, Counterparts. The captions in this Agreement are for convenience only and shall not be considered a part of or affect the construction or interpretation of any provision of this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 13.10 Entire Agreement. This Agreement (together with the Schedules and Annexes to this Agreement) and that certain Confidentiality Agreement between ACQUIROR and SPD (the "Confidentiality Agreement") constitute the entire agreement among the parties and supersede any other agreements, whether written or oral, that may have been made or entered into by or among any of the parties hereto or any of their respective Subsidiaries relating to the transactions contemplated hereby. No representations, warranties, covenants, understandings, agreements, oral or otherwise, relating to the transactions contemplated by this Agreement exist between the parties except as expressly set forth in this Agreement and the Confidentiality Agreement.

Section 13.11 Amendments. This Agreement may be amended or modified in whole or in part

only by a duly authorized agreement in writing executed in the same manner as this Agreement and which makes reference to this Agreement.

Section 13.12 Publicity. All press releases or other public communications of any nature whatsoever relating to the transactions contemplated by this Agreement, and the method of the release for publication thereof, shall be subject to the prior mutual approval of ACQUIROR and SPD which approval shall not be unreasonably withheld by any party; provided, however, that, nothing herein shall prevent any party from publishing such press releases or other public communications as such party may consider necessary in order to satisfy such party's legal or contractual obligations after such consultation with the other parties hereto as is reasonable under the circumstances.

[INTENTIONALLY BLANK]

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

L-3 COMMUNICATIONS CORPORATION

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Vice President

SPD MERGER CO.

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Vice President

SPD TECHNOLOGIES, INC.

By: /s/ Larry A. Colangelo

Name: Larry A. Colangelo

Title: President and CEO

MIDMARK CAPITAL, L.P.

By: MidMark Associates, Inc.
General Partner

By: /s/ Wayne L. Clevenger

Name: Wayne L. Clevenger

Title: Managing Director

We have issued our report dated February 25, 1998 for the year ended December 31, 1997, and our report dated February 28, 1997 for the years ended December 31, 1996 and 1995 accompanying the consolidated financial statements of SPD Technologies, Inc. and subsidiaries included in this Form 8-K/A. We hereby consent to the incorporation by reference of said reports in the Registration Statements of L-3 Communications Holdings, Inc. on Form S-8 (File No. 333-64389 effective September 25, 1998 and File No. 333-59281 effective July 17, 1998).

/s/ Grant Thornton LLP

New York, New York
October 26, 1998