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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2003

OR

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

For the transition period from to . Commission File Number 1-1520

GENCORP INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| OHIO<br>(State or other jurisdiction<br>of incorporation or organization) | 34-0244000<br>(I.R.S. Employer<br>Identification No.) |
| HIGHWAY 50 AND AEROJET ROAD<br>RANCHO CORDOVA, CALIFORNIA<br>(Address of principal executive offices) | 95670<br>(Zip Code) |
| P.O. BOX 537012<br>SACRAMENTO, CALIFORNIA<br>(Mailing address) | 95853-7012<br>(Zip Code) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (916) 355-4000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common stock, par value of $0.10 per share | New York Stock Exchange and<br>Chicago Stock Exchange |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec.229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

The aggregate market value of the voting common equity held by nonaffiliates of the registrant as of May 31, 2003 was approximately $342.2 million.

As of January 31, 2004, there were 44,234,495 outstanding shares of the Company's Common Stock, $0.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2004 Proxy Statement of GenCorp Inc. relating to its annual meeting of shareholders scheduled to be held on March 31, 2004 are incorporated by reference into Part III of this Report.

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GENCORP INC.

ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2003

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* The information called for by Items 10, 11, 12, 13 and 14, to the extent not included in this document, is incorporated herein by reference to the information to be included under the captions "Nomination and Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance,"

"Board of Directors Meetings and Committees -- Audit Committee," "Compensation of Executive Officers," "Compensation of Directors," "Employment Contracts and Termination of Employment and Change in Control Arrangements," "Compensation Committee Interlocks and Insider Participation," "Board Compensation Committee Report on Beneficial Compensation," "Performance Graph," "Holdings of Shares of the Company's Capital Stock," and "Appointment of Independent Auditor -- Principal Allotment Fees and Services" in GenCorp Inc.'s 2004 Proxy Statement, which is expected to be filed by March 29, 2004.

## PART I

### ITEM 1. BUSINESS

GenCorp Inc. (the Company), incorporated in Ohio in 1915, is a multinational diversified technology-based company with operations in four business segments:

AEROSPACE AND DEFENSE -- includes the operations of Aerojet-General Corporation (Aerojet), which designs, develops and manufactures propulsion systems for space and defense applications, armament systems for precision tactical weapon systems and munitions applications, and advanced airframe structures.

GDX AUTOMOTIVE -- includes the operations of GDX Automotive (GDX), which develops and manufactures vehicle sealing systems for automotive Original Equipment Manufacturers (OEMs).

FINE CHEMICALS -- includes the operations of Aerojet Fine Chemicals LLC (AFC), which custom manufactures active pharmaceutical ingredients and registered intermediates for pharmaceutical and biotechnology companies.

REAL ESTATE -- includes activities related to development, sale, acquisition and leasing of the Company's real estate assets.

In the past, the results of the Company's real estate activities have been included in the Aerospace and Defense segment. However, with the Company's recent filing of an application with the County of Sacramento for the development of approximately 1,400 acres of land located near Sacramento, California as discussed in greater detail under Recent Developments on page 13, the Company believes that this is an appropriate time to begin presenting Real Estate as a separate business segment for financial reporting purposes. Segment financial information for prior periods has been restated to reflect this change.

Information on revenues, segment performance, identifiable assets and other information on the Company's business segments appears in Note 13 in Notes to Consolidated Financial Statements included in Item 8 hereof.

The Company's principal executive offices are located at Highway 50 and Aerojet Road, Rancho Cordova, CA 95670. The Company's mailing address is P.O. Box 537012, Sacramento, CA 95853-7012 and its telephone number is 916-355-4000.

The Company's Internet web site address is www.GenCorp.com. The Company makes available through its Internet web site, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The Company also makes available on its Internet web site its corporate governance guidelines and the charters for each of the following committees of the Company's Board of Directors: Audit; Corporate Governance and Environmental/Government Issues; Finance; and Organization & Compensation. The Company's corporate governance guidelines and such charters are also available in print to any shareholder who requests them.

### AEROSPACE AND DEFENSE

Aerojet is a leader in the development and manufacture of propulsion systems for space and defense applications, armament systems for precision tactical weapon systems and munitions applications, and advanced airframe structures. The Company believes Aerojet is the second largest provider of both liquid and solid propulsion systems in the United States (U.S.). Having the capability to design and produce both liquid and solid systems allows Aerojet to

utilize and transfer technology between these broad product areas and to spawn innovation for a wider range of applications. For example, Aerojet is currently competing to provide both liquid and solid Divert and Attitude Control Systems (DACS) for national missile defense. Aerojet has historically been able to capitalize on its strong technical capabilities to become the sole provider of key components for major propulsion systems programs. Aerojet propulsion systems have flown on every manned space vehicle since the inception of the U.S. Space Program. Principal customers include the U.S. Department of Defense (DoD),



National Aeronautics and Space Administration (NASA), The Boeing Company (Boeing), Lockheed Martin Corporation (Lockheed Martin) and Raytheon Company (Raytheon).

For over 60 years, Aerojet has been a pioneer in the development of crucial technologies and products that have strengthened the U.S. military and furthered the exploration of space. Aerojet is a leader in military, aerospace and defense systems, and civil and commercial aerospace systems, serving two broad industry segments:

- Space systems, including liquid, solid and electric propulsion systems for launch vehicles, transatmospheric vehicles, and spacecraft; and

- Defense systems, including propulsion for strategic and tactical missiles, precision strike missiles and interceptors required for missile defense. In addition, Aerojet is a leading supplier of armament systems and advanced aerospace structures to the DoD and its prime contractors.

Product applications for space systems include liquid engines for expendable and reusable launch vehicles, upper stage engines, satellite propulsion, large solid boosters and integrated propulsion subsystems. Product applications for defense systems include strategic and tactical missile motors, maneuvering propulsion, attitude control systems and warhead assemblies used in missile defense and precision weapon systems, as well as manufacturing of complex aerospace structures required on the F-22 Raptor aircraft.

In the fourth quarter of 2003, Aerojet acquired substantially all of the assets of the propulsion business of Atlantic Research Corporation (ARC) a subsidiary of Sequa Corporation for $144 million, including estimated transaction costs and purchase price adjustments. This acquisition makes Aerojet a leading supplier of solid rocket motors for tactical and missile defense applications and complements Aerojet's capabilities for air-breathing and strategic systems. In 2002, Aerojet acquired the assets of the General Dynamics' Ordnance and Tactical Systems Space Propulsion and Fire Suppression business (Redmond, Washington operations), a leading supplier of satellite propulsion systems for defense, civilian and commercial applications. These two acquisitions enhanced and diversified Aerojet's product and technology portfolios and positioned it to compete effectively for all of its customers' propulsion requirements.

Industry Overview

Since a majority of Aerojet's sales are, directly or indirectly, to the U.S. government, funding for the purchase of Aerojet's products and services generally follows trends in U.S. defense spending. Accordingly, the Company believes the DoD and NASA budgets are highly relevant to the outlook for spending trends on space and missile propulsion programs. On January 14, 2004, President Bush announced that he planned to increase NASA's current budget of $15.4 billion by an average of 5 percent over the next three years and by approximately 1 percent in the two subsequent years. In addition, President Bush endorsed a policy of focusing NASA resources on space exploration. Following a period of budget decreases in the post-Cold War era, the U.S. defense budget, as appropriated by Congress, has continued to increase in recent years. Under the Bush Administration, the defense budget has experienced the first double-digit increase since the early 1990's. The national defense budget, which totaled $350 billion in 2002, has risen steadily to over $375 billion in 2004 with proposals from the Bush Administration to increase it by another seven percent in 2005 to $402 billion. The Company expects that the U.S. defense budgets for research, development, test and evaluation, and procurement, both of which fund Aerojet's programs, will grow as well, with the 2005 request rising over 2004 levels by three percent to $144 billion with annual forecasts thereafter continuing to show increases through 2009. While the ultimate distribution of the defense budget remains uncertain, Aerojet believes it is well positioned to benefit from the planned increases in defense spending.

The U.S. government's decision to pursue the near-term development and deployment of missile defense systems to protect the U.S. and its allies against enemy ballistic missile launches is a significant component of forecasted growth. Aerojet manufactures key propulsion and control systems for these critical systems, including Kill Vehicle Divert and Attitude Control Systems (DACS) for interceptors and Attitude Control Systems (ACS) for booster vehicles.



Near term activities included in NASA's space initiative are development of a new manned vehicle, the Crew Exploration Vehicle, robotic moon missions and continued development of propulsion technologies for deep space exploration. Aerojet believes it is well positioned to compete for significant roles on these projects.

Competition

Participation in the space and defense propulsion market is capital intensive and requires long research and development periods that represent significant barriers to entry. Aerojet may partner on various programs with its major customers or suppliers, some of whom are, from time to time, competitors on other programs.

The table below lists the primary participants in Aerojet's markets:

| COMPANY | PARENT | PROPULSION SPECIALTY |
|---|---|---|
| Aerojet | GenCorp Inc. | Launch, in-space and tactical/ defense |
| Alliant Techsystems | Alliant Techsystems Inc. | Launch and tactical/defense |
| Astrium | European Aeronautics Defense and Space Company and BAE Systems | In-space and tactical/defense |
| IHI, Aerospace Co., Ltd. | Ishikawajima-Harima Heavy Industries Co., Ltd. | Launch and in-space |
| Northrop Grumman Space Technology (Formerly TRW) | Northrop Grumman Corporation | Launch and in-space |
| Pratt & Whitney Space Operations | United Technologies Corporation | Launch and in-space |
| Rocketdyne | Boeing | Launch and in-space |

Rocketdyne and Alliant Techsystems currently hold the largest share of the launch market segment, largely due to their sole-source production contracts for liquid (Rocketdyne) and solid (Alliant) propulsion systems on the current NASA Space Shuttle, and Boeing's leading position and Alliant's sole-source position to provide liquid and solid propulsion, respectively, for the Delta family of expendable launch vehicles. Alliant also has a large share of the tactical and defense market in solid tactical rocket motors. However, Aerojet believes it is in a unique competitive position due to the diversity of its technologies and synergy of its product lines. The basis on which Aerojet competes in the aerospace and defense industry varies by program, but generally is based upon price, technology, quality and service. Competition is intensive for all of Aerojet's products and services. Aerojet believes that it possesses adequate resources to compete successfully.

Products and Customers

Aerojet produces liquid, solid and electric propulsion systems for a wide range of launch vehicles, missiles, in-space and missile defense and precision strike applications. Additionally, Aerojet designs and manufactures critical components for vital, precision armament systems used by the U.S. military and allied nations. Aerojet's current propulsion portfolio includes liquid engines and solid motors for both expendable and reusable launch vehicles, upper-stage engines, satellite propulsion, tactical weapons systems, missile interceptors and integrated propulsion subsystems.



The following table summarizes some of Aerojet's programs, customers and

ultimate end-users:

| PROGRAMS | PRIMARY CUSTOMER | ULTIMATE END-USER | AEROJET SYSTEM DESCRIPTION | PROGRAM TYPE |
|---|---|---|---|---|
| SPACE SYSTEMS | | | | |
| Titan IV | Lockheed Martin | U.S. Air Force | First stage and second stage liquid rocket booster engine | Support Services |
| Delta II | Boeing | NASA, U.S. Air Force, Commercial | Upper stage pressure-fed liquid rocket engine | Production |
| Upper Stage Engine Technology | Air Force Research Laboratory | U.S. Air Force and NASA | Develop design tools for future upper stage liquid engines | Research and Development |
| Integrated Powerhead Demonstration | Air Force Research Laboratory | U.S. Air Force and NASA | Combustion devices | Research and Development |
| A2100 Commercial Geostationary Satellite Systems | Lockheed Martin | Various | Electric and liquid thrusters for orbit and attitude maintenance | Production |
| Advanced Extremely High Frequency MilSatcom | Lockheed Martin | U.S. Air Force | Electric and liquid thrusters for orbit and attitude maintenance | Production |
| Atlas V | Lockheed Martin | U.S. Air Force, Commercial | Solid "strap-on" booster motor for this medium-to-heavy-lift launch vehicle | Production |
| DEFENSE SYSTEMS | | | | |
| Minuteman II Stage 2 | Coleman Aerospace, Space Vector, Orbital Sciences and Lockheed Martin | U.S. Air Force | Solid rocket motor modifications for target vehicles | Support Services |
| Ground Based Midcourse Missile Defense (GMD) Booster ACS | Lockheed Martin | Missile Defense Agency | First stage attitude control system for the launch vehicle that carries the Exoatmospheric Kill Vehicle | Production |

(table continued on following page)



| PROGRAMS | PRIMARY CUSTOMER | ULTIMATE END-USER | AEROJET SYSTEM DESCRIPTION | PROGRAM TYPE |
|---|---|---|---|---|
| DEFENSE SYSTEMS (CONTINUED) | | | | |
| GMD Exoatmospheric Kill Vehicle Liquid DACS | Raytheon | Missile Defense Agency | Liquid Divert and Attitude Control Systems | Production |
| HAWK Air Defense Missile System | Raytheon | U.S. Army and Marine Corps | Tactical solid missile motors | Production |
| HyFly (Hypersonic Flight) | Boeing | U.S. Navy | Dual combustion ramjet | Research and Development |
| TOW 2A/2B Missile Warheads | Raytheon | U.S. Army | Warheads for this optically tracked, wire-guided surface-to-surface missile | Production |
| Multiple Launch | Lockheed Martin | U.S. Army; | Tactical solid | Production and |

| | | | | |
|---|---|---|---|---|
| Rocket System (all versions/variants) | | International | missile motors | Development |
| Army Tactical Missile System | Lockheed Martin | U.S. Army | Tactical solid missile motors | Production |
| Javelin | Lockheed Martin | U.S. Army | Tactical solid missile motors | Production |
| Patriot Advanced Capability (PAC)-3 (SRM and ACM) and MSE | Lockheed Martin | U.S. Army; Missile Defense Agency | Tactical solid missile motors | Production and Development |
| Standard Missile Mk-104 DTRM | Raytheon | U.S. Navy; Missile Defense Agency | Tactical solid missile motors | Production |
| Tomahawk Booster and Warhead | Raytheon | U.S. Navy | Tactical solid missile motors and warheads | Production |
| Minuteman III PSRE | Northrop Grumman | U.S. Air Force | Strategic liquid auxiliary propulsion | Production |
| Coyote Supersonic Sea-Skimming Target | Orbital Sciences | U.S. Navy | Variable flow ducted rocket | Flight Demo and Low-Rate Initial Production |
| F-22 Raptor Aircraft | Boeing | U.S. Air Force | Advanced electron beam welding for airframe components | Production |

Aerojet's direct and indirect sales to the U.S. government accounted for approximately 82 percent of its sales, or $264 million in 2003.



Research and Development

Aerojet views its research and development efforts as critical to maintaining its leadership positions in the markets in which it competes. Aerojet's research and development activities are in two categories: company-funded research and development and customer-funded research and development.

Aerojet's company-funded research and development includes expenditures for technical activities that are vital to the development of new products, services, processes or techniques, as well as those expenses for significant improvements to existing products or processes. Customer-funded research and development expenditures are funded under contract specifications, typically research and development contracts, several of which the Company believes will become key programs in the future.

The following table summarizes Aerojet's research and development expenses during the past three years (excluding total research and development expenses related to the divested Electronics and Information Systems (EIS) business of $150 million in 2001):

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| Company-funded | $ 7 | $ 5 | $12 |
| Customer-funded | 92 | 99 | 69 |
| Total research and development expenses | $99 | $104 | $81 |

Raw Materials, Suppliers and Seasonality

Availability of raw materials and supplies to Aerojet is generally sufficient. Aerojet is sometimes dependent, for a variety of reasons, upon sole-source suppliers for procurement requirements but has experienced no significant difficulties in meeting production and delivery obligations because

of delays in delivery or reliance on such suppliers.

Aerojet's business is not subject to predictable seasonality. Primary factors affecting the timing of Aerojet's sales include the timing of government awards, the availability of government funding, contractual product delivery requirements and customer acceptances.

Intellectual Property

Where appropriate, Aerojet obtains patents in the U.S. and other countries covering various aspects of the design and manufacture of its products. The Company considers the patents to be important to Aerojet as they illustrate its innovative design ability and product development capabilities. The Company does not believe the loss or expiration of any single patent would have a material adverse effect on the business or financial results of Aerojet or on the Company's business as a whole.

Backlog

As of November 30, 2003, Aerojet's contract backlog was $830 million. The comparable amount for 2002 was $773 million. Funded backlog, which includes only the amount of those contracts for which money has been directly authorized by the U.S. Congress, or for which a firm purchase order has been received by a commercial customer, was $425 million as of November 30, 2003. The comparable 2002 amount was $416 million. Funding for the Titan Program was restructured in 2003, reducing Aerojet's funded backlog by $58 million with total contract backlog remaining unchanged. Aerojet expects this funding to be incrementally restored in future years.

U.S. Government Contracts and Regulations

Most of Aerojet's sales are made, directly or indirectly, to the U.S. government. These contracts typically range from 3 to 10 years, but may be terminated for convenience, with compensation, by the U.S. government in accordance with federal procurement regulations.



Under each of its contracts, Aerojet acts either as a prime contractor, where it sells directly to the end user, or as a subcontractor, selling its products to other prime contractors. Research and development contracts are awarded during the inception stage of a program's development. Production contracts provide for the production and delivery of mature products for operational use. Aerojet's contracts can be categorized as either "cost reimbursable" or "fixed-price."

Cost-reimbursable contracts are typically (i) cost plus fixed fee, (ii) cost plus incentive fee or (iii) cost plus award fee contracts. For cost plus fixed fee contracts, Aerojet typically receives reimbursement of its costs, to the extent that the costs are allowable under the contract's provisions, in addition to the receipt of a fixed fee. For cost plus incentive fee contracts and cost plus award fee contracts, Aerojet receives adjustments in the contract fee, within designated limits, based on its actual results as compared to contractual targets for factors such as cost, performance, quality and schedule.

Fixed-price contracts are typically (i) firm fixed-price, (ii) fixed-price-incentive or (iii) fixed-price level of effort contracts. For firm fixed-price contracts, Aerojet performs work for a fixed price and realizes all of the profit or loss resulting from variations in the costs of its performance. For fixed-price-incentive contracts, Aerojet receives increased or decreased fees or profits based upon actual performance against established targets or other criteria. For fixed-price level of effort contracts, Aerojet generally receives a structured fixed price per labor hour, dependent upon the customer's labor hour needs. All fixed-price contracts present the risk of unreimbursed cost overruns.

Aerojet is subject to complex and extensive procurement laws and regulations in its performance of contracts with the U.S. government. These laws and regulations provide for ongoing audits and reviews of incurred costs, contract performance and administration. Failure to comply, even inadvertently, with these laws and regulations and the laws governing the export of controlled products and commodities could subject Aerojet to civil and criminal penalties and, under certain circumstances, suspension and debarment from future government contracts and exporting of products for a specified period of time.

Government contracts and subcontracts are, by their terms, subject to termination by the government or the prime contractor either for convenience or default. The loss of a substantial portion of such business could have a material adverse effect on the Aerospace and Defense segment and overall revenues. There are significant inherent risks in contracting with the U.S. government, including risks peculiar to the defense industry, which could have a material adverse effect on the Company's business, financial condition, cash flows or results of operations.

GDX AUTOMOTIVE

GDX designs and manufactures highly engineered extruded and molded rubber and plastic sealing systems for automotive OEMs. These vehicle sealing systems facilitate enhanced sound management for the vehicles' interiors and also provide wind and water management throughout the vehicle. Specific products within GDX's diverse vehicle sealing portfolio include primary and secondary door sealing sub-systems, glass-run channels and encapsulated window module systems. The Company believes that GDX is the largest producer of automotive vehicle sealing systems in North America and the second largest producer worldwide. GDX's customers include BMW AG (BMW), DaimlerChrysler AG (DaimlerChrysler), Ford Motor Company (Ford), General Motors Corporation (General Motors), Peugeot, Renault and Volkswagen AG (Volkswagen or VW), which includes Audi.

In North America, GDX's revenues are primarily derived from light trucks, sport utility vehicles and crossover vehicles. North American platforms include General Motors' Silverado and S-10 pickup trucks, Ford's F-Series and Ranger pickup trucks, and sport utility vehicles such as General Motors' Tahoe and Yukon, as well as Ford's Explorer and Expedition. Crossover vehicle platforms, which are hybrids between sport utility vehicles and passenger cars, include the Ford Escape and the Mazda Tribute. In Europe, GDX's primary focus is on the production of vehicle sealing systems and glass modules for luxury and medium-sized vehicles such as the Mercedes C, E and S classes, the BMW 3, 5 and X-5 series, the Audi A4 and A6, the Ford Thunderbird and the Mercedes Maybach sedans. GDX also has contracts for high-volume smaller cars, such as the Audi A2 and A3, the Volkswagen Golf, the SEAT Leon, the Ford Focus, the Skoda Fabia and the Renault Clio. Additionally, many



new launches will take place in 2004, including the Cadillac Deville, Chevy Cobalt, VW Jetta, BMW X-3, and the Freightliner Heavy Truck in North America and Audi A4 Station Wagon, Audi A6, SEAT Cordoba, Skoda Octavia, VW Passat, SAAB 9.3 and 9.5, and BMW 3 Series in Europe.

In an effort to offset industry pricing pressures and to improve operating margins, GDX has implemented several restructuring plans. Strategic and restructuring activities include: closure of one of GDX's three French manufacturing plants, scheduled to be completed in 2004; a 2002 restructuring and consolidation plan to reduce staffing levels in worldwide headquarters in Farmington Hills, Michigan; a plant closure in Germany in 2003; and, a 2001 restructuring and consolidation plan that resulted in plant closures in Marion, Indiana and Ballina, Ireland.

Industry Overview

In general, automotive parts suppliers such as GDX are influenced by the underlying trends of the automotive industry. Vehicle sales levels, and thus vehicle production levels, are cyclical by nature. Each cycle is driven by trends in the overall economy and changes in consumer demand.

In addition to business cycle factors, automotive suppliers such as GDX are adapting to new demands as OEMs consolidate their automotive supply base. Vehicle manufacturers are demanding that their suppliers provide technologically advanced product lines, greater systems engineering support and management capabilities, just-in-time sequenced deliveries and lower system costs. To manage these complex and tightly integrated supply relationships, each OEM has selected preferred suppliers who are increasingly expected to establish global supply capabilities.

The global vehicle sealing market, which is estimated to represent approximately $4.7 billion in annual sales based on publicly available information, is fairly mature with a relatively low rate of technological

change. The characteristics of the market include customers who, because of their scale, exert pricing power over suppliers, high barriers to entry, modest opportunities for organic growth, and significant dependence on vehicle production levels.

Barriers to entry are high in the automotive vehicle sealing industry because new entrants need substantial engineering and manufacturing capabilities to win contracts from OEMs. A reputation for quality is critical for automotive vehicle sealing suppliers as vehicle manufacturers award business to experienced suppliers who can help avoid the costs associated with defective seals. Vehicle sealing suppliers build a positive reputation by demonstrating engineering and manufacturing success across various types of platforms.

Automotive vehicle sealing suppliers such as GDX increase sales primarily by winning additional market share. Vehicle sealing suppliers that deliver quality products at competitive prices are better able to compete for new business and platform redesign awards from the OEMs. The Company believes GDX is well positioned to compete for new business.

Competition

The Company estimates that GDX is the largest manufacturer of automotive vehicle sealing systems in North America and the second largest manufacturer of automotive vehicle sealing systems worldwide. GDX competes primarily with a small number of suppliers including Cooper-Standard, Metzler Automotive Product Systems and Hutchinson. GDX's customers rigorously evaluate their suppliers on the basis of price, quality, service, technology and reputation. In addition, the emergence of foreign vehicle manufacturing facilities in North America has significantly changed the sealing market in recent years. Suppliers must be able to satisfy a customer's platform requirements on a global scale, with varying production volumes, at the lowest price, while incorporating the latest sealing, bonding and coloring technologies.

GDX focuses on low cost production, leading design and engineering, quality and continuous improvement. GDX's emphasis on both the light truck and sport utility vehicle platforms in North America as well as the luxury and medium-sized vehicle platform in Europe presents an important current competitive advantage. GDX has demonstrated its high-volume manufacturing capabilities from initial launch to platform phase-out by successfully servicing a number of light truck and sport utility vehicle platforms in North America. GDX's luxury and



medium-sized vehicle platforms in Europe highlight its ability to manufacture high-quality seal sets that are designed to meet some of the industry's toughest standards in interior noise abatement, convertible top performance and durability.

Products and Customers

GDX's products include extruded rubber or thermoplastic profiles. Extruded rubber products consist of a roll-formed steel wire or steel frame surrounded by extruded rubber which is cured, cut and molded to meet customer specifications. These products are designed to prevent air, moisture and noise from penetrating vehicle windows, doors and other openings. Specific products include primary and secondary door sealing sub-systems, glass-run channels and encapsulated window modules.

GDX's products are sold directly to OEMs or their suppliers. GDX derives a significant amount of its sales from its core customers, which in North America include General Motors, Ford and Volkswagen. Key customers in Europe include Volkswagen, BMW and DaimlerChrysler. In 2003, General Motors accounted for approximately 29 percent of GDX's sales, or $229 million, Volkswagen accounted for approximately 22 percent of its sales, or $170 million, and Ford accounted for approximately 20 percent of its sales, or $157 million.

Sales to customers are based on purchase orders issued annually for each part that GDX produces. The purchase orders are for all, or a percentage of, the customer's estimated requirements, subject to GDX meeting pricing, quality and technology requirements and annual vehicle production levels. Throughout the year, customers issue releases against these purchase orders, specifying quantities of the parts required. A similar purchase order system is used for prototype and production tooling. Recently, however, customers have been

including the cost of tooling, which includes developing a prototype as well as production tooling, in the production part price noted on purchase orders.

The table below lists the principal platforms for GDX in 2003:

| CUSTOMER | PRINCIPAL PLATFORMS |
|---|---|
| General Motors | GMC/Chevrolet Sierra, Silverado, Suburban, Tahoe, Yukon |
| | Chevrolet S-10 Pickup/Blazer |
| | Pontiac Grand Am/Oldsmobile Alero |
| | Cadillac DeVille |
| | Opel Omega |
| | Opel Zafira |
| Ford | Ford Explorer/Mercury Mountaineer/Lincoln Aviator (including Classic, Mini, Sport Trac) |
| | Ford Expedition/Lincoln Navigator |
| | Ford F-Series Full Size Pickup |
| | Ford Super Crew Pickup |
| | Ford Ranger Pickup |
| | Ford Focus |
| | Ford Thunderbird Convertible |
| | Ford Escape/Mazda Tribute |
| Volkswagen | Audi A2 |
| | Audi A3 |
| | Audi A4 |
| | Audi A6 |
| | Audi TT |
| | Volkswagen New Beetle (including convertible model) |
| | Volkswagen Polo |
| | Volkswagen Golf |
| | Volkswagen Jetta |
| | Volkswagen Passat |
| | SEAT Leon |
| | Skoda Fabia |
| | Skoda Octavia |



| CUSTOMER | PRINCIPAL PLATFORMS |
|---|---|
| DaimlerChrysler | Mercedes S Class |
| | Mercedes E Class |
| | Mercedes C Class |
| | Mercedes Maybach Sedan |
| | Mercedes Sprinter Van |
| BMW | 5-Series |
| | 3-Series |
| | X-5 |
| Peugeot | Peugeot 206 |
| | Peugeot 406 |
| | Citroen Xsara |
| | Citroen Saxo |
| Renault | Clio |
| | Scenic |

Research and Development

GDX seeks to offer superior quality and advanced products and systems to its customers at competitive prices. To achieve this objective, GDX engages in ongoing engineering, research and development activities to improve the reliability, performance and cost-effectiveness of its existing products. It also designs and develops new products for existing and new applications in an ongoing effort to meet its customers' needs.

Raw Materials, Suppliers and Seasonality

The principal materials used by GDX are synthetic rubber, rubber chemicals,

thermoplastic elastomers, carbon black, flock fibers, adhesives, coil steel and aluminum and coating materials. The majority of these materials are purchased in the open market from suppliers. In some locations, principally China where GDX has a small but growing presence, suppliers that can meet high-quality and delivery standards for these raw materials may not be available locally. In those instances, materials may be imported until qualified local suppliers can be found.

Generally, GDX ships its products "just-in-time" and, thus, does not build large inventories. Its revenue is closely related to the production schedules of its customers. Historically, the production schedules of GDX's customers are strongest in the second and fourth quarters of each year.

Intellectual Property

GDX has patents in the U.S. and other countries covering various aspects of the design and manufacture of its vehicle sealing products. The Company considers the patents to be important to GDX as they illustrate its innovative design ability and product development capabilities. The Company does not believe the loss of any particular patent would have a material adverse effect on the business or financial results of GDX or on the Company's business as a whole.

FINE CHEMICALS

AFC's sales are derived primarily from the sale of custom manufactured Active Pharmaceutical Ingredients (APIs) and registered intermediates to pharmaceutical and biotechnology companies. Customers use chemicals manufactured by AFC in drug therapies designed to treat a variety of neurological, oncological, viral, arthritic and inflammatory conditions.

AFC utilizes technologies initially developed and refined by Aerojet through years of working with hazardous and energetic chemicals. AFC is generally recognized as a high-quality pharmaceutical fine chemicals manufacturer. The Company believes that AFC's growth derives from its operational capabilities, coupled with its distinct competencies relating to chiral separations and energetic chemistry and the handling of highly potent chemical compounds.



The markets addressed by AFC reflect a trend in the pharmaceuticals industry toward greater outsourcing of the development and manufacture of pharmaceutical fine chemicals. Pharmaceutical and biotechnology companies are increasingly relying upon suppliers, such as AFC, that are able to scale-up and rapidly respond to delivery requirements.

In 2000, the Company sold a 20 percent equity interest in AFC to NextPharma Technologies USA Inc. (NextPharma) for cash, exchanged an additional 20 percent equity interest in AFC for a 35 percent equity interest in the parent company of NextPharma and entered into a sales and marketing agreement with NextPharma. In December 2001, the Company reacquired NextPharma's 40 percent minority ownership position in AFC and relinquished its 35 percent equity interest in the parent company of NextPharma. With the termination of the relationship with NextPharma and its parent, AFC resumed full responsibility for sales, marketing and customer interface.

AFC increased its operational efficiency by restructuring and downsizing its workforce by 40 percent without reducing production capabilities.

Industry Overview

The pharmaceutical industry continues to outsource the development and manufacture of pharmaceutical fine chemicals. Major pharmaceutical and biotechnology companies are increasingly relying upon suppliers, such as AFC, that possess more integrated capabilities, have experience handling highly energetic and toxic chemicals, and are able to scale-up rapidly to respond to the customer's delivery requirements. Many biotechnology companies focus on research and development and rely on outsourcing of their manufacturing needs as part of their business strategy. The market for contract manufacturing of pharmaceutical and biotechnology chemicals is fragmented. Within this market, AFC competes in several niche areas, most of which are technology driven. AFC currently has few direct competitors in these areas and is the sole supplier of a number of products that involve handling highly potent chemical compounds.

New drug applications with the U.S. Food and Drug Administration (FDA) identify specific contract manufacturers that are subject to FDA approval. Once manufacturers are validated on a particular drug, supply relationships tend to be very stable. The situation is similar in the European Union, under the authority of the European Agency for the Evaluation of Medical Products (EMEA), and in other countries. Although competitive and other factors are constantly present, the cost of switching manufacturers can be high.

Competition

The pharmaceutical fine chemicals market is highly fragmented and competitive. Competition in the pharmaceutical fine chemicals market is based upon reputation, service, manufacturing capability and expertise, price and reliability of supply. AFC's success depends to a significant extent on its ability to provide manufacturing services to potential customers at an early stage of product development. Many of AFC's competitors are major chemical, pharmaceutical and process research and development companies, including a number of AFC's own customers, which have much greater financial resources, technical skills and marketing experience than AFC. Primary competitors of AFC include DSM N.V., Degussa AG, Cambrex Corporation, Lonza AG, Bayer AG and Dynamic Synthesis, a division of Dynamit Nobel AG.

Products and Customers

AFC's custom manufactured APIs and registered intermediates are used by its customers for a variety of applications, including drug therapies for neurological, oncological, viral, arthritic and other inflammatory conditions. AFC's products have been used in the treatment of diseases such as HIV/AIDS, cancer, osteoporosis, hepatitis and epilepsy. Most of AFC's sales are derived from contracts with a small number of major customers. The loss of any one major customer or contract could have a material adverse effect on the segment's results of operations, cash flows and financial condition, but would not have a material adverse effect on the Company's results of operations, cash flows, or financial condition taken as a whole.



AFC's net sales for 2003 were generated by products categorized as follows:

| | |
|---|---|
| Viral (including HIV/AIDS) | 73% |
| Oncological | 17% |
| Neurological | 7% |
| Other | 3% |

Research and Development

AFC's competitive market is characterized by extensive research efforts and rapid technological progress. The industry's capital, research and development, regulatory environment and marketing requirements constitute high barriers to entry. By maintaining close customer relationships, pharmaceutical fine chemical firms make it difficult for new competitors to enter the field. Furthermore, once a customer has incorporated a company's materials into its products, it is generally reluctant to change suppliers or materials, as it may have to test and approve those changes. Not only is this testing costly in terms of time and resources, but AFC's customers may have to seek approval from regulatory agencies to make changes.

Raw Materials, Suppliers and Seasonality

AFC uses a wide variety of raw materials, including petroleum-based solvents, and other supplies in the conduct of its business. Although AFC is generally not dependent on any one supplier or group of suppliers, certain manufacturing processes use raw materials that are available from sole sources or that are in short supply or difficult for the supplier to produce and certify in accordance with AFC's specifications. The price and availability of raw materials are subject to economic conditions and other factors generally outside of AFC's control. In most cases, especially for short-term fluctuations, AFC is not able to pass on price increases on raw materials and other supplies to its customers. AFC has generally been able to obtain sufficient supplies of the raw

materials and other supplies it uses in sufficient quantities and at acceptable prices in the past and expects to be able to continue to do so in the future. Shortages or significant increases in the prices for certain raw materials and other supplies could adversely affect AFC's results of operations, cash flows and financial condition.

AFC's business is not predictably seasonal. The timing of production or certain contract deadlines can affect reported results for any given quarter.

Intellectual Property

AFC seeks to protect its inventions under the patent laws of the U.S. and several foreign jurisdictions, and through the use of confidentiality procedures. The Company does not believe the loss of any particular patent would have a material adverse effect on the business or financial results of AFC or on its business as a whole.

Backlog

As of November 30, 2003, AFC's backlog was $57 million compared to $25 million as of November 30, 2002. This amount represents the unfilled sales value of firm customer purchase orders.

REAL ESTATE

Through its Aerojet subsidiary, the Company owns approximately 12,700 acres of land adjacent to U.S. Highway 50 between Rancho Cordova and Folsom, California just east of Sacramento, California (Sacramento Land). The Sacramento Land was acquired by Aerojet in the early 1950's for the manufacturing and testing of propulsion products. Much of the Sacramento Land had been encumbered by environmental directives from federal and state agencies. However, in 1997, California regulators released from environmental restrictions 1,115 acres of the Sacramento Land, which were sold in 2001 to a regional homebuilder. In 2002, state and federal regulators lifted environmental restrictions on an additional 2,600 acres of the Sacramento Land.

Most of the Sacramento Land was used to provide a safe buffer zone for testing rockets and was never used for actual production or testing purposes. As a result of the Company's recent aerospace and defense acquisitions



and their testing capabilities, advances in propulsion technology and manufacturing processes and increased use of government test facilities, Aerojet will be able to operate in the Sacramento area with a much smaller industrial footprint, making land available for development opportunities.

In the past, the results of the Company's real estate activities have been included in the Aerospace and Defense segment. However, with the Company's recent filing of an application with the County of Sacramento for the development of approximately 1,400 acres of land located near Sacramento, California as discussed in greater detail below, the Company believes this is an appropriate time to begin presenting Real Estate as a separate business segment for financial reporting purposes. Segment financial information for prior periods has been restated to reflect this change. Over the past several years, the Company has been working to maximize the value of the Company's surplus real estate.

Real Estate assets primarily consist of: real estate held for development and leasing, which includes the carrying value of leased buildings, unrestricted land that is currently available for development and land improvements; the carrying value of more than 3,000 acres of excess Sacramento Land that is currently restricted from development (see Sacramento Land below); and a note receivable from a 2001 real estate transaction.

The revenues attributable to the Real Estate segment include sales of surplus land and buildings and revenues generated from leasing surplus office space (primarily to two major tenants that lease approximately 276,000 square feet of surplus office space). In 2003, the Company sold $26 million of real property assets located in Sacramento County, including (i) a 96,000 square foot office complex on 11 acres for $15 million; (ii) 20 acres of undeveloped land for $6 million; and (iii) other assets for $5 million. In 2001, the Company sold 1,115 acres of undeveloped land in Sacramento County for $28 million.

Recent Developments

In early 2004, the Company announced plans for a 1,390-acre master planned community called "Easton" and filed applications for zoning with the County of Sacramento. Easton embodies "Smart Growth" principles and takes an innovative approach to restoring lands disturbed by gold mining operations while conserving important natural resources. Approximately 330 acres of this planned community is subject to current environmental cleanup actions, which need to be completed or satisfactorily mitigated before development can proceed on this portion of the project.

In 2002, the Company initiated the entitlement process for a 2,715-acre project called Rio Del Oro with the city of Rancho Cordova, California. This project is subject to state environmental restrictions, which must be lifted before development can proceed.

Sacramento Land

The Sacramento Land is summarized as follows (in acres):

| | AS OF NOVEMBER 30, 2003 | | |
|---|---|---|---|
| | UNRESTRICTED | RESTRICTED(1) | TOTAL |
| Easton Development | 1,060 | 330 | 1,390 |
| Rio Del Oro Project | -- | 2,715 | 2,715 |
| Other | 3,075 | -- | 3,075 |
| Currently available for development | 4,135 | 3,045 | 7,180 |
| Aerojet Operations | -- | 5,500 | 5,500 |
| Total land | 4,135 | 8,545 | 12,680 |

---

(1) Land is subject to federal or state oversight and environmental directives that must be lifted before development can proceed.

The development of the Easton project and other real estate owned by the Company and its subsidiaries will be affected by conditions from time to time in the Sacramento real estate market, including general or local



economic conditions, changes in neighborhood characteristics, real estate tax rates, and governmental regulations and fiscal policies. The development of the Company's real estate holdings is also subject to applicable zoning and other governmental regulations. In addition, the ability of the Company to develop these real estate holdings is contingent on, among other things, obtaining sufficient water sources to service such development. The Company has taken steps toward obtaining such water sources through the recent agreement between Aerojet and the Sacramento County Water Agency as discussed in more detail in Note 11(b) of Notes to Consolidated Financial Statements.

ENVIRONMENTAL MATTERS

The Company's operations are subject to and affected by federal, state, local and foreign environmental laws and regulations relating to the discharge, treatment, storage, disposal, investigation and remediation of certain materials, substances and wastes. The Company's policy is to conduct its businesses with due regard for the preservation and protection of the environment. The Company continually assesses compliance with these regulations and its management of environmental matters. The Company believes its operations are in substantial compliance with all applicable environmental laws and regulations.

Operating and maintenance costs associated with environmental compliance and management of contaminated sites are a normal, recurring part of the Company's operations. These costs are not significant relative to total operating costs and most such costs are incurred in the Company's Aerospace and

Defense segment and are generally allowable costs under contracts with the U.S. government.

Under existing U.S. environmental laws a Potentially Responsible Party (PRP) is jointly and severally liable, and therefore the Company is potentially liable to the government or third parties for the full cost of remediating the contamination at its facilities or former facilities or at third-party sites where it has been designated a PRP by the Environmental Protection Agency or a state environmental agency. The nature of environmental investigation and cleanup activities often makes it difficult to determine the timing and amount of any estimated future costs that may be required for remediation measures. However, the Company reviews these matters and accrues for costs associated with environmental remediation when it becomes probable that a liability has been incurred and the amount of the liability, usually based on proportionate sharing, can be reasonably estimated. See Management's Discussion and Analysis in Part II, Item 7 of this Report for additional information.

EMPLOYEES

As of November 30, 2003, the Company had 10,038 employees, of whom approximately 51 percent were covered by collective bargaining or similar agreements. Of the covered employees, approximately 13 percent are covered by collective bargaining agreements that are due to expire within one year. The Company generally believes that its relations with employees are good.

EXECUTIVE OFFICERS OF THE REGISTRANT

See Part III, Item 10 of this Report for information about Executive Officers of the Company.



ITEM 2. PROPERTIES

Significant operating, manufacturing, research, design and/or marketing facilities of the Company are set forth below.

FACILITIES

CORPORATE HEADQUARTERS

GenCorp Inc.
Highway 50 and Aerojet Road
Rancho Cordova, California 95670

Mailing address:
P.O. Box 537012
Sacramento, California 95853-7012

MANUFACTURING/RESEARCH/DESIGN/MARKETING LOCATIONS

| | | |
|---|---|---|
| AEROSPACE AND DEFENSE | Design/Manufacturing Facilities: | Marketing/Sales Offices: |
| Aerojet-General Corporation<br>P.O. Box 13222<br>Sacramento, California 95813-6000 | Camden, Arkansas*<br>Clearfield, Utah*<br>Gainesville, Virginia*<br>Jonesborough, Tennessee*<br>Niagara Falls, New York*<br>Orange, Virginia<br>Rancho Cordova, California<br>Redmond, Washington<br>Socorro, New Mexico*<br>Vernon, California*<br>Westcott, United Kingdom* | Huntsville, Alabama*<br>Los Angeles, California*<br>Tokyo, Japan*<br>Washington, DC* |
| GDX AUTOMOTIVE | Manufacturing Facilities: | Sales/Marketing/Design and Engineering Facilities: |
| World Headquarters:<br>36600 Corporate Drive<br>Farmington Hills, Michigan 48331 | Batesville, Arkansas<br>Beijing, China*<br>Changchun, China*<br>Chartres, France<br>Corvol, France<br>Grefrath, Germany | Farmington Hills, Michigan*<br>Grefrath, Germany<br>Rehburg, Germany |

| | | |
|---|---|---|
| | New Haven, Missouri* | |
| European Headquarters: | Odry, Czech Republic* | |
| Bahnstrasse 29 | Palau, Spain | |
| D-47929 Grefrath | Pribor, Czech Republic | |
| Germany | Rehburg, Germany | |
| | Salisbury, North Carolina | |
| | St. Nicholas, France | |
| | Valls, Spain | |
| | Viersen, Germany (closed in 2003) | |
| | Wabash, Indiana | |
| | Welland, Ontario, Canada | |
| FINE CHEMICALS | Processing Development/ Manufacturing Facilities: | Marketing/Sales Offices: |
| Aerojet Fine Chemicals | Rancho Cordova, California | Rancho Cordova, California |
| P.O. Box 1718 | | |
| Rancho Cordova, California 95741 | | |
| REAL ESTATE | | Marketing/Sales Office: |
| 620 Coolidge Drive, Suite 165 | | Folsom, California* |
| Folsom, California 95630 | | |

* An asterisk next to a facility listed above indicates that it is a leased property.



The Company believes each of the facilities is adequate for the business conducted at that facility. The facilities are suitable and adequate for their intended purpose and taking into account current and future needs. A portion of Aerojet's property in California (approximately 3,900 acres of undeveloped land), its Redmond, Washington facility and GDX's owned manufacturing facilities in the U.S. are encumbered by a deed of trust or mortgage. In addition, the Company and its businesses own and lease properties (primarily machinery and warehouse and office facilities) in various locations for use in the ordinary course of its business. Information appearing in Note 11(a) in Notes to Consolidated Financial Statements is incorporated herein by reference.



ITEM 3. LEGAL PROCEEDINGS

Information concerning legal proceedings, including proceedings relating to environmental matters, which appears in Notes 11(b) and 11(c) in Notes to Consolidated Financial Statements, is incorporated herein by reference.

A. TABLE OF GROUNDWATER AND AIR POLLUTION TOXIC TORT LEGAL PROCEEDINGS
(*footnotes are listed following Table B below)

| NAME OF COURT/DATE INSTITUTED/PLAINTIFFS/ALLEGED FACTUAL BASES | RELIEF SOUGHT* | CURRENT STATUS* |
|---|---|---|
| +Adams, Daphne, et al. v. Aerojet-General Corporation, et al., Case No. 98AS01025, Sacramento County Superior Court, served 4/30/98<br>Plaintiffs are individuals and seek to represent a putative class residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that two industrial defendants contaminated groundwater provided by the four defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Adams, Robert G., et al. v. Aerojet-General Corporation, et al., Case No. BC230185, Los Angeles County Superior Court, served 7/26/00<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Adler, Jeff, et al. v. Southern California Water Co. et al., | 1 | 2 |

Case No. BC169892, Los Angeles County Superior Court, served on or about 4/22/98
Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.
Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury.

| | | |
|---|---|---|
| +Allen, et al. v. Aerojet-General Corporation, et al., Case No. 97AS06295, Sacramento County Superior Court, served 1/14/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the three defendant water purveyors as drinking water which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Alexander, et al. v. Suburban Water Systems, et al., Case No. KC031130, Los Angeles County Superior Court, served 6/22/00<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |

(table continued on following page)



A. TABLE OF GROUNDWATER AND AIR POLLUTION TOXIC TORT LEGAL PROCEEDINGS
(CONTINUED)
(*footnotes are listed following Table B below)

| NAME OF COURT/DATE INSTITUTED/PLAINTIFFS/ALLEGED FACTUAL BASES | RELIEF SOUGHT* | CURRENT STATUS* |
|---|---|---|
| ++Alvarado, et al. v. Suburban Water Systems, et al., Case No. KC034953, Los Angeles County Superior Court, served 5/7/01<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| American States Water Company, et al. v. Aerojet-General Corporation, et al., Case No. 99AS05949, Sacramento County Superior Court, served 10/27/99<br>Plaintiffs own and operate a Northern California water purveyor operating in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that defendants contaminated plaintiffs' wells requiring plaintiffs to construct replacement wells, incur higher operating costs, and incur expenses relating to the defense of toxic tort suits against plaintiffs. | 5 | 14 |
| ++Anderson, Anthony et al. v. Suburban Water Systems, et al., Case No. KC02854, Los Angeles County Superior Court, served 11/23/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Arenas, et al. v. Suburban Water Systems, et al., Case No. KC037559, Los Angeles County Superior Court, served 6/24/02<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed | 1 | 2 |

| | | |
|---|---|---|
| causing illness, death and economic injury.<br>Baier, et al. v. Aerojet-General Corporation, et al., Case No. EDCV 00 618 VAP (RNBx), U.S. District Court, Central District, CA, served 6/29/00<br>Plaintiffs are private homeowners residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that the four defendants dumped, deposited, and released chemicals and other toxic waste materials that have affected the surrounding community. | 3 | 4 |

(table continued on following page)



A. TABLE OF GROUNDWATER AND AIR POLLUTION TOXIC TORT LEGAL PROCEEDINGS
(CONTINUED)
(*footnotes are listed following Table B below)

| NAME OF COURT/DATE INSTITUTED/PLAINTIFFS/ALLEGED FACTUAL BASES | RELIEF SOUGHT* | CURRENT STATUS* |
|---|---|---|
| ++Boswell, et al. v. Suburban Water Systems, et al., Case No. KC027318, Los Angeles County Superior Court, served 4/28/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Bowers, et al. v. Aerojet-General Corporation, et al., Case No. BC250817, Los Angeles County Superior Court, served 7/17/01<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Brooks, et al. v. Suburban Water Systems et al., Case No. KC032915, Los Angeles County Superior Court, served 10/17/00<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Celi, et al. v. San Gabriel Valley Water Company, et al., Case No. GC020622, Los Angeles County Superior Court, served 4/28/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Criner, et al. v. San Gabriel Valley Water Company, et al., Case No. GC021658, Los Angeles County Superior Court, served 9/16/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| ++Demciuc, et al. v. Suburban Water Systems, et al., Case No. KC028732, Los Angeles County Superior Court, served 9/16/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |

(table continued on following page)


A. TABLE OF GROUNDWATER AND AIR POLLUTION TOXIC TORT LEGAL PROCEEDINGS
(CONTINUED)
(*footnotes are listed following Table B below)

| NAME OF COURT/DATE INSTITUTED/PLAINTIFFS/ALLEGED FACTUAL BASES | RELIEF SOUGHT* | CURRENT STATUS* |
|---|---|---|
| ++Dominguez, et al. v. Southern California Water Company, et al., Case No. GC021657, Los Angeles County Superior Court, served 9/16/98<br>Plaintiffs are individuals residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| Kerr, et al. v. Aerojet-General Corporation, Case No. EDCV 01-19 VAP (SGLx), U.S. District Court, Central District, CA, served 12/14/00<br>Plaintiffs are private homeowners residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that the four defendants dumped, deposited, and released chemicals and other toxic waste materials that have affected the surrounding community. | 3 | 4 |
| +Pennington, et al. v. Aerojet-General Corporation, et al., Case No. OOAS02622, Sacramento County Superior Court, served 6/19/00<br>Plaintiff is an individual residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiff alleges that industrial defendants contaminated groundwater provided by the three defendant water purveyors as drinking water, which plaintiff consumed causing illness, death and economic injury. | 1 | 2 |
| +++San Gabriel Valley Water Company v. Aerojet-General Corporation, et al., Case No. CV-02-6346 ABC (RCx), U. S. District Court, Central District of CA, served 10/30/02<br>Plaintiff is a private drinking water purveyor with facilities located near the South El Monte Operable Unit (SEMOU).<br>Alleged Factual Bases: Plaintiff alleges that groundwater in the SEMOU is contaminated with chlorinated solvents that were released into the environment by Aerojet and other defendants, causing it to incur unspecified response costs and other damages. | 12 | 13 |
| +++San Gabriel Basin Water Quality Authority v. Aerojet-General Corporation., et al., Case No. CV-02-4565 ABC (RCx), U. S. District Court, Central District of CA, served 10/30/02<br>Plaintiff is a public drinking water purveyor with facilities located near the SEMOU.<br>Alleged Factual Bases: Plaintiff alleges that groundwater in the SEMOU is contaminated with chlorinated solvents that were released into the environment by Aerojet and other parties, causing it to incur unspecified response costs and other damages. | 12 | 13 |

(table continued on following page)


A. TABLE OF GROUNDWATER AND AIR POLLUTION TOXIC TORT LEGAL PROCEEDINGS
(CONTINUED)
(*footnotes are listed following Table B below)

| NAME OF COURT/DATE INSTITUTED/PLAINTIFFS/ALLEGED FACTUAL BASES | RELIEF SOUGHT* | CURRENT STATUS* |
|---|---|---|

| | | |
|---|---|---|
| ++Santamaria, et al. v. Suburban Water Systems, et al., Case No. KC025995, Los Angeles County Superior Court, served 2/24/98<br>Plaintiffs are individuals residing in the vicinity of defendant's manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that industrial defendants contaminated groundwater provided by the defendant water purveyors as drinking water, which plaintiffs consumed causing illness, death and economic injury. | 1 | 2 |
| +++Southern California Water Company v. Aerojet-General Corporation, et al., Case No. CV-02-6340 ABC (RCx), U. S. District Court, Central District of CA, served 10/30/02<br>Plaintiff is a private drinking water purveyor with facilities located near the SEMOU.<br>Alleged Factual Bases: Plaintiff alleges that groundwater in the SEMOU is contaminated with chlorinated solvents that were released into the environment by Aerojet and other parties, causing it to incur response costs and other unspecified damages. | 12 | 13 |
| Taylor, et al. v. Aerojet-General Corporation, et al., Case No. EDCV 01-106 VAP (RNBx), U. S. District Court, Central District of CA, served 1/31/01<br>Plaintiffs are private homeowners residing in the vicinity of defendants' manufacturing facilities.<br>Alleged Factual Bases: Plaintiffs allege that the four defendants dumped, deposited, and released chemicals and other toxic waste materials that have affected the surrounding community. | 3 | 4 |
| +++The City of Monterey Park v. Aerojet-General Corporation, et al., Case No. CV-02-5909 ABC (RCx), U. S. District Court, Central District of CA, served 10/30/02<br>Plaintiff is a private drinking water purveyor with facilities located near the South El Monte Operable Unit (SEMOU).<br>Alleged Factual Bases: Plaintiff alleges that groundwater in the SEMOU is contaminated with chlorinated solvents that were released into the environment by Aerojet and other parties, causing it to incur unspecified response costs and other damages. | 12 | 13 |

(table continued on following page)



B. TABLE OF OTHER LEGAL PROCEEDINGS
(*footnotes are listed following Table B)

| NAME OF COURT/DATE INSTITUTED/PLAINTIFFS/ALLEGED FACTUAL BASES | RELIEF SOUGHT* | CURRENT STATUS* |
|---|---|---|
| McDonnell Douglas Corporation v. Aerojet-General Corporation, Case No. CIV-01-2245, U. S. District Court, E.D. CA, served 12/17/01<br>Plaintiff, McDonnell Douglas Corporation (MDC), is a co-respondent with Aerojet to state environmental orders relating to a former rocket motor test facility MDC operated on property owned by Aerojet. The orders also apply to offsite groundwater contamination.<br>Alleged Factual Bases: Plaintiff alleges Aerojet refuses to pay 50 percent of the costs for both companies to comply with state regulatory orders, resulting in a breach of a 1999 settlement agreement between the companies. The costs relate to groundwater remediation expenses at the Company's Sacramento Aerojet facility and an adjacent former military base, Mather Field, in Sacramento County. The Company claimed it is not responsible for more than ten percent of the contamination and such related costs. | 8 | 9 |
| GenCorp Inc. v. Olin Corporation, Case No. 5:93CV2269, U.S. District Court, N.D. Ohio, filed 10/25/93<br>Olin Corporation (Olin), was the operator and owner of a former chemical manufacturing facility located on land owned by the Company, which has required substantial Superfund | 10 | 11 |

remediation.
Alleged Factual Bases: GenCorp initiated civil proceedings against Olin Corporation (Olin) seeking a declaratory judgment that it was not liable to Olin for remedial costs. In the same case, Olin counterclaimed that GenCorp is jointly and severally liable under CERCLA for remediation costs estimated at $70 million due to its contractual relationship with Olin, operational activities and land ownership by GenCorp. The Company has counterclaimed based on Olin's breach of contractual obligations to provide insurance protection for both the Company and Olin, as required by the contract between the two companies.

| | | |
|---|---|---|
| Wotus, et al. v. GenCorp Inc. and OMNOVA Solutions Inc., Case No. 5:00-CV-2604, U. S. District Court, N.D. Ohio (Cleveland), served 10/12/00<br>Plaintiffs are hourly retirees -- six under the OMNOVA plan and three under the GenCorp plan. Plaintiffs asked the trial court to certify a class including over 1,300 retirees.<br>Alleged Factual Bases: Plaintiffs allege GenCorp's and OMNOVA's adoption and administration of new retiree medical plans constitute a breach of labor contracts and violate alleged obligations to provide lifetime medical benefits without increased retiree contributions. | 6 | 7 |

+ Designates the Sacramento based cases.

++ Designates the San Gabriel Valley based cases.

+++ Designates SEMOU related litigation.

Footnotes Indicating "Relief Sought" and "Current Status"

1. Relief Sought: Plaintiffs seek judgment against defendants for unspecified general, special and punitive damages, diminution in value of plaintiffs' real property, medical monitoring, a constructive trust against defendants' properties to pay for plaintiffs' injuries, an order compelling defendants to disgorge profits acquired through unlawful business practices and injunctive relief.

2. Current Status: In the San Gabriel Valley based cases, initial discovery has commenced and the Court issued its ruling on August 25, 2003, on what would constitute a violation of water quality standards (Hartwell



standard). The next step will be further proceedings on whether a violation has occurred with respect to any of the regulated water purveyors involved. In the San Gabriel Valley cases, the number of plaintiffs has been reduced from approximately 1,100 to approximately 500. At present, approximately 162 of the San Gabriel Valley case plaintiffs are subject to early trial -- most likely in 2005. The Sacramento based cases have now been activated by the Superior Court and discovery efforts will commence in early 2004. Trial has been set for April 2005. The Superior Court, through the initial pleading stage, has reduced the number of plaintiffs in the Sacramento based cases from approximately 500 to approximately 300.

3. Relief Sought: Plaintiffs seek judgment against defendants for unspecified general, special and punitive damages, and diminution in value of plaintiffs' property.

4. Current Status: Through various motions, the number of plaintiffs has been reduced from 80 to 49. Discovery is proceeding. The Company expects that a trial date will be set for 2005.

5. Relief Sought: Plaintiffs seek judgment against defendants for damages, including unspecified past costs, replacement water for contaminated drinking water wells near Aerojet's Sacramento site and future damages.

6. Relief Sought: Plaintiffs seek to reinstate benefits under prior GenCorp Retiree Medical Plans, as negotiated with their union at the time of retirement, as well as the right to participate in improvements in subsequent plans and the right to reimbursement of contributions paid in excess of those required under prior medical benefit plans.

7. Current Status: Plaintiffs voluntarily dismissed, without prejudice, breach of fiduciary duty, misrepresentation and estoppel claims, in order to facilitate cross-motions for summary judgment. The court, however, denied the cross-motions for summary judgment on December 20, 2002. The court denied the plaintiffs' motion for class certification on December 2, 2003. The plaintiffs filed a motion for reconsideration that was denied by the trial court.

8. Relief Sought: MDC seeks declaratory relief and specific performance requiring Aerojet to pay 50 percent of the remediation expenses for Mather Field groundwater remediation.

9. Current Status: MDC and Aerojet have reached an agreement in principle that requires MDC to assume a certain percentage of the relevant costs and Aerojet to assume the balance of such costs. MDC and Aerojet are currently negotiating an agreement that will reflect this interim allocation of costs.

10. Relief Sought: Olin sought a decision from the trial court that GenCorp is jointly and severally liable for certain Superfund remediation costs totaling $70 million.

11. Current Status: The trial court ruled GenCorp liable based on theories of owner and arranger liability under CERCLA. The trial court found GenCorp 30 percent liable and Olin 70 percent liable for the Big D site, and GenCorp 40 percent liable and Olin 60 percent liable for another site, for CERCLA remediation costs. (GenCorp's potential share of these costs, plus prejudgment interest, amount to approximately $29 million.) GenCorp filed an appeal regarding its CERCLA contribution liability on the basis that it is not directly or indirectly liable as an arranger for Olin's waste disposal at the Big D site and that GenCorp did not either actively control Olin's waste disposal choices or operate the plant on a day-to-day basis. In addition, GenCorp appealed the "final judgment," because the trial court failed to address GenCorp's claims under the complaint, holding such claims in abeyance. Oral argument is not expected to occur until spring or summer of 2004 and judgment of the Court of Appeals will follow in late 2004 or 2005.

12. Relief Sought: These claims are based upon allegations of discharges from a former site in the El Monte area, more fully discussed under San Gabriel Valley Basin, California, South El Monte Operable Unit (SEMOU). Aerojet has notified its insurers and is defending the actions as its investigations do not identify a credible connection between the contaminants identified by the water entities in the SEMOU and those detected at Aerojet's former facility located in El Monte, California, SEMOU.

13. Current Status: The cases have been coordinated for ease of administration by the court. Discovery is ongoing. A trial date in late 2004 or early 2005 is anticipated.

14. Current Status: Aerojet and American States Water Company (ASWC) have entered into a Memorandum of Understanding (MOU) to settle this matter. The settlement agreement has not yet been finalized, but the trial court has ruled that the MOU is binding. The trial date has been vacated. Any disputes arising in subsequent



negotiations with respect to the settlement agreement are to be resolved by arbitration subject to the continuing jurisdiction of the trial court for enforcement or ancillary purposes.

VINYL CHLORIDE AND ASBESTOS CASES

The following tables set forth information related to our historical product liability costs associated with our vinyl chloride and asbestos litigation cases.

VINYL CHLORIDE CASES

| | YEAR ENDED NOVEMBER 30, |
|---|---|

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | (DOLLARS IN THOUSANDS) | | |
| Claims filed | 11 | 12 | 2 |
| Claims dismissed | 4 | 1 | 0 |
| Claims settled | 2 | 2 | 1 |
| Claims pending | 19 | 14 | 5 |
| Aggregate settlement costs | $55 | $58 | $425 |
| Average settlement costs | $27 | $29 | $425 |

Legal and administrative fees for the vinyl chloride cases for 2003, 2002 and 2001 were approximately $0.4 million, $0.3 million and $0.5 million, respectively. Fees, aggregate settlement costs and average settlement costs for 2001 consist substantially of the fees and costs associated with the former Ashtabula employee case.

ASBESTOS CASES

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN THOUSANDS) | | |
| Claims filed | 40 | 14 | 19 |
| Claims dismissed | 21 | 16 | 11 |
| Claims settled | 6 | 7 | 8 |
| Claims pending | 42 | 29 | 38 |
| Aggregate settlement costs | $226 | $232 | $124 |
| Average settlement costs | $ 38 | $ 33 | $ 15 |

Legal and administrative fees for the asbestos cases for 2003, 2002 and 2001 were approximately $1.4 million, $0.7 million and $0.6 million, respectively. Fees for 2002 include costs associated with the litigation of the Goede et al. v. Chesterton Inc. et al. matter. However, aggregate settlement costs and average settlement costs for 2002 do not include the matter entitled Goede et al. v. Chesterton Inc. et al. in which there was a judgment of approximately $5.0 million against Aerojet, which was reduced to approximately $2.0 million after setoff based on plaintiffs' settlements with other defendants, an amount that the Company has accrued. The case is currently on appeal. Subsequent to November 30, 2003, the Company settled an asbestos case involving a former subsidiary.

The Company and its subsidiaries are subject to other legal actions, governmental investigations and proceedings relating to a wide range of matters in addition to those discussed above. While there can be no certainty regarding the outcome of any litigation, investigation or proceeding, in the opinion of the Company's management, after reviewing the information that is currently available with respect to such matters, the Company believes that any liability that may ultimately be incurred with respect to these matters is not expected to materially affect the consolidated financial condition of the Company. The effect of resolution of these matters on the Company's financial condition and results of operations cannot be predicted because any such effect



depends on future results of operations, the Company's liquidity position and available financial resources, and the amount and timing of the resolution of such matters. In addition, it is possible that amounts incurred could be significant in any particular reporting period.

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

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the quarter ended November 30, 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDERS' MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock, $0.10 par value (Common Stock) is listed on the New York and Chicago Stock Exchanges under the trading symbol "GY". As of January 31, 2004, there were 10,605 holders of record of the Company's Common Stock. During each quarter in 2003, 2002 and 2001, the Company paid a quarterly cash dividend on its Common Stock of $0.03 per share. Information concerning long-term debt, including material restrictions relating to payment of dividends on the Company's Common Stock appears in Part II, Item 7 under the caption "Liquidity and Capital Resources" and at Note 8 in Notes to Consolidated Financial Statements, which is incorporated herein by reference. Information concerning securities authorized for issuance under the Company's equity compensation plans appears in Part III, Item 12 under the caption "Equity Compensation Plan Information" which is incorporated herein by reference.

The high and low closing sale price of the Company's Common Stock as reported on the New York Stock Exchange Composite Tape were:

| | PERIOD | HIGH | LOW |
|---|---|---|---|
| 2003 | Fourth quarter | $10.46 | $ 8.89 |
| | Third quarter | $10.30 | $ 7.68 |
| | Second quarter | $ 8.26 | $ 6.05 |
| | First quarter | $ 8.35 | $ 6.79 |
| 2002 | Fourth quarter | $11.16 | $ 6.75 |
| | Third quarter | $14.35 | $ 9.75 |
| | Second quarter | $15.95 | $10.95 |
| | First quarter | $14.78 | $10.64 |



ITEM 6. SELECTED FINANCIAL DATA

| | YEAR ENDED NOVEMBER 30, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AND DIVIDEND AMOUNTS) | | | | |
| NET SALES | $1,192 | $1,135 | $1,486 | $1,047 | $1,071 |
| COSTS AND EXPENSES | | | | | |
| Cost of products sold | 979 | 935 | 1,328 | 860 | 925 |
| Selling, general and administrative | 87 | 55 | 42 | 40 | 41 |
| Depreciation and amortization | 81 | 66 | 77 | 50 | 44 |
| Interest expense | 28 | 16 | 33 | 18 | 6 |
| Other (income) expense, net | (5) | 4 | (22) | (4) | (7) |
| Restructuring charges (1) | -- | 2 | 40 | -- | -- |
| Unusual items, net (1) | 5 | 15 | (199) | (4) | (12) |
| Total costs and expenses | 1,175 | 1,093 | 1,299 | 960 | 997 |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 17 | 42 | 187 | 87 | 74 |
| Income tax (benefit) provision | (5) | 12 | 59 | 35 | 29 |
| INCOME FROM CONTINUING OPERATIONS, NET OF INCOME TAXES | 22 | 30 | 128 | 52 | 45 |
| Income from discontinued operations, net of income taxes | -- | -- | -- | -- | 26 |
| Cumulative effect of change in accounting principle, net of income taxes (3) | -- | -- | -- | 74 | -- |
| NET INCOME | $ 22 | $ 30 | $ 128 | $ 126 | $ 71 |
| BASIC EARNINGS PER SHARE OF COMMON STOCK | | | | | |
| Income from continuing operations | $ 0.50 | $ 0.71 | $ 3.03 | $ 1.24 | $ 1.09 |

| | | | | | |
|---|---|---|---|---|---|
| Income from discontinued operations (2) | -- | -- | -- | -- | 0.63 |
| Cumulative effect of change in accounting principle (3) | -- | -- | -- | 1.76 | -- |
| Total | $ 0.50 | $ 0.71 | $ 3.03 | $ 3.00 | $ 1.72 |
| DILUTED EARNINGS PER SHARE OF COMMON STOCK | | | | | |
| Income from continuing operations | $ 0.50 | $ 0.69 | $ 3.00 | $ 1.23 | $ 1.07 |
| Income from discontinued operations (2) | -- | -- | -- | -- | 0.63 |
| Cumulative effect of change in accounting principle (3) | -- | -- | -- | 1.76 | -- |
| Total | $ 0.50 | $ 0.69 | $ 3.00 | $ 2.99 | $ 1.70 |
| Cash dividends paid per share of Common Stock | $ 0.12 | $ 0.12 | $ 0.12 | $ 0.12 | $ 0.48 |
| OTHER FINANCIAL DATA: | | | | | |
| Capital expenditures | $ 49 | $ 45 | $ 49 | $ 82 | $ 97 |
| Retirement benefit plan (expense) income | $ (4) | $ 35 | $ 72 | $ 53 | $ 11 |
| Total assets | $1,907 | $1,636 | $1,468 | $1,325 | $1,232 |
| Long-term debt, including current maturities | $ 538 | $ 387 | $ 214 | $ 190 | $ 158 |

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(1) See Note 15 in Notes to Consolidated Financial Statements for information on restructuring and unusual items included in the Company's financial results.

(2) On October 1, 1999, the Company spunoff its Performance Chemicals and Decorative Building Products businesses to GenCorp shareholders as a separate, publicly traded company (OMNOVA Solutions Inc.).

(3) Effective December 1, 1999, the Company changed its methods for determining the market-related value of plan assets used in determining the expected return-on-assets component of annual net pension costs and the amortization of gains and losses for both pension and postretirement benefit costs.



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear in Part II, Item 8 of this Report.

As discussed under "Forward-Looking Statements", the forward-looking statements contained herein involve certain risks, estimates, assumptions and uncertainties, including with respect to future sales and activity levels, cash flows, contract performance, the outcome of litigation and contingencies, environmental remediation and anticipated costs of capital. Some of the important factors that could cause the Company's actual results or outcomes to differ from those discussed herein are listed under "Forward-Looking Statements."

### OVERVIEW

The Company is a multinational technology-based company operating primarily in North America and Europe. The Company's continuing operations are organized into four segments: Aerospace and Defense, GDX Automotive, Fine Chemicals and Real Estate. The Aerospace and Defense segment includes the operations of Aerojet, which develops and manufactures propulsion systems for space and defense applications, armament systems for precision tactical weapon systems and munitions applications, and advanced airframe structures. Primary customers served include major prime contractors to the U.S. government, DOD and NASA. The GDX Automotive segment is a major automotive supplier, engaged in the development, manufacture and sale of highly engineered extruded and molded rubber and plastic sealing systems for vehicle bodies and windows for automotive original equipment manufacturers. The Fine Chemicals segment consists of the operations of AFC, sales of which are primarily from custom manufactured active pharmaceutical ingredients and advanced/ registered intermediates to pharmaceutical and biotechnology companies. The Real Estate segment includes activities related to the development, sale, acquisition and leasing of the Company's real estate assets.

### RESULTS OF OPERATIONS

The following section pertains to activity included in the Company's Consolidated Statements of Operations, which are contained in Part II, Item 8 of

this Report.

| | YEAR ENDED NOVEMBER 30, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 VS. 2002 | 2002 VS. 2001 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | | | |
| NET SALES | $1,192 | $1,135 | $1,486 | $ 57 | $ (351) |
| COSTS AND EXPENSES | | | | | |
| Cost of products sold | 979 | 935 | 1,328 | 44 | (393) |
| Selling, general and administrative | 87 | 55 | 42 | 32 | 13 |
| Depreciation and amortization | 81 | 66 | 77 | 15 | (11) |
| Interest expense | 28 | 16 | 33 | 12 | (17) |
| Other (income) expense, net | (5) | 4 | (22) | (9) | 26 |
| Restructuring charges | -- | 2 | 40 | (2) | (38) |
| Unusual items, net | 5 | 15 | (199) | (10) | 214 |
| Total costs and expenses | 1,175 | 1,093 | 1,299 | 82 | (206) |
| INCOME BEFORE INCOME TAXES | 17 | 42 | 187 | (25) | (145) |
| Income tax benefit (provision) | 5 | (12) | (59) | 17 | 47 |
| NET INCOME | $ 22 | $ 30 | $ 128 | $ (8) | $ (98) |
| Basic earnings per share of Common Stock | $ 0.50 | $ 0.71 | $ 3.03 | $(0.21) | $(2.32) |
| Diluted earnings per share of Common Stock | $ 0.50 | $ 0.69 | $ 3.00 | $(0.19) | $(2.31) |



Net Sales

Consolidated net sales for the Company increased slightly to $1.2 billion in 2003 compared to $1.1 billion in 2002. The increase is primarily the effect of recent acquisitions at Aerojet, increased real estate sales, and higher exchange rates. These increases were partially offset by lower pricing and vehicle demand at GDX Automotive.

Consolidated net sales for 2002 were $1.1 billion compared to $1.5 billion in 2001. The decline in sales reflects the sale in 2001 of Aerojet's space electronics business which contributed sales of $398 million in 2001.

Income Before Income Taxes

The Company reported income before income taxes of $17 million in 2003 compared to $42 million in 2002 reflecting the following:

- The Company recognized improvements in segment performance for its Aerospace and Defense, Real Estate and Fine Chemicals segments, mostly offset by a decline in its GDX Automotive segment. See below for a more detailed discussion of segment performance.

- Asset sales by the Real Estate segment resulted in gross profit of $19 million in 2003. There were no asset sales in 2002.

- Employee retirement benefit expense was $4 million in 2003 compared to income of $35 million in 2002. See discussion under "Employee Pension and Postretirement Plans" below discussion of segment results.

- During 2003, the Company's GDX Automotive segment recognized an impairment charge of $6 million to write-down assets at one of its plants in France to their estimated net realizable value.

- The Company recorded unusual charges of $5 million in 2003 versus $15 million in 2002. There were no restructuring charges in 2003 while 2002 results included restructuring charges of $2 million related to its GDX Automotive operations. A discussion of unusual items is included under "Restructuring and Unusual Items" following the Company's discussion of segment results.

- Interest expense increased to $28 million in 2003 from $16 million in 2002 primarily due to the debt incurred to finance recent acquisitions by the Aerospace and Defense segment. Average debt balances during 2003 were $436 million compared to $285 million during 2002. The Company's average interest rates increased to 6.3 percent during 2003 from 5.2 percent during 2002.

The Company reported income before income taxes of $42 million in 2002 compared to $187 million in 2001 reflecting the following:

- 2002 results reflected significant operational improvements over 2001 in both the GDX Automotive and Fine Chemicals segments, both of which had reported segment performance losses in 2001. See discussion below for more information regarding segment performance.

- There were no asset sales by the Real Estate segment in 2002. Asset sales in 2001 contributed gross profit of $25 million.

- Employee retirement benefit income was $35 million in 2002 compared to income of $72 million in 2001. See discussion under "Employee Pension and Postretirement Plans" below discussion of segment results.

- In October 2001, Aerojet sold its EIS business. The EIS business contributed $30 million to income before income taxes in 2001.

- In 2001, the Company recorded a $46 million inventory write-down in cost of products sold related to Aerojet's participation as a propulsion supplier to a commercial launch vehicle program and a $2 million accrual for outstanding obligations connected with this effort.

- 2002 results include foreign currency transaction gains of $1 million compared to $11 million in 2001. The 2001 gains resulted from several foreign currency forward contracts entered into in order to hedge against market fluctuations during negotiations to acquire The Laird Group Public Limited Company's Draftex International Car Body Seals Division (Draftex) business.



- The Company recorded unusual charges of $15 million in 2002 versus unusual income of $199 million in 2001. The Company recorded restructuring charges of $2 million in 2002 versus $40 million in 2001 related to its GDX Automotive operations, Fine Chemicals operations and corporate headquarters. A discussion of unusual items is included under "Restructuring and Unusual Items" following the Company's discussion of segment results.

- Interest expense decreased to $16 million in 2002 from $33 million in 2001. The $17 million decrease in 2002 was due to lower average debt levels resulting from the proceeds from the sale of the EIS business in October 2001.

Income Tax (Benefit) Provision

The Company recorded a net income tax benefit of $5 million in 2003 resulting from $9 million in domestic federal and state tax settlements, and an $8 million benefit recorded as a result of the closure of one of GDX's plants in France. The Company's tax provision in 2002 was favorably impacted by a reduction of $4 million for federal and state income tax settlements and $1 million for the tax benefit of a charitable gift of real property. The 2001 tax provision was reduced by $13 million due to the receipt of state income tax settlements.



SEGMENT RESULTS

The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales from continuing operations less applicable costs, expenses and provisions for restructuring and unusual items relating to operations. Segment performance excludes corporate income and expenses, provisions for unusual items not related to the operations, interest expense, income taxes and minority interest.

| | YEAR ENDED NOVEMBER 30, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2002 | 2001 | 2003 VS. 2002 | 2002 VS. 2001 |
| | (DOLLARS IN MILLIONS) | | | | |
| NET SALES: | | | | | |
| Aerospace and Defense | $ 321 | $ 271 | $ 604 | $ 50 | $(333) |
| GDX Automotive | 786 | 806 | 808 | (20) | (2) |
| Fine Chemicals | 58 | 52 | 38 | 6 | 14 |
| Real Estate | 32 | 6 | 36 | 26 | (30) |
| Intersegment sales elimination | (5) | -- | -- | (5) | -- |
| TOTAL | $1,192 | $1,135 | $1,486 | $ 57 | $(351) |
| SEGMENT PERFORMANCE: | | | | | |
| Aerospace and Defense | $ 45 | $ 32 | $ 9 | $ 13 | $ 23 |
| Retirement benefit plan income (1) | 3 | 24 | 48 | (21) | (24) |
| Unusual items (2) | (5) | (12) | 197 | 7 | (209) |
| AEROSPACE AND DEFENSE | 43 | 44 | 254 | (1) | (210) |
| GDX Automotive | 18 | 33 | (15) | (15) | 48 |
| Retirement benefit plan income (expense) (1) | (4) | 5 | 11 | (9) | (6) |
| Asset impairment charges | (6) | -- | -- | (6) | -- |
| Restructuring charges (2) | -- | (2) | (29) | 2 | 27 |
| GDX AUTOMOTIVE | 8 | 36 | (33) | (28) | 69 |
| Fine Chemicals | 8 | 3 | (14) | 5 | 17 |
| Restructuring charges (2) | -- | -- | (1) | -- | 1 |
| FINE CHEMICALS | 8 | 3 | (15) | 5 | 18 |
| Gross margin on Real Estate asset sales | 19 | -- | 25 | 19 | (25) |
| Leasing and other activities and expenses | 4 | 3 | 1 | 1 | 2 |
| REAL ESTATE | 23 | 3 | 26 | 20 | (23) |
| SEGMENT PERFORMANCE | $ 82 | $ 86 | $ 232 | $ (4) | $(146) |
| A reconciliation of segment performance to income before income taxes is shown below: | | | | | |
| SEGMENT PERFORMANCE | $ 82 | $ 86 | $ 232 | $ (4) | $(146) |
| Interest expense | (28) | (16) | (33) | (12) | 17 |
| Corporate retirement benefit plan (expense) income (1) | (3) | 6 | 13 | (9) | (7) |
| Corporate and other expenses | (34) | (31) | (17) | (3) | (14) |
| Corporate restructuring charges (2) | -- | -- | (10) | -- | 10 |
| Unusual items | -- | (3) | 2 | 3 | (5) |
| INCOME BEFORE INCOME TAXES | $ 17 | $ 42 | $ 187 | $ (25) | $(145) |

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(1) See discussion of retirement benefit plan income (expense) under the caption "Employee Pension and Postretirement Benefit Plans" following the segment discussion. Discussions of the individual segments' results below exclude these items.

(2) See discussion of restructuring and unusual charges under the caption "Restructuring and Unusual Items" following the segment discussion. Discussions of the individual segments' results below exclude these items.



AEROSPACE AND DEFENSE

Fiscal 2003

Net sales for the Aerospace and Defense segment totaled $321 million for 2003, an increase of 18 percent compared with 2002 sales of $271 million. The

acquisition of the Redmond, Washington operations in October 2002 and the recently completed ARC acquisition in October 2003 contributed an additional $68 million in net sales in 2003 as compared to 2002. In addition to sales increases from recent acquisitions, programs contributing higher sales were as follows: Missile and Defense application programs, Boeing's HyFly program, deliveries of ATLAS V solid rocket motors, greater Titan IV volume, ordnance programs and increased volumes on various technology programs. These increases were offset by completion of the NASA X-38 De-Orbit Propulsion Stage in 2002, cancellation of the COBRA booster engine program in 2002 and lower volumes on other programs.

Before unusual items and retirement benefit plan income, segment performance for the Aerospace and Defense segment was $45 million for 2003 as compared to $32 million in 2002, an improvement of $13 million as compared to 2002. Increased segment performance reflects higher sales due to recent acquisitions, improved profit margins on the Delta program, and the effects of overall operational improvements.

In October 2003, Aerojet acquired the propulsion business of ARC for cash of $144 million, including estimated transaction costs and purchase price adjustments. Aerojet's 2003 operating results include sales of $18 million and negligible earnings from this acquired business (as described more fully in Note 9 in Notes to Consolidated Financial Statements).

As of November 30, 2003, Aerojet's contract backlog was $830 million. The comparable amount for 2002 was $773 million. Funded backlog, which includes only the amount of those contracts for which money has been directly authorized by the U.S. Congress, or for which a firm purchase order has been received by a commercial customer, was $425 million as of November 30, 2003. The comparable 2002 amount was $416 million. Funding for the Titan Program was restructured in 2003, reducing Aerojet's funded backlog by $58 million with total contract backlog remaining unchanged. Aerojet expects this funding to be incrementally restored in future years.

Fiscal 2002

Net sales for the Aerospace and Defense segment totaled $271 million for 2002, compared to $604 million in 2001. The decrease reflects Aerojet's sale of its EIS business in October 2001 (as described more fully in Note 9 in Notes to Consolidated Financial Statements), which contributed $398 million of net sales in 2001. Excluding the results of the EIS business, net sales for the segment increased $65 million in 2002 compared to the prior year. Approximately $54 million of the sales increase was generated from the delivery of a NASA X-38 DeOrbit Propulsion Stage, the COBRA booster engine program, other propulsion technologies for NASA's second-generation reusable launch vehicle program, Titan IV launch vehicle propulsion systems, and increased activity on the liquid DACS system, offset by decreased sales on the Delta II upper stage pressure-fed liquid rocket engine. Additional sales increases of $7 million were attributable to ordnance programs and $8 million was attributable to the acquisition of the Redmond, Washington operations in October 2002. In 2002, Aerojet received notice that, due to funding constraints, the customer would not extend the COBRA contract beyond September 2002. The contract contributed $19 million in sales and $1 million in segment performance in 2002.

Before unusual items and retirement benefit plan income, segment performance for the Aerospace and Defense segment was $32 million for 2002, compared to $9 million for 2001. Segment performance in 2001 included $30 million from the EIS business. Results in 2001 included a $46 million inventory write-down related to Aerojet's participation as a propulsion supplier to a commercial launch vehicle program and a $2 million accrual for outstanding obligations connected with this effort. After these items, the resulting $5 million increase in 2002 compared to the prior year reflected higher sales volumes and improved contract profits as described above.

In October 2002, Aerojet acquired the Redmond, Washington operations for cash of $93 million, including transaction costs. Aerojet's 2002 results include sales of $8 million and negligible earnings from this acquired business. In conjunction with the acquisition, in-process research and development costs of $6 million were expensed as an unusual item (as described more fully in Note 9 in Notes to Consolidated Financial Statements).



As of November 30, 2002, Aerojet's contract backlog was $773 million. The comparable amount for 2001 was $603 million. Funded backlog, which includes only the amount of those contracts for which money has been directly authorized by

the U.S. Congress, or for which a firm purchase order has been received by a commercial customer, was $416 million as of November 30, 2002. The comparable 2001 amount was $366 million.

GDX AUTOMOTIVE

Fiscal 2003

GDX Automotive's net sales totaled $786 million in 2003, a decrease of 2 percent compared with 2002 net sales of $806 million. The decrease reflects lower volumes due to vehicle platform transitions and lower demand for major vehicle platforms, as well as increased pricing concessions to major customers in North America. The decrease was partially offset by the effects of favorable foreign currency exchange rates of $72 million.

Segment performance for 2003 was $8 million compared to $36 million in 2002. Excluding retirement benefit plan income or expense, asset impairment charges and restructuring charges, GDX reported segment performance of $18 million for 2003 compared to $33 million in 2002. The 2003 results were negatively impacted by $29 million in volume decreases, $27 million in increased pricing concessions, mainly due to major customers in North America, and higher economic inflation factors affecting material and labor costs of $11 million. Lower volumes of Volkswagen products in North America and Germany contributed to a significant portion of the decline. Segment performance was positively impacted by $49 million in manufacturing efficiencies and other operating items. Additionally, foreign currency exchange rates positively impacted segment performance by $3 million.

GDX recorded asset impairment charges of $6 million in 2003 to write-down long lived assets at one of its plants in France to their estimated net realizable value. This plant is in the process of closure (see discussion under "Restructuring and Unusual Items" below).

Fiscal 2002

Net sales for the GDX Automotive segment were relatively unchanged at $806 million in 2002 compared to $808 million in 2001. Favorable currency exchange rate effects of $13 million and full year of sales from the Draftex acquisition (versus eleven months in 2001) contributed to 2002 sales. In December 2000, the Company completed the acquisition of the Draftex business of The Laird Group Public Limited Company. Pricing concessions of $21 million granted to GDX customers offset this increase in sales.

Before retirement benefit plan income or expense and restructuring charges, the GDX Automotive segment returned to profitability in 2002, with segment performance improving to $33 million compared to a $15 million loss in the preceding year. In 2001, GDX initiated restructuring programs to lower production costs and improve operating efficiency. As a result, 2002 labor costs at the North American plants decreased $25 million from the previous year, overhead declined nearly $22 million, material purchase prices declined $10 million and lower scrap rates improved performance by $7 million. Also contributing to the improvement in segment performance were reductions in accounts receivable reserves and inventory valuation allowances, aggregating $3 million, resulting from improved asset management. Segment performance was negatively impacted by $21 million in pricing concessions as discussed above.

FINE CHEMICALS

Fiscal 2003

Net sales for the Fine Chemicals segment were $58 million for 2003 compared to $52 million for 2002, an increase of 12 percent. As a contract manufacturer and ingredient supplier to pharmaceutical and biotechnology companies, AFC's sales trends reflect, to a certain extent, increasing demand for its customers' end products, coupled with the fact that the market segments served by AFC are growing faster than the overall pharmaceutical market for drug ingredients outsourced to contract manufacturers.



Segment performance for 2003 was $8 million compared to $3 million for 2002. Segment performance for 2003 includes $2 million of fees paid by a customer to settle a matter involving minimum purchase commitments during the period. The increase in segment performance compared with 2002 also reflects

higher sales volumes, operational improvements and higher capacity utilization.

As of November 30, 2003, AFC's backlog was $57 million, compared to $25 million as of November 30, 2002. These amounts represent the unfilled sales value of firm customer purchase orders.

Fiscal 2002

In December 2001, the Company reacquired the 40 percent minority interest in AFC held by NextPharma. As part of the transaction, other agreements between the two companies were terminated, including a comprehensive sales and marketing agreement. With the termination of these agreements, AFC reassumed responsibility for sales, marketing and customer interface. For more information, see Note 9 in Notes to Consolidated Financial Statements.

Net sales for AFC totaled $52 million in 2002 compared to $38 million for 2001. The improvement reflects AFC's successful resumption of internal sales and marketing responsibilities and increased demand for products launched in 2001.

Before restructuring charges, segment performance for 2002 was $3 million compared with a loss of $14 million for 2001. Segment performance in 2001 included restructuring charges of $1 million. The significant improvement in AFC's financial performance in 2002 reflects higher sales volume and the results of restructuring actions initiated in 2001, which included an approximate 40 percent reduction in AFC's workforce. Additionally, 2001 results included costs of $5 million paid to NextPharma's parent under the now terminated sales and marketing arrangement and reflected start-up costs associated with the launch of several new products.

REAL ESTATE

Fiscal 2003

Real Estate net sales and segment performance for 2003 were $32 million and $23 million, respectively, compared to $6 million and $3 million, respectively, for 2002. The 2003 net sales and segment performance increases were driven by sales of real estate assets while 2002 performance reflected only leasing activities. 2003 asset sales included a 96,000 square foot office complex on 11 acres in Sacramento County for $15 million, 20 acres of undeveloped land for $6 million, and other smaller property sales.

Fiscal 2002

Real Estate net sales and segment performance for 2002 were $6 million and $3 million, respectively, compared to $36 million and $26 million, respectively, for 2001. The 2002 net sales and segment performance decreases were driven by sales of real estate assets in 2001 while 2002 performance reflected only leasing activity. 2001 results included the sale of 1,115 acres of property in Sacramento County to a regional homebuilder.

CORPORATE AND OTHER EXPENSES

Corporate and other expenses increased in 2003 to $34 million from $31 million in 2002. The increase is primarily due to increases in professional service fees and employee compensation costs. Expenses for 2002 included $6 million in costs for outside legal advisors and accounting consultants involved in the special review of prior year accounting issues at GDX. Corporate and other expenses included amortization of debt financing costs of $5 million in 2003 and $4 million in 2002.

Corporate and other expenses increased in 2002 to $31 million from $17 million in 2001. The increase in 2002 was due to $6 million in costs for outside legal advisors and accounting consultants involved in the special review of prior year accounting issues at GDX. In addition, 2001 corporate and other expenses included a gain of



$11 million related to the settlement of foreign currency forward contracts. Corporate and other expenses included amortization of debt financing costs of $4 million in 2002 and $3 million in 2001.

EMPLOYEE PENSION AND POSTRETIREMENT BENEFIT PLANS

GenCorp's income (expense) from retirement benefit plans is as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| Aerospace and Defense | $ 3 | $24 | $48 |
| GDX Automotive | (4) | 5 | 11 |
| Fine Chemicals | -- | -- | -- |
| Real Estate | -- | -- | -- |
| Corporate | (3) | 6 | 13 |
| Retirement benefit plan (expense) income | $(4) | $35 | $72 |

For 2003, the Company recognized a $4 million non-cash, pre-tax expense from employee retirement benefit plans compared to $35 million and $72 million in pre-tax income in 2002 and 2001, respectively. In 2002 and 2001, the Company recognized income from its employee retirement benefit plans as the assumed return on pension assets and the amortization of prior year gains exceeded pension service costs and interest costs. The change from recognizing income to recognizing expense for employee retirement benefit plans is primarily due to the recognition of the underperformance of the U.S. pension plan assets resulting from lower market investment returns in 2002 and 2001, and a decrease in the discount rate used to determine benefit obligations as of November 30, 2003 due to lower market interest rates.

RESTRUCTURING AND UNUSUAL ITEMS

Restructuring actions taken by the Company are summarized as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| GDX Automotive | $-- | $2 | $29 |
| Fine Chemicals | -- | -- | 1 |
| Corporate | -- | -- | 10 |
| Restructuring expense | $-- | $2 | $40 |

In November 2003, the Company announced its decision to close a GDX manufacturing facility in Chartres, France. The decision resulted primarily from a declining volume of sales to French automobile manufacturers. The closure, which is scheduled to be completed during the second quarter of 2004, is expected to result in a 2004 pre-tax expense of $12 million to $22 million. After considering expected offsets for U.S. income tax benefits, the closure is not expected to result in a significant cash outlay. The Company has not yet recorded expenses associated with the employee transition component of the closure. Once an agreement is reached with the approximate 260 employees affected by this closure, the Company will recognize the related costs in accordance with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. In the fourth quarter of 2003, the Company recorded asset impairment charges of $6 million in other income and expense to write down certain fixed assets to their net realizable value and also reduced net deferred tax assets by $3 million relating to the closure. The Company accounted for these charges pursuant to SFAS 144, Accounting for the Impairment or Disposal of Long Lived Assets.

In September 2002, the Company announced a restructuring in the GDX Automotive segment. The plan resulted in the closure of a plant in Germany in

early 2003 and reduced staffing levels at the Farmington Hills,



Michigan headquarters. A $2 million charge for the cost of the restructuring was included in GDX Automotive's segment performance.

In 2001, the Company implemented restructuring plans that included GDX, AFC and Corporate Headquarters. The GDX restructuring program and segment consolidation included the closure of the Marion, Indiana and Ballina, Ireland manufacturing facilities and resulted in the elimination of approximately 760 employee positions. The decision to close these facilities was precipitated by excess capacity and deterioration of performance and losses at these sites. The decision to close the Ballina, Ireland plant also reflected difficulty in retaining plant personnel in light of low unemployment levels in the region. Remaining programs from these facilities were transferred to other facilities. This restructuring resulted in a charge of $29 million and was substantially completed by the end of 2001. There was an additional restructuring plan directed at the Draftex business, which resulted in the elimination of more than 500 employee positions and an adjustment of the goodwill recorded as part of the Draftex acquisition. The restructuring plan implemented at AFC during 2001 included the elimination of 50 employee positions and resulted in a charge of $1 million. This restructuring increased operational efficiency without reducing production capabilities. Also in 2001 the Company implemented a restructuring of its corporate headquarters. The restructuring included an early retirement program which was offered to certain eligible employees. The program resulted in a charge of $10 million.

Charges associated with unusual items are summarized as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| AEROSPACE AND DEFENSE: | | | |
| Unrecoverable portion of legal settlement with local water company | $5 | $-- | $ -- |
| Write-off of the Redmond, Washington operations in-process research and development | -- | 6 | -- |
| Aerojet sale of EIS business | -- | 6 | (206) |
| Tax-related (customer reimbursements of tax recoveries) | -- | -- | 9 |
| | -- | --- | ----- |
| | 5 | 12 | (197) |
| CORPORATE: | | | |
| Environmental remediation insurance cost recovery | -- | -- | (2) |
| Reacquisition of AFC minority interest | -- | 2 | -- |
| Write-off of bank fees for Term Loan C repayment | -- | 1 | -- |
| | -- | --- | ----- |
| | -- | 3 | (2) |
| | -- | --- | ----- |
| Net unusual expense (income) | $5 | $15 | $(199) |
| | == | === | ===== |

In 2003, Aerojet recorded unusual charges totaling $5 million representing the estimated unrecoverable portion of a legal settlement with a local water company related to contaminated wells. See Water Entity Cases in Note 11(b) in Notes to Consolidated Financial Statements for more information.

In 2002, Aerojet charged $6 million to expense for acquired in-process research and development resulting from the acquisition of the Redmond, Washington operations. In 2002, Aerojet reached an agreement with Northrop Grumman (Northrop) on purchase price adjustments related to the sale of its EIS business whereby Aerojet reduced the purchase price by $6 million. Also in 2002, the Company reacquired the minority ownership interest in AFC and certain agreements between AFC and NextPharma were terminated, resulting in an expense of $2 million. See Note 9 in Notes to Consolidated Financial Statements for more information.

In 2001, the Company recorded a gain of $206 million related to the sale of EIS to Northrop. See discussion in Note 9 in Notes to Consolidated Financial Statements for additional information. In 2001, the Company settled outstanding claims with the Internal Revenue Service and the State of California. The benefit of the tax refunds, $13 million on an after-tax basis, was recorded in the income tax provision. The portion of the tax refunds that



will be repaid over time to the Company's defense customers is reflected as an unusual expense item of $9 million in Aerospace and Defense segment performance ($5 million after tax).

ENVIRONMENTAL MATTERS

The Company's policy is to conduct its businesses with due regard for the preservation and protection of the environment. The Company devotes a significant amount of resources and management attention to environmental matters and actively manages its ongoing processes to comply with environmental laws and regulations. The Company is involved in the remediation of environmental conditions that resulted from generally accepted manufacturing and disposal practices in the 1950's and 1960's followed at certain plants. In addition, the Company has been designated a PRP with other companies at third party sites undergoing investigation and remediation (see Note 11(b) in Notes to Consolidated Financial Statements).

Estimating environmental remediation costs is difficult due to the significant uncertainties inherent in these activities, including the extent of the remediation required, changing governmental regulations and legal standards regarding liability, evolving technologies and the long periods of time over which most remediation efforts take place. In accordance with the American Institute of Certified Public Accountants' Statement of Position 96-1 (SOP 96-1), Environmental Remediation Liabilities and Staff Accounting Bulletin No. 92 (SAB92), Accounting and Disclosure Relating to Loss Contingencies, the Company:

- accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred, and when its proportionate share of the costs can be reasonably estimated. In some cases, only a range of reasonably possible costs can be estimated. In establishing the Company's reserves, the most probable estimate is used when determinable and the minimum estimate is used when no single amount is more probable; and

- records related estimated recoveries when such recoveries are deemed probable.

Expenditures for recurring costs associated with managing hazardous substances or pollutants in ongoing operations was $11 million in 2003 compared to $12 million in 2002 and $11 million in 2001.

Reserves

The Company continually reviews estimated future remediation costs that could be incurred by the Company, which take into consideration the investigative work and analysis of the Company's engineers and the advice of its legal staff regarding the status and anticipated results of various administrative and legal proceedings. In most cases only a range of reasonably possible costs can be estimated. In establishing the Company's reserves, the most probable estimated amount is used when determinable and the minimum is used when no single amount is more probable. The timing of payment for estimated future environmental costs is subject to variability and depends on the timing of regulatory approvals for planned remedies and the construction and completion of the remedies.

During 2003 and 2002, the Company completed a review of estimated future environmental costs which incorporated, but was not limited to, the following: (i) status of work completed since the last estimate; (ii) expected cost savings related to the substitution of new remediation technology and to information not available previously; (iii) obligations for reimbursement of regulatory agency service costs; (iv) updated BPOU cost estimates; (v) costs of complying with the Western Groundwater Administrative Order, including replacement water and remediation upgrades; (vi) estimated costs related to the Inactive Rancho Cordova Test Site (IRCTS) and Aerojet's Sacramento site; (vii) new information

related to the extent and location of previously unidentified contamination; and (viii) additional construction costs. The Company's review of estimated future remediation costs resulted in a net increase in the Company's environmental reserves of $12 million in 2003 and $107 million in 2002.

The effect of the final resolution of environmental matters and the Company's obligations for environmental remediation and compliance cannot be accurately predicted due to the uncertainty concerning both the amount and timing of future expenditures and due to regulatory or technological changes. The Company believes, on the basis of presently available information, that the resolution of environmental matters and the Company's



obligations for environmental remediation and compliance will not have a material adverse effect on the Company's results of operations, liquidity or financial condition. The Company will continue its efforts to mitigate past and future costs through pursuit of claims for recoveries from insurance coverage and other PRPs and continued investigation of new and more cost effective remediation alternatives and associated technologies.

A summary of the Company's environmental reserve activity is shown below:

| | NOVEMBER 30, 2001 | 2002 ADDITIONS | 2002 EXPENDITURES | NOVEMBER 30, 2002 | 2003 ADDITIONS | 2003 EXPENDITURES | NOVEMBER 30, 2003 |
|---|---|---|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | | | | |
| Aerojet | $252 | $107 | $(41) | $318 | $12 | $(32) | $298 |
| Other Sites | 27 | -- | (5) | 22 | -- | (5) | 17 |
| Environmental Reserve | $279 | $107 | $(46) | $340 | $12 | $(37) | $315 |

As of November 30, 2003, the Aerojet reserves include $180 million for the Sacramento site and $108 million for BPOU. The reserves for other sites include $9 million for the Lawrence, Massachusetts site.

Estimated Recoveries

On January 12, 1999, Aerojet and the U.S. government implemented the October 1997 Agreement in Principle (Global Settlement) resolving certain prior environmental and facility disagreements, with retroactive effect to December 1, 1998. The Global Settlement covered all environmental contamination at the Sacramento and Azusa sites. Under the Global Settlement, Aerojet and the U.S. government resolved disagreements about an appropriate cost-sharing ratio. The Global Settlement provides that the cost-sharing ratio will continue into the foreseeable future.

Pursuant to the Global Settlement covering environmental costs associated with Aerojet's Sacramento site and its former Azusa site, the Company can recover up to 88 percent of its environmental remediation costs for these sites through the establishment of prices for Aerojet's products and services sold to directly or indirectly to the U.S. government. Allowable environmental costs are charged to these contracts as the costs are incurred. Aerojet's mix of contracts can affect the actual reimbursement made by the U.S. government. Because these costs are recovered through forward pricing arrangements, the ability of Aerojet to continue recovering these costs from the U.S. government depends on Aerojet's sustained business volume under U.S. government contracts and programs and the relative size of Aerojet's commercial business.

In conjunction with the sale of EIS, Aerojet entered into an agreement with Northrop whereby Aerojet will be reimbursed by Northrop for a portion of environmental expenditures eligible for recovery under the Global Settlement. Amounts reimbursed are subject to annual limitations, with excess amounts carrying over to subsequent periods, the total of which will not exceed $190 million over the term of the agreement, which ends in 2028. As of November 30, 2003, $168 million in potential future reimbursements were available over the remaining life of the agreement.

As part of the acquisition of the propulsion business of ARC, Aerojet entered into an agreement with ARC pursuant to which Aerojet is responsible for up to $20 million of costs (Pre-Close Environmental Costs) associated with environmental issues that arose prior to Aerojet's acquisition of the ARC propulsion business. Pursuant to an agreement with the U.S. government which was

entered into prior to the closing of the ARC acquisition, these Pre-Close Environmental Costs will be treated as allowable costs and combined with Aerojet environmental costs under the Global Settlement, and therefore will be recovered through the establishment of prices for Aerojet's products and services sold to the U.S. government. These costs will be allocable to all Aerojet operations (including the previously excluded Redmond, Washington) beginning in 2005.

In conjunction with the ARC acquisition, Aerojet signed a Memorandum of Understanding with the U.S. government agreeing to key assumptions and conditions that will preserve the original methodology to be used in recalculating the percentage allocation between Aerojet and Northrop. Aerojet has presented a proposal to the U.S. government based on the Memorandum of Understanding and expects to complete an agreement in the near term.



In conjunction with the Company's review of its environmental reserves discussed above, the Company revised its estimate of costs that will be recovered under the Global Settlement based on business expected to be conducted under contracts with the U.S. government and its agencies in the future. The adjustments to the environmental remediation reserves and estimated future cost recoveries did not affect operating results in 2002 as the impact of increases to the reserves of $107 million was offset by increased estimated future recoveries. In 2003, due to the Global Settlement and Memorandum of Understanding with the government, discussed above, which allow for costs to be allocated to all Aerojet operations beginning in 2005 and decrease the costs allocated to Northrop annually, Aerojet increased its environmental reserves by $12 million and estimated recoveries by $13 million, which resulted in a $1 million gain in the Company's statement of operations.

For additional discussion of environmental and related legal matters, see Note 11(c) in Notes to Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company broadly defines liquidity as its ability to generate sufficient operating cash flows, as well as its ability to obtain debt and equity financing and to convert to cash those assets that are no longer required to meet the Company's strategic financial objectives. Changes in net cash provided by operating activities generally reflect earnings plus depreciation and amortization and other non-cash charges and the effect of changes in working capital. Changes in working capital generally are the result of timing differences between the collection of customer receivables and payment for materials and operating expenses.

As of November 30, 2003, the Company's cash and cash equivalents totaled $64 million and the ratio of current assets to current liabilities, or current ratio, was 1.06. As of November 30, 2002, the Company's cash and cash equivalents were $48 million and the current ratio was 1.03.

Cash and cash equivalents increased by $16 million during the year ended November 30, 2003. The change in cash and cash equivalents is as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| Net cash provided by (used in) operating activities..... | $ 44 | $(17) | $(69) |
| Net cash (used in) provided by investing activities..... | (180) | (141) | 94 |
| Net cash provided by financing activities..... | 144 | 159 | 2 |
| Effect of exchange rate fluctuations on cash and cash equivalents..... | 8 | 3 | -- |
| Increase in cash and cash equivalents..... | $ 16 | $ 4 | $ 27 |

The Company's liquidity in 2003 was supplemented by borrowings from time to time under its credit facilities to meet working capital requirements and to

finance capital expenditures of $49 million. In addition, the Company issued $150 million of aggregate principal amount of 9.50% Senior Subordinated Notes to finance, in part, the ARC acquisition. (See Note 8 in Notes to Consolidated Financial Statements.)

The Company's liquidity in 2002 was supplemented by borrowings to cover a negative operating cash flow of $17 million, to finance capital expenditures of $45 million, and to finance $101 million related to the acquisition of the Redmond, Washington operations and the reacquisition of the minority ownership interest in AFC.

In 2001, cash generated from the sale of the EIS business funded negative operating cash flow of $69 million, capital expenditures of $49 million and the acquisition of the Draftex business of $184 million.

Net Cash Provided By (Used In) Operating Activities

Net cash provided by operating activities was $44 million for 2003. Net cash used in operating activities was $17 million in 2002 and $69 million in 2001. The increase in operating cash flow in 2003 reflects improved



operating results for the Real Estate, Aerospace and Defense and Fine Chemical segments (after adjusting for the non-cash impact of employee retirement benefit plans) offset in part by reduced profits for the GDX Automotive segment and increased corporate and interest costs. Operating cash flows in 2003 also reflect a reduction in working capital usage, primarily in the Aerospace and Defense segment, as compared to the same period in 2002.

During 2002, both the GDX Automotive and Fine Chemicals segments had improved operating results compared to 2001 and generated positive cash flows from operations. Improvements in these segments were offset by increased working capital requirements for the Aerospace and Defense segment and an increase in corporate and other expenses. The negative operating cash flow for 2001 reflects payment of certain current liabilities that were assumed as part of the Draftex acquisition, the cash impact of restructuring activities, environmental expenditures, and the weak financial performance of the GDX Automotive segment. The Draftex acquisition completed in 2001 resulted in the Company purchasing primarily long-term assets and assuming short-term obligations.

Net Cash (Used In) Provided By Investing Activities

Net cash used in investing activities for 2003 was $180 million and $141 million in 2002, compared to net cash provided in 2001 of $94 million.

Investing activities included capital expenditures of $49 million, $45 million and $49 million for 2003, 2002 and 2001, respectively. Capital expenditures directly support the Company's contracts and customer requirements and are primarily made for asset replacement, capacity expansion, development of new projects, cost reduction initiatives and safety and productivity improvements. Capital expenditures for 2001 included $6 million related to Aerojet's EIS business, which was sold in October 2001.

Investing activities for 2003 included cash outflows of $138 million for the acquisition of the ARC propulsion business including transaction costs paid during the year. Investing activities for 2003 also included net proceeds of $7 million from the sale of GDX assets in Germany.

Investing activities for 2002 included cash outflows of $93 million paid for the purchase of the Redmond, Washington operations, $8 million related to the Company's reacquisition of the minority ownership interest in AFC and $6 million related to a purchase price adjustment for the sale of EIS. These cash outflows were offset by $10 million received for the final purchase price adjustment on the Draftex acquisition.

Investing activities for 2001 included proceeds of $315 million from the sale of the EIS business and outflows of $184 million related to the purchase of the Draftex business.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for 2003 was $144 million compared with $159 million for 2002, and $2 million for 2001. Cash flows from

financing activities relate primarily to activities involving the Company's borrowings, net of repayments.

The Company has a senior credit facility (Restated Credit Facility) which provides for a revolving credit facility, expiring December 28, 2005, and Term Loans. In 2003, the Company issued 9.50% Senior Subordinated Notes and in 2002, the Company issued a new Term Loan B and 5.75% Convertible Subordinated Notes. See Note 8 in Notes to Consolidated Financial Statements for more information regarding the Company's borrowings. The Company paid dividends on common stock of $5 million in all periods presented.



The Company's borrowing activity in 2003 was as follows:

| | NOVEMBER 30, 2002 | ADDITIONS | (PAYMENTS) | CURRENCY TRANSLATION | NOVEMBER 30, 2003 |
|---|---|---|---|---|---|
| | | | (DOLLARS IN MILLIONS) | | |
| Revolving Credit Facility..... | $ 45 | $ -- | $(15) | $ -- | $ 30 |
| Term Loans..... | 186 | -- | (20) | -- | 166 |
| 9.50% Senior Subordinated Notes..... | -- | 150 | -- | -- | 150 |
| 5.75% Convertible Subordinated Notes..... | 150 | -- | -- | -- | 150 |
| Foreign Credit Facilities and Other..... | 6 | 33 | -- | 3 | 42 |
| Total..... | $387 | $183 | $(35) | $ 3 | $538 |

As of November 30, 2003, the borrowing limit under the revolving credit facility was $137 million against which the Company had $30 million of borrowings outstanding and had letters of credit outstanding of $55 million. As of November 30, 2003, the Company also had borrowing limits totaling $38 million on additional credit facilities in Europe and Canada, of which $27 million was outstanding and is included in foreign credit facilities and other debt in the table above. Availability under the Company's various credit facilities totaled $63 million as of November 30, 2003.

The Restated Credit Facility contains restrictive covenants that require the Company to meet specific financial ratios, including an interest coverage ratio, a leverage ratio, a fixed charge coverage ratio and a consolidated net worth test; and also subjects the Company and its subsidiaries to restrictions on capital expenditures, the ability to incur additional debt, and the disposition of assets, including real estate; and prohibits specified other types of transactions. The Restated Credit Facility permits dividend payments as long as there is no event of default. In addition, the indenture governing the 9.50% Senior Subordinated Notes contains customary covenants including limits on the Company and its subsidiaries' ability to incur additional indebtedness, make restricted payments, pay dividends or make distributions on, or redeem or repurchase, capital stock, make investments, or issue or sell capital stock of restricted subsidiaries, create liens on assets to secure indebtedness, enter into transactions with affiliates and consolidate, merge or transfer all or substantially all of the assets of the Company. These covenants could restrict the Company's ability to secure additional debt and equity financing were it to need additional capital in the future. Also, in order to maintain compliance with these covenants, the Company could be required to curtail some of its operations and growth plans in the future.

The outstanding debt had effective interest rates ranging from 3.94 percent to 9.50 percent as of November 30, 2003, with maturities as follows:

| | CREDIT FACILITY | TERM LOANS | 9.50% NOTES | 5.75% NOTES | FOREIGN CREDIT FACILITIES AND OTHER | TOTAL |
|---|---|---|---|---|---|---|

| | (DOLLARS IN MILLIONS) | | | | | |
|---|---|---|---|---|---|---|
| 2004 | $-- | $ 20 | $ -- | $ -- | $32 | $ 52 |
| 2005 | -- | 27 | -- | -- | 6 | 33 |
| 2006 | 30 | 31 | -- | -- | 1 | 62 |
| 2007 | -- | 88 | -- | 150 | 1 | 239 |
| 2008 | -- | -- | -- | -- | -- | -- |
| Thereafter | -- | -- | 150 | -- | 2 | 152 |
| Total | $30 | $166 | $150 | $150 | $42 | $538 |

In January 2004, the Company issued 4% Contingent Convertible Subordinated Notes (4% Notes) for aggregate principal amount of $125 million (see Note 18 in Notes to Consolidated Financial Statements). The net proceeds of approximately $119 million were used to repay outstanding borrowings under the Revolving Credit



Facility and to pre-pay the next 12 months of scheduled maturities under the Term Loan A. The remaining net proceeds of $60 million will be used for general corporate purposes.

On June 20, 2002, the Company filed a shelf registration statement with the SEC under which the Company may, on a delayed basis, issue debt securities, shares of common stock or preferred stock. Net proceeds, terms and pricing of offerings, if any, of securities issued under the shelf registration statement will be determined at the time of any such offering.

Outlook

As disclosed in Notes 11(b) and 11(c) in Notes to Consolidated Financial Statements, the Company has exposure for certain legal and tax matters. The Company believes that it is currently not possible to estimate the impact, if any, that the ultimate resolution of these matters will have on the Company's financial position or cash flows.

The Company currently believes that its existing cash and cash equivalents, forecasted operating cash flows and borrowings available under its credit facilities will provide sufficient funds to meet its operating plan for the next twelve months. The operating plan for this period provides for full operation of the Company's business, interest and principal payments on the Company's debt and anticipated dividend payments.

The Company may access capital markets to raise debt or equity financing to fund strategic acquisitions. The timing, terms, size and pricing of any such financing will depend on investor interest and market conditions, and there can be no assurance that the Company will be able to obtain any such financing.

If the Company experiences adverse economic developments and is not able to raise debt or equity financing in the capital markets or to obtain bank borrowings, the Company believes that it can generate additional funds to meet its 2004 liquidity requirements by reducing working capital requirements, deferring capital expenditures, implementing cost reduction initiatives in addition to those already included in the Company's operating plan, selling assets, or through a combination of these means.

Major factors that could adversely impact the Company's forecasted operating cash and its financial condition are described in "Forward-Looking Statements" following this section and "Business Outlook" below. In addition, the Company's liquidity and financial condition will continue to be affected by changes in prevailing interest rates on the portion of debt that bears interest at variable interest rates.

BUSINESS OUTLOOK

As discussed under "Forward-Looking Statements" following this section, the forward-looking statements contained herein involve certain risks, estimates, assumptions and uncertainties with respect to future sales and activity levels, cash flows, contract performance, the outcome of contingencies including environmental remediation and anticipated costs of capital. These statements do not include the potential impact of any mergers, acquisitions, asset sales, debt financings or other strategic transactions that have been or may be completed

after November 30, 2003. Some of the important factors that could cause the Company's actual results or outcomes to differ from those discussed herein are listed under "Forward-Looking Statements."

For 2004, the Company expects sales to increase, driven primarily by the inclusion of ARC's operations for a full year, the acquisition of which was completed by the Company in October 2003. For 2004, the Company expects a loss as a result of non-cash, pre-tax expense from its U.S. employee retirement benefit plans of approximately $55 million, compared to nominal non-cash, pre-tax expense in 2003. The expected change in pre-tax employee retirement benefit expense in 2004 is primarily due to the recognition of the under performance of our U.S. pension plan assets resulting from lower market investment returns in 2001 and 2002 and a decrease in the discount rate due to lower interest rates. The Company uses a five-year period to recognize gains and losses on pension plan assets. The Company's U.S. pension plans remain overfunded and the Company does not expect to have to make any net cash contributions in 2004.

For 2004, sales for the Aerospace and Defense segment are expected to increase significantly over 2003, primarily as a result of the inclusion of a full year of ARC's operations. With the ARC acquisition and the



acquisition of the Redmond, Washington operations completed in October 2002, based on expected 2004 sales, Aerojet will almost double its sales from 2002 to 2004, although segment margins are expected to decrease from 2003 as a result of a change in the mix of production and development contracts. The Company continues to evaluate potential acquisitions that meet the Company's strategic and financial criteria to grow its Aerospace and Defense business.

The Company continues to make progress towards monetizing its real estate assets. For 2004, the Company expects the Real Estate segment to continue its leasing activities and to sell selected real estate assets.

For the Fine Chemicals segment, 2004 sales are expected to increase incrementally over 2003 and margins are expected to remain relatively stable.

GDX 2004 sales are expected to decrease, driven primarily by a combination of OEM price reductions and projected net lower volumes. The Company also expects lower margins for this segment as GDX addresses under-utilization of plant capacities, new launch start-up costs and OEM pricing pressures.

OTHER INFORMATION

Key Accounting Policies and Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in the U.S. (GAAP). GAAP offers acceptable alternative methods for accounting for certain items affecting the Company's financial results, such as determining inventory cost, depreciating long-lived assets and recognizing revenues.

The preparation of financial statements in accordance with GAAP requires the use of estimates, assumptions, judgments and interpretations that can affect the reported amounts of assets, liabilities, revenues and expenses, the disclosure of contingent assets and liabilities and other supplemental disclosures. The development of accounting estimates is the responsibility of the Company's management. Management discusses those areas that require significant judgments with the audit committee of the Company's board of directors. The audit committee has reviewed all financial disclosures in the Company's filings with the SEC. Although management believes that the positions the Company has taken with regard to uncertainties are reasonable, others might reach different conclusions and the Company's positions can change over time as more information becomes available. If an accounting estimate changes, its effects are accounted for prospectively.

The areas most affected by Company's accounting policies and estimates are revenue recognition/long-term contracts, goodwill and intangible assets, employee pension and postretirement benefit obligations, litigation, environmental remediation costs and income taxes. Except for income taxes, which are not allocated to the Company's business segments, these areas affect the financial results of the Company's business segments.

For a discussion of all of the Company's accounting policies, including the accounting policies discussed below, see Note 1 in Notes to Consolidated Financial Statements.

Revenue Recognition/Long-Term Contracts

In the Aerospace and Defense segment, recognition of profit on long-term contracts requires the use of assumptions and estimates related to the contract value or total contract revenue, the total cost at completion and the measurement of progress towards completion. Due to the nature of the programs, developing the estimated total cost at completion requires the use of significant judgment. Estimates are continually evaluated as work progresses and are revised as necessary. Factors that must be considered in estimating the work to be completed include labor productivity, the nature and technical complexity of the work to be performed, availability and cost volatility of materials, subcontractor and vendor performance, warranty costs, volume assumptions, anticipated labor agreements and inflationary trends, schedule and performance delays, availability of funding from the customer, and the recoverability of costs incurred outside the original contract included in any estimates to complete. Aerojet reviews contract performance and cost estimates for contracts at least monthly and for others at least quarterly and more frequently when circumstances significantly change. When a change in estimate is determined to have an impact on contract earnings, Aerojet records a positive or negative adjustment to earnings



when identified. Changes in estimates and assumptions related to the status of certain long-term contracts may have a material effect on the amounts reported by the Company for net sales and segment performance.

The Company's aerospace and defense business is derived from contracts that are accounted for in conformity with the American Institute of Certified Public Accountants (AICPA) audit and accounting guide, "Audits of Federal Government Contracts" and the AICPA's Statement of Position No. 81-1 (SOP 81-1), Accounting for Performance of Construction-Type and Certain Production Type Contacts. The Company considers the nature of the individual underlying contract and the type of products and services provided in determining the proper accounting for a particular contract. Each method is applied consistently to all contracts having similar characteristics, as described below. The Company typically accounts for these contracts using the percentage-of-completion method, and progress is measured on a cost-to-cost or units-of-delivery basis. Sales under cost-reimbursement contracts and relatively short-term fixed-price contracts are measured as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs. Sales under other long-term fixed-price contracts are measured as deliveries are made and computed on the basis of the unit costs plus profit. For certain other long-term fixed-price contracts, sales are recorded when the Company achieves performance milestones as contractually defined by the customer. Sales include estimated earned fees or profits calculated on the relationship between contract milestones and the estimate at completion. Revenue on service or time and material contracts is recognized when performed. For fixed-price and fixed-price-incentive contracts, if at any time expected costs exceed the value of the contract, the loss is recognized immediately.

Certain government contracts contain cost or performance incentive provisions that provide for increased or decreased fees or profits based upon actual performance against established targets or other criteria. Aerojet continually evaluates its performance and incorporates any anticipated penalties and cost incentives into its revenue and earnings calculations. Performance incentives, which increase or decrease earnings based solely on a single significant event generally, are not recognized until an event occurs.

Recognition of revenue for the remaining business segments are not subject to significant estimates or judgment.

The GDX Automotive segment recognizes revenue after products are shipped, all other significant customer obligations have been met and collection is reasonably assured. Sales are recorded net of provisions for customer pricing allowances.

In general, the Fine Chemicals segment recognizes revenue after products are shipped, when customer acceptance has occurred, all other significant customer obligations have been met and collection is reasonably assured. The

Fine Chemicals segment recognizes revenue under two contracts upon customer acceptance of the finished product, but before the finished product is delivered to the customers. These customers have specifically requested that AFC invoice for the finished product and hold the finished product until a later date. In certain circumstances, the Fine Chemicals segment records sales when products are shipped, before customer acceptance has occurred because adequate controls are in place to ensure compliance with contractual product specifications and a substantial history of performance has been established.

Revenues from real estate sales are recognized when a sufficient down-payment has been received, financing has been arranged and title, possession and other attributes of ownership have been transferred to the buyer.

Goodwill and Intangible Assets

All acquired long-term assets, including goodwill, are subject to tests for impairment. Under Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations, all business combinations initiated after June 30, 2001 are accounted for using the purchase method of accounting. SFAS 141 provides criteria for determining whether intangible assets acquired in a business combination should be recognized separately from goodwill. The purchase price of acquired companies is allocated to tangible and intangible assets acquired and liabilities assumed, as well as to in-process research and development based on their estimated fair values. Consultants with expertise in performing appraisals assist in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions,



especially with respect to intangible assets. Subsequent to the initial recognition, goodwill is accounted for under Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets. In accordance with the requirements of this standard, goodwill must be tested for impairment at least annually, or more frequently if indications of possible impairment exist, by comparing the net assets of each "reporting unit" (an organizational grouping) with the current fair value of the reporting unit. If the current fair value of the reporting unit is less than its carrying amount, then a second test must be performed. Under the second test, the current fair value of the reporting unit is allocated to the assets and liabilities of the reporting unit, including an amount for any "implied" goodwill. If implied goodwill exceeds the net carrying amount of goodwill, no impairment loss is recorded. Otherwise, an impairment loss is recognized for the difference.

The evaluation of goodwill under SFAS 142 requires valuations of each applicable underlying business. These valuations can be significantly affected by estimates of future performance and discount rates over a relatively long period of time, market price valuation multiples and marketplace transactions in related markets. These estimates will likely change over time. The Company's businesses operate in cyclical industries and the valuation of these businesses can be expected to fluctuate as a result. If the annual review under SFAS 142 indicates impairment of goodwill balances, that entire impairment must be recorded immediately and reported as a component of current operations.

At November 30, 2003, the Company's total assets included $197 million of goodwill. Goodwill was allocated $100 million to the Company's Aerospace and Defense segment and $97 million to the Company's GDX Automotive segment.

Employee Pension and Postretirement Benefit Plans

Employee pension and postretirement benefit plans are a significant cost of doing business and represent obligations that will be ultimately settled far in the future and therefore are subject to estimates. The Company's pension and postretirement benefit obligations and related costs are calculated using actuarial concepts in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), Employer's Accounting for Pensions, and Statement of Financial Accounting Standards No. 106 (SFAS 106), Employer's Accounting for Postretirement Benefits Other Than Pensions, respectively. Pension accounting is intended to reflect the recognition of future benefit costs over the employee's approximate service period based on the terms of the plans and the investment and funding decisions made by the Company. The Company is required to make assumptions regarding such variables as the expected long-term rate of return on assets and the discount rate applied to determine service cost and interest cost to arrive at pension income or expense for the year.

Employee retirement benefit plan income or expense is a non-cash item and is reflected as either cost of goods sold or general and administrative expenses. The tax effect related to this income or expense recognition is also non-cash and is reflected in the deferred tax liabilities account.

The discount rate is determined at the annual measurement date of August 31 for the Company's pension plans, and is subject to change each year based on changes in the overall market interest rates. The assumed rate reflects the market rate for high-quality fixed income debt instruments on the measurement date. This rate is used to discount the future cash flows of benefit obligations back to the measurement date. A 25 basis point change in the discount rate of 7.25 percent used to determine pension benefit obligations as of the measurement date would have changed 2003 pension expense by $4.5 million. The discount rate used to determine benefit obligations decreased from 7.25 percent for 2002 to 6.50 percent for 2003. This 75 basis point decline in the discount rate resulted in an increase in the present value of pension benefit obligations as of November 30, 2003 and will be a component of the expected increase in pension expense for 2004.

The expected long-term rate of return on plan assets is also determined at the annual measurement date of August 31 for the Company's pension plans. The expected long-term rate of return used to determine benefit obligations was 8.75 percent for both 2003 and 2002. The Company and its advisors have analyzed the expected rates of return on assets and determined that these rates are reasonable based on the current and expected asset allocations and on the plans' historical and expected investment performance. The Company's asset managers regularly review actual asset allocations and periodically rebalance investments to targeted allocations when considered appropriate. At November 30, 2003, the actual asset allocation was consistent with the asset allocation



assumptions used in determining the expected long-term rate of return. Management will continue to assess the expected long-term rate of return on assets for each plan based on relevant market conditions as prescribed by GAAP and will make adjustments to the assumptions as appropriate. A 25 basis point change in the expected long-term rate of return on plan assets would have changed 2003 pension expense by $2.6 million.

Market conditions and interest rates significantly affect assets and liabilities of the Company's pension plans. Pension accounting requires that market gains and losses be deferred and recognized over a period of years. This "smoothing" results in the creation of assets or liabilities which will be amortized to pension costs in future years. The accounting method utilized by the Company recognizes gains and losses in the market value of pension assets and changes in the discount rate used to calculate benefit costs over a period of five years. Investment gains or losses for this purpose are the difference between the expected return and the actual return on the market-related value of assets. The Company's unrecognized actuarial loss included in its prepaid pension asset as of November 30, 2003 and 2002 was $316 million and $257 million, respectively. Although the smoothing period mitigates some volatility in the calculation of annual pension costs, future pension costs are impacted by changes in the market value of pension plan assets and changes in interest rates.

In addition, the Company maintains postretirement benefit plans other than pensions that are not funded. A one percentage point increase in the assumed trend rate for healthcare costs would have increased the postretirement accumulated benefit obligation by $5.6 million recorded as of November 30, 2003 and the effect on the service and interest cost components of expense for 2003 would not have been significant. A one percentage point decrease in the assumed trend rate for healthcare costs would have decreased the postretirement accumulated benefit obligation by $4.7 million recorded as of November 30, 2003 and the effect on the service and interest cost components of expense for 2003 would not have been significant.

The Company's U.S. pension plans remain overfunded and the Company does not expect to make any net cash contributions in 2004. Cash payments for unfunded benefit obligations, primarily retiree medical benefits, are reflected in operating cash flows.

Contingencies and Litigation

The Company is currently involved in certain legal proceedings and, as

required, has accrued its estimate of the probable costs for resolution of these claims. These estimates are based upon an analysis of potential results, assuming a combination of litigation and settlement strategies. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in assumptions or the effectiveness of strategies related to these proceedings. See Note 11(b) in Notes to Consolidated Financial Statements for more detailed information on litigation exposure.

Reserves for Environmental Remediation and Recoverable from the U.S. Government and Other Third Parties for Environmental Remediation Costs

For a discussion of the Company's accounting for environmental remediation obligations and costs and related legal matters, see "Environmental Matters" above and Note 11 in Notes to Consolidated Financial Statements.

The Company accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred, and when its proportionate share of the costs can be reasonably estimated. Management has a well-established process in place to identify and monitor the Company's environmental exposures. In most cases only a range of reasonably possible costs can be estimated. In establishing the Company's reserves, the most probable estimated amount is used when determinable, and the minimum amount is used when no single amount in the range is more probable. The Company's environmental reserves include the costs of completing remedial investigation and feasibility studies, remedial and corrective actions, regulatory oversight costs, the cost of operation and maintenance of the remedial action plan, and employee compensation costs for employees who are expected to devote a significant amount of time to remediation efforts. Measurement of environmental reserves is based on the evaluation of currently available information with respect to each individual environmental site and considers factors such as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. Such estimates



are based on the expected costs of investigation and remediation and the likelihood that other potentially responsible parties will be able to fulfill their commitments at sites where the Company may be jointly or severally liable.

As of November 30, 2003, the Company had accrued environmental remediation liabilities of $315 million. Environmental remediation cost estimation involves significant uncertainties, including the extent of the remediation required, changing governmental regulations and legal standards regarding liability, evolving technologies and the long periods of time over which most remediation efforts take place. A number of factors could substantially change environmental remediation cost estimates, examples of which include: regulatory changes reducing the allowable levels of contaminants such as perchlorate, nitrosodimethylamine or others; enhanced monitoring and testing technology or protocols which could result in the discovery of previously undetected contaminants; and the implementation of new remediation technologies which could reduce future remediation costs.

Pursuant to the Global Settlement covering environmental costs associated with Aerojet's Sacramento site and its former Azusa site, the Company can recover up to 88 percent of environmental remediation costs allocable to government contracts. Environmental recoveries for these sites are recorded as an asset and reflect recoveries permissible through the establishment of prices for Aerojet's products and services sold to the U.S. government. Aerojet's mix of contracts can affect the actual reimbursement. Because these costs are recovered through forward pricing arrangements, the ability of Aerojet to continue recovering these costs depends on Aerojet's sustained business volume under U.S. government contracts and programs and the relative size of Aerojet's commercial business (environmental remediation costs allocable to commercial contracts are expensed).

In conjunction with the sale of EIS, Aerojet entered into an agreement with Northrop whereby Aerojet will be reimbursed by Northrop for a portion of environmental expenditures eligible for recovery under the Global Settlement. Amounts reimbursed are subject to annual limitations, with excess amounts carrying over to subsequent periods, the total of which will not exceed $190 million over the term of the agreement, which ends in 2028.

As part of the acquisition of the ARC propulsion business, Aerojet entered

into an agreement with ARC pursuant to which Aerojet is responsible for up to $20 million of costs (Pre-Close Environmental Costs) associated with environmental issues that arose prior to Aerojet's acquisition of the propulsion business. Pursuant to a separate agreement with the U.S. government which was entered into prior to closing of the ARC acquisition, these Pre-Close Environmental Costs will be treated as allowable overhead cost combined with Aerojet environmental costs under the Global Settlement, and will be recovered through the established prices for Aerojet products produced and services performed by Aerojet. In addition, Aerojet and the U.S. government have agreed that Aerojet's allowable site restoration costs subject to the sharing ratio of the Global Settlement plus ARC site restoration costs will continue to be treated as general and administrative costs and will be allocated to all Aerojet operations beginning in 2005.

Based on Aerojet's projected business volume and the proportion of its business expected to be covered by the Global Settlement, Aerojet currently believes that, as of November 30, 2003, approximately $220 million of its estimated future environmental costs will be recoverable. Significant estimates and assumptions that could affect the future recovery of environmental remediation costs include: the proportion of Aerojet's future business base and total business volume which will be subject to the Global Settlement; limitations on the amount of recoveries available under the Northrop agreement; the ability of Aerojet to competitively bid and win future contracts if estimated environmental costs significantly increase; the timing of environmental expenditures; and uncertainties inherent in long-term cost projections of environmental remediation projects.

Income Taxes

The Company files a consolidated U.S. income tax return for the Company and its wholly-owned consolidated subsidiaries. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. The deferred tax assets and/or liabilities are determined by multiplying the differences between the financial reporting and tax reporting bases



for assets and liabilities by the enacted tax rates expected to be in effect when such differences are recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date of the change.

The carrying value of the Company's deferred tax assets is dependent upon its ability to generate sufficient future taxable income in certain tax jurisdictions. The Company has established valuation allowances against certain of its deferred tax assets due to uncertainties related to the ability to utilize these assets. The valuation allowances are based on estimates of taxable income by each jurisdiction in which the Company operates and the period over which the assets will be recoverable. In the event that actual results differ from these estimates, or that the Company adjusts these estimates in future periods, the valuation allowance would change and could impact the Company's financial position and results of operations.

Income taxes can be affected by estimates of whether, and within which jurisdictions, future earnings will occur and how and when cash is repatriated to the U.S., combined with other aspects of an overall income tax strategy. Additionally, taxing jurisdictions could retroactively disagree with the Company's tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting rules require these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable manner. The Company establishes tax reserves when, despite its belief that its tax return positions are fully supportable, it believes that certain positions are likely to be challenged and that the Company may not succeed. The Company adjusts these reserves in light of changing facts and circumstances, such as the progress of a tax audit. The Company believes it has adequately provided for any reasonably foreseeable outcome related to these matters, and it does not anticipate any material earnings impact from their ultimate resolutions.

At November 30, 2003, the Company had tax basis net operating loss (NOL) carry-forwards worldwide of approximately $328 million available to reduce future taxable income. The majority of these NOLs are related to state operations, expire beginning in 2004, and are fully reserved with a valuation allowance. The remaining portion relates to foreign operations, most of which

have indefinite carry-forward periods. The Company also has foreign tax credit carry-forwards of $4 million, which expire beginning in 2005 as well as research credit carry-forwards of $2 million which expire beginning in 2011. These tax carry-forwards are subject to examination by the tax authorities. As of November 30, 2003, the Company's net deferred tax assets were $17 million, after reduction for the valuation allowance of $14 million.

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004 except for companies with special purpose entities which must apply for provisions of FIN 46 to those special purpose entities, no later than the first reporting period after December 15, 2003. The adoption of FIN 46 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirety, or as hybrid instruments with debt host contracts and embedded derivative features. SFAS 149 is effective for contracts entered into or modified after March 15, 2003. The adoption of SFAS 149 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150



requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and, as such, SFAS 150 represents a significant change in practice in the accounting for a number of mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

FORWARD-LOOKING STATEMENTS

Certain information contained in this report should be considered "forward-looking statements" as defined by Section 21E of the Private Securities Litigation Reform Act of 1995. All statements in this report other than historical information, may be deemed forward-looking statements. These statements present (without limitation) the expectations, beliefs, plans and objectives of management and future financial performance and assumptions underlying or judgments concerning, matters discussed in the statements. The words "believe," "estimate," "anticipate," "project" and "expect," and similar expressions, are intended to identify forward-looking statements. Forward-looking statements involve certain risks, estimates, assumptions and uncertainties, including with respect to future sales and activity levels, cash flows, contract performance, the outcome of litigation and contingencies, environmental remediation and anticipated costs of capital. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in the Company's forward-looking statements. Some important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements include, but are not limited to, the following:

- legal and regulatory developments that may have an adverse impact on the Company or its segments. For example: 1) the Company's operations and financial condition could be adversely impacted if the judgment order in the amount of approximately $29 million entered November 21, 2002 against GenCorp in GenCorp Inc. v Olin Corporation (U.S. District Court for the Northern District of Ohio, Eastern Division), which is described in more detail in Note 11(b) in Notes to Consolidated Financial Statements is upheld on appeal and the offsets to which the Company believes it is entitled are not realized; 2) restrictions on real estate development that could delay the Company's proposed real estate development activities; and 3) a change in toxic tort or asbestos litigation trends that is adverse to the Company; or 4) changes in international tax laws or currency controls;

- changes in Company-wide or business segment strategies, which may result in changes in the types or mix of business in which the Company is involved or chooses to invest;

- changes in U.S., global or regional economic conditions, which may affect, among other things, 1) customer funding for the purchase of aerospace and defense products, which may impact the Aerospace and Defense segment's business base and, as a result, impact its ability to recover environmental costs; 2) consumer spending on new vehicles, which could reduce demand for products from the Company's GDX Automotive segment; 3) healthcare spending and demand for the pharmaceutical ingredients produced by the Fine Chemicals segment; 4) the Company's ability to successfully complete its real estate activities; and 5) the funded status and costs related to the Company's employee retirement benefit plans;

- risks associated with the Company's Aerospace and Defense segment's role as a defense contractor including: 1) the right of the U.S. government to terminate any contract for convenience; 2) modification or termination of U.S. government contracts due to lack of congressional funding; and 3) the lack of assurance that bids for new programs will be successful, or that customers will exercise contract options or seek or follow-on contracts with the Company due to the competitive marketplace in which the Company competes;

- changes in U.S. and global financial and equity markets, including market disruptions and significant currency or interest rate fluctuations, that may impede the Company's access to, or increase the cost of, external financing for its operations and investments or materially affect the Company's results of operations and cash flows;



- increased competitive pressures, both domestically and internationally, which may, among other things, affect the performance of the Company's businesses; for example, the automotive industry is increasingly outsourcing the production of key vehicle sub-assemblies and, accordingly, industry suppliers, such as the Company's GDX Automotive segment, will need to demonstrate the ability to be a reliable supplier of integrated components to maintain and expand its market share;

- labor disputes, which may lead to increased costs or disruption of operations in the Company's Aerospace and Defense, GDX and Fine Chemicals segments;

- changes in product mix, which may affect automotive vehicle preferences and demand for the Company's GDX Automotive segment's products;

- technological developments or patent infringement claims; which may impact the use of critical technologies in the Company's Aerospace and Defense, GDX and Fine Chemicals segments leading to reduced sales or increased costs; and

- an unexpected adverse result or required cash outlay in the toxic tort cases, environmental proceedings or other litigation, or change in proceedings or investigations pending against the Company.

This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Additional risk factors may be described from time to time in the Company's

filings with the U.S. Securities and Exchange Commission. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. All such risk factors are difficult to predict, contain material uncertainties that may affect actual results and may be beyond the Company's control.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

POLICIES AND PROCEDURES

As an element of the Company's normal business practice, it has established policies and procedures for managing its exposure to changes in interest rates and foreign currencies.

The objective in managing exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flow and to make overall borrowing costs more predictable. To achieve this objective, the Company may use interest rate hedge transactions (Swaps) or other interest rate hedge instruments to manage the net exposure to interest rate changes related to the Company's portfolio of borrowings and to balance its fixed rate compared to floating rate debt.

The objective in managing exposure to foreign currency fluctuations is to reduce volatility in earnings and cash flow. To achieve this objective, the Company may use various hedge contracts that change in value as foreign exchange rates change to protect the value of its existing foreign currency assets, liabilities and commitments.

It is the Company's policy to enter into foreign currency and interest rate transactions only to the extent considered necessary to meet its stated objectives. The Company does not enter into these transactions for speculative purposes.

INTEREST RATE RISK

The Company is exposed to market risk principally due to changes in domestic interest rates. Debt with interest rate risk includes borrowings under the Company's credit facilities. Other than pension assets, the Company does not have any significant exposure to interest rate risk related to investments (see Note 8 in Notes to Consolidated Financial Statements).

The Company uses interest rate swaps and a combination of fixed and variable rate debt to reduce its exposure to interest rate risk. As of November 30, 2003, the Company's long-term debt totaled $538 million. $430 million, or 80 percent was at an average fixed rate of 7.11 percent; and $108 million, or 20 percent was at an average variable rate of 4.19 percent.



In December 2002, the Company entered into Swaps on $100 million of Term Loan variable rate debt for a two-year period as required by the Restated Credit Facility. The Company's fixed interest rate under these Swaps including the Eurocurrency margin is 6.02 percent for the two-year period (see Note 1(l) in Notes to Consolidated Financial Statements).

The estimated fair value of the Company's long-term debt was $536 million as of November 30, 2003 compared to a carrying value of $538 million. The fair value of the 5.75% Notes and 9.50% Notes were determined based on quoted market prices as of November 28, 2003. The fair value of the remaining long-term debt was determined to approximate carrying value as the interest rates are generally variable based on market interest rates and reflect current market rates available to the Company.

FOREIGN CURRENCY EXCHANGE RATE RISK

In addition to operations in the U.S., the Company has operations in Canada, Germany, France, Spain, Czech Republic, China and the United Kingdom. As a result, the Company's financial position, results of operations, and cash flows can be impacted by fluctuations in foreign currency exchange rates (primarily the Euro and the Canadian dollar). The Company may choose to selectively hedge exposures to foreign currency rate changes through the use of foreign currency forward and option contracts. There were no foreign currency forward or option contracts outstanding at November 30, 2003.

As of November 30, 2003, the Company did not have material exposure to unhedged monetary assets, receivables, liabilities or commitments denominated in currencies other than the operations' functional currencies.

COMMODITY PRICE RISK

The operations of the GDX Automotive segment are dependent on the availability of rubber and related raw materials. Because of this dependence, significant increases in the price of these raw materials could have a material adverse impact on the Company's results of operations and financial condition. GDX employs a diversified supplier base as part of its efforts to mitigate the risk of a supply interruption. In 2003 and 2002, rubber and rubber-related raw materials accounted for 12 percent and 11 percent, respectively, of GDX's cost of goods sold. Based on 2003 activity levels, a ten percent increase in the average annual cost of these raw materials would increase GDX's cost of goods sold by $8 million.

FINANCING OBLIGATIONS AND OTHER COMMITMENTS

The Company's financing obligations and other commitments include primarily outstanding notes, senior credit facilities and operating leases. The following table summarizes these obligations as of November 30, 2003 and their expected effect on our liquidity and cash flow in future periods:

| | | SCHEDULED PAYMENT DATES FOR THE YEARS ENDED NOVEMBER 30, | | | | | |
|---|---|---|---|---|---|---|---|
| | TOTAL | 2004 | 2005 | 2006 | 2007 | 2008 | THEREAFTER |
| | | (DOLLARS IN MILLIONS) | | | | | |
| Financing Obligations: | | | | | | | |
| Long-term debt | $538 | $52 | $33 | $62 | $239 | $ -- | $152 |
| Operating leases | 67 | 11 | 10 | 8 | 6 | 5 | 27 |
| Total financing obligations | $605 | $63 | $43 | $70 | $245 | $ 5 | $179 |

The Company also issues purchase orders and makes other commitments to suppliers for equipment, materials and supplies in the normal course of business. These purchase commitments are generally for volumes consistent with anticipated requirements to fulfill purchase orders or contracts for product deliveries received, or expected to be received, from customers.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information called for by this item is set forth beginning on page 52 of this report.



REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of GenCorp Inc.:

We have audited the accompanying consolidated balance sheets of GenCorp Inc. as of November 30, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended November 30, 2003. 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 auditing standards generally accepted in the United States. 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 the Company, 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 GenCorp Inc. at November 30, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2003, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Sacramento, California
January 28, 2004



GENCORP INC.

CONSOLIDATED STATEMENTS OF INCOME

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | |
| NET SALES | $1,192 | $1,135 | $1,486 |
| COSTS AND EXPENSES | | | |
| Cost of products sold | 979 | 935 | 1,328 |
| Selling, general and administrative | 87 | 55 | 42 |
| Depreciation and amortization | 81 | 66 | 77 |
| Interest expense | 28 | 16 | 33 |
| Other (income) expense, net | (5) | 4 | (22) |
| Restructuring charges | -- | 2 | 40 |
| Unusual items, net | 5 | 15 | (199) |
| | 1,175 | 1,093 | 1,299 |
| INCOME BEFORE INCOME TAXES | 17 | 42 | 187 |
| Income tax (benefit) provision | (5) | 12 | 59 |
| NET INCOME | $ 22 | $ 30 | $ 128 |
| EARNINGS PER SHARE OF COMMON STOCK | | | |
| Basic | $ 0.50 | $ 0.71 | $ 3.03 |
| Diluted | $ 0.50 | $ 0.69 | $ 3.00 |
| Weighted average shares of common stock outstanding | 43.3 | 42.8 | 42.2 |
| Weighted average shares of common stock outstanding, assuming dilution | 43.4 | 48.6 | 42.6 |
| DIVIDENDS DECLARED PER SHARE OF COMMON STOCK | $ 0.12 | $ 0.12 | $ 0.12 |

See Notes to Consolidated Financial Statements.



GENCORP INC.

CONSOLIDATED BALANCE SHEETS

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | |
| ASSETS | | |
| CURRENT ASSETS | | |

| | | |
|---|---|---|
| Cash and cash equivalents | $ 64 | $ 48 |
| Accounts receivable | 176 | 139 |
| Inventories, net | 211 | 167 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs | 37 | 24 |
| Current deferred income taxes | 7 | -- |
| Prepaid expenses and other | 21 | 5 |
| Total Current Assets | 516 | 383 |
| NONCURRENT ASSETS | | |
| Property, plant and equipment, net | 516 | 463 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs | 183 | 208 |
| Deferred income taxes | 10 | 9 |
| Prepaid pension asset | 345 | 337 |
| Goodwill | 197 | 126 |
| Other noncurrent assets, net | 140 | 110 |
| Total Noncurrent Assets | 1,391 | 1,253 |
| Total Assets | $1,907 | $1,636 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term borrowings and current portion of long-term debt | $ 52 | $ 22 |
| Accounts payable | 114 | 89 |
| Reserves for environmental remediation | 53 | 39 |
| Income taxes payable | 23 | 22 |
| Current deferred income taxes | -- | 1 |
| Other current liabilities | 245 | 200 |
| Total Current Liabilities | 487 | 373 |
| NONCURRENT LIABILITIES | | |
| Convertible subordinated notes | 150 | 150 |
| Senior subordinated notes | 150 | -- |
| Other long-term debt, net of current portion | 186 | 215 |
| Reserves for environmental remediation | 262 | 301 |
| Postretirement benefits other than pensions | 162 | 176 |
| Other noncurrent liabilities | 82 | 61 |
| Total Noncurrent Liabilities | 992 | 903 |
| Total Liabilities | 1,479 | 1,276 |
| COMMITMENTS AND CONTINGENT LIABILITIES | | |
| SHAREHOLDERS' EQUITY | | |
| Preference stock, par value of $1.00; 15 million shares authorized; none issued or outstanding | -- | -- |
| Common stock, par value of $0.10; 150 million shares authorized; 44.3 million shares issued, 43.8 million outstanding in 2003; 43.5 million shares issued, 43.0 million shares outstanding in 2002 | 4 | 4 |
| Other capital | 19 | 13 |
| Retained earnings | 373 | 356 |
| Accumulated other comprehensive income (loss), net of income taxes | 32 | (13) |
| Total Shareholders' Equity | 428 | 360 |
| Total Liabilities and Shareholders' Equity | $1,907 | $1,636 |

See Notes to Consolidated Financial Statements.



GENCORP INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | | COMMON STOCK | | | | ACCUMULATED OTHER | TOTAL |
|---|---|---|---|---|---|---|---|
| | COMPREHENSIVE INCOME | SHARES | AMOUNT | OTHER CAPITAL | RETAINED EARNINGS | COMPREHENSIVE INCOME (LOSS) | SHAREHOLDERS' EQUITY |
| | | (DOLLARS IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS) | | | | | |
| NOVEMBER 30, 2000 | | 41,966,980 | $4 | $ 2 | $208 | $(28) | $186 |
| Net income | $128 | -- | -- | -- | 128 | -- | 128 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Currency translation adjustments and other, net of taxes | (6) | -- | -- | -- | -- | (6) | (6) |
| Cash dividends of $0.12 per share | -- | -- | -- | -- | (5) | -- | (5) |
| Shares issued under stock option and stock incentive plans | -- | 661,187 | -- | 7 | -- | -- | 7 |
| NOVEMBER 30, 2001 | $122 | 42,628,167 | 4 | 9 | 331 | (34) | 310 |
| Net income | $ 30 | -- | -- | -- | 30 | -- | 30 |
| Currency translation adjustments and other, net of taxes | 21 | -- | -- | -- | -- | 21 | 21 |
| Cash dividends of $0.12 per share | -- | -- | -- | -- | (5) | -- | (5) |
| Shares issued under stock option and stock incentive plans | -- | 339,927 | -- | 4 | -- | -- | 4 |
| NOVEMBER 30, 2002 | $ 51 | 42,968,094 | 4 | 13 | 356 | (13) | 360 |
| Net income | $ 22 | -- | -- | -- | 22 | -- | 22 |
| Currency translation adjustments and other, net of taxes | 45 | -- | -- | -- | -- | 45 | 45 |
| Cash dividends of $0.12 per share | -- | -- | -- | -- | (5) | -- | (5) |
| Shares issued under stock option and stock incentive plans | -- | 812,963 | -- | 6 | -- | -- | 6 |
| NOVEMBER 30, 2003 | $ 67 | 43,781,057 | $4 | $19 | $373 | $ 32 | $428 |

See Notes to Consolidated Financial Statements.



GENCORP INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| OPERATING ACTIVITIES | | | |
| Net Income | $ 22 | $ 30 | $128 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | |
| Net loss on reacquisition of minority ownership interest in subsidiary | -- | 2 | -- |
| Loss (gain), on sale of EIS business | -- | 6 | (206) |
| Gain on sale of property, plant and equipment | (3) | -- | (23) |
| Foreign currency gain | (3) | -- | (11) |
| Depreciation and amortization | 81 | 66 | 77 |
| Deferred income taxes | (9) | 12 | 66 |
| Changes in operating assets and liabilities, net of effects of acquisitions and divestiture of businesses: | | | |
| Accounts receivable | 18 | 52 | (34) |
| Inventories, net | (19) | 5 | 33 |
| Other current assets | (9) | (1) | (3) |
| Other noncurrent assets | 4 | (127) | 23 |
| Current liabilities | 28 | (95) | (18) |
| Other noncurrent liabilities | (66) | 33 | (101) |
| Net Cash Provided by (Used in) Operating Activities | 44 | (17) | (69) |
| INVESTING ACTIVITIES | | | |
| Capital expenditures | (49) | (45) | (49) |
| Proceeds from disposition of EIS business | -- | (6) | 315 |
| Proceeds from sale of property, plant and equipment | 7 | 1 | 12 |
| Acquisition of businesses, net of cash acquired | (138) | (91) | (184) |
| Net Cash (Used in) Provided by Investing Activities | (180) | (141) | 94 |
| FINANCING ACTIVITIES | | | |
| Proceeds from issuance of subordinated notes | 150 | 150 | -- |
| Repayments, net of borrowings on revolving credit | | | |

| | | | |
|---|---|---|---|
| facility | (15) | (75) | (84) |
| Net short-term debt (repaid) incurred | 27 | (7) | (4) |
| Proceeds from the issuance of other long-term debt | 6 | 140 | 350 |
| Repayments on long-term debt | (20) | (42) | (262) |
| Debt issuance costs | (5) | (6) | -- |
| Dividends paid | (5) | (5) | (5) |
| Other equity transactions | 6 | 4 | 7 |
| Net Cash Provided by Financing Activities | 144 | 159 | 2 |
| EFFECT OF EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS | 8 | 3 | -- |
| INCREASE IN CASH AND CASH EQUIVALENTS | 16 | 4 | 27 |
| Cash and Cash Equivalents at Beginning of Year | 48 | 44 | 17 |
| Cash and Cash Equivalents at End of Year | $ 64 | $ 48 | $ 44 |

See Notes to Consolidated Financial Statements.



GENCORP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. BASIS OF PRESENTATION AND NATURE OF OPERATIONS

The consolidated financial statements of GenCorp Inc. (GenCorp or the Company) include the accounts of the parent company and its wholly-owned and majority-owned subsidiaries. See Note 9 for a discussion of recent business acquisitions and divestitures. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to financial information for prior years to conform to the current year's presentation.

The Company is a multinational technology-based company operating primarily in North America and Europe. The Company's continuing operations are organized into four segments: Aerospace and Defense, GDX Automotive (GDX), Fine Chemicals and Real Estate. The Aerospace and Defense segment includes the operations of Aerojet-General Corporation (Aerojet), which develops and manufactures propulsion systems for space and defense applications, armament systems for precision tactical weapon systems and munitions applications, and advanced airframe structures. Primary customers served include major prime contractors to the U.S. government, the Department of Defense (DoD) and the National Aeronautics and Space Administration (NASA). The GDX Automotive segment is a major automotive supplier, engaged in the development, manufacture and sale of highly engineered extruded and molded rubber and plastic sealing systems for vehicle bodies and windows for automotive original equipment manufacturers. The Fine Chemicals segment consists of the operations of Aerojet Fine Chemicals LLC (AFC), sales of which are primarily from custom manufactured active pharmaceutical ingredients and registered intermediates to pharmaceutical and biotechnology companies. The Real Estate segment includes activities related to the development, sale and leasing of the Company's real estate assets. Information on the Company's operations by segment and geographic area is provided in Note 13.

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

b. WORKFORCE

As of November 30, 2003, approximately 51 percent of the Company's employees were covered by collective bargaining or similar agreements. Of the covered employees, approximately 13 percent were covered by collective bargaining agreements that are due to expire within one year.

c. CASH EQUIVALENTS

All highly liquid debt instruments purchased with a remaining maturity at

the date of purchase of three months or less are considered to be cash equivalents. The Company classifies securities underlying its cash equivalents as "available-for-sale" in accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115 (SFAS 115), Accounting for Certain Investments in Debt and Equity Securities. Cash equivalents are stated at cost, which approximates fair value, due to the highly liquid nature and short duration of the underlying securities.

d. INVENTORIES

The Aerospace and Defense and Fine Chemicals segments use the average cost method. Inventories are stated at the lower of cost or market value (see Note 3). The GDX Automotive segment uses the first-in, first-out (FIFO) method for accounting for inventory costs for all non-U.S. GDX facilities and the last-in, first-out (LIFO) method for all other GDX locations.





e. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Refurbishment costs are capitalized in the property accounts, whereas ordinary maintenance and repair costs are expensed as incurred. Depreciation is computed principally by the straight-line method for the GDX and Fine Chemicals segments, and by accelerated methods for the Aerospace and Defense and Real Estate segments. Depreciable lives on buildings and improvements, and machinery and equipment, range from five years to 45 years, and three years to 15 years, respectively.

Impairment of long-lived assets is recognized when events or circumstances indicate that the carrying amount of the asset, or related groups of assets, may not be recoverable. Under SFAS No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes SFAS No. 121 (SFAS 121), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, a long-lived asset classified as "held for sale" is initially measured at the lower of its carrying amount or fair value less costs to sell. In the period that the "held for sale" criteria is met, the Company recognizes an impairment charge for any initial adjustment of the long-lived asset amount. Gains or losses not previously recognized resulting from the sale of a long-lived asset are recognized on the date of sale. During 2003, the Company's GDX Automotive segment recognized impairment charges of $6 million to write-down assets at one of its plants in France to their estimated net realizable value upon plant closure (see Note 13). The impaired assets included buildings and machinery and equipment with a net book value prior to impairment of $10 million and an estimated net realizable value of $4 million.

f. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company periodically evaluates the value of its goodwill and the period of amortization of its other intangible assets and determines if such assets are impaired by comparing the carrying values with estimated future undiscounted cash flows. This analysis is performed separately for the goodwill that resulted from each acquisition and for the other intangible assets. The Company performed the annual impairment tests for goodwill as of September 1, 2003 and 2002 and determined that goodwill was not impaired as of those dates. Other intangible assets are evaluated when indicators of impairment exist.

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired. Identifiable intangible assets, such as existing technology, existing programs, customer backlog, patents, trademarks and licenses, are recorded at cost or when acquired as part of a business combination at estimated fair value. Identifiable intangible assets are amortized based on when they provide the Company economic benefit, or using the straight-line method, over their estimated useful life. Amortization periods for identifiable intangible assets range from two to 27 years.

The changes in the carrying amount of goodwill, by reporting segment, for the year ended November 30, 2003 were as follows:

| | NOVEMBER 30, 2002 | ACQUISITIONS (NOTE 9) | PURCHASE ACCOUNTING ADJUSTMENTS | EFFECT OF CURRENCY TRANSLATION | NOVEMBER 30, 2003 |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| | | | (DOLLARS IN MILLIONS) | | |
| Aerospace and Defense.... | $ 42 | $60 | $(2) | $-- | $100 |
| GDX Automotive..... | 84 | -- | -- | 13 | 97 |
| Goodwill..... | $126 | $60 | $(2) | $13 | $197 |





A summary of the Company's other intangible assets subject to amortization as of November 30, 2003 is as follows:

| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET CARRYING AMOUNT |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| Customer related..... | $14 | $2 | $12 |
| Acquired technology..... | 18 | 1 | 17 |
| Other..... | 6 | 2 | 4 |
| Other intangible assets..... | $38 | $5 | $33 |

Amortization expense related to other intangible assets was $3 million in 2003, and was less than $1 million in 2002 and 2001. The amortization expense for each of the five succeeding years related to other intangible assets recorded in the Consolidated Balance Sheet at November 30, 2003 is estimated to be $2 million annually.

g. PRE-PRODUCTION COSTS

The Company accounts for certain pre-production costs in accordance with Emerging Issues Task Force (EITF) Issue No. 99-5 (EITF 99-5), Accounting for Pre-Production Costs Related to Long-term Supply Arrangements. This EITF addresses the accounting treatment and disclosure requirements for pre-production costs incurred by original equipment manufacturer's suppliers to perform certain services related to the design and development of the parts they will supply to the original equipment manufacturers suppliers as well as the design and development costs to build molds, dies and other tools that will be used in producing parts. At November 30, 2003 and 2002, the Company recorded, as a noncurrent asset, $7 million and $4 million, respectively, of tooling costs for which customer reimbursement is assured.

h. REVENUE RECOGNITION/LONG-TERM CONTRACTS

The Company accounts for sales derived from long-term development and production contracts in conformity with the American Institute of Certified Public Accountants (AICPA) Audit and Accounting guide, "Audits of Federal Government Contracts" and the AICPA's Statement of Position No. 81-1 (SOP81-1), Accounting for Performance of Construction-Type and Certain Production Type Contacts. The Company considers the nature of the individual underlying contract and the type of products and services provided in determining the proper accounting for a particular contract. Each method is applied consistently to all contracts having similar characteristics, as described below. The Company typically accounts for these contracts using the percentage-of-completion method, and progress is measured on a cost-to-cost or units-of-delivery basis. Sales under cost-reimbursement contracts and relatively short-term fixed-price contracts are measured as costs are incurred and include estimated earned fees or profits calculated on the basis of the relationship between costs incurred and total estimated costs. Sales under other long-term fixed-price contracts are measured as deliveries are made and computed on the basis of the unit costs plus profit. For certain other long-term fixed-price contracts, sales are recorded when performance milestones are achieved as contractually defined by the customer. Sales include estimated earned fees or profits calculated on the relationship between contract milestones and the estimate at completion. Revenue on service or time and material contracts is recognized when performed. For

fixed-price and fixed-price-incentive contracts, if at any time expected costs exceed the value of the contract, the loss is recognized immediately.

Certain government contracts contain cost or performance incentive provisions that provide for increased or decreased fees or profits based upon actual performance against established targets or other criteria. Aerojet continually evaluates its performance and incorporates any anticipated penalties and cost incentives into its revenue and earnings calculations. Performance incentives, which increase or decrease earnings based solely on a single significant event generally, are not recognized until an event occurs.





The GDX Automotive segment recognized revenue after products are shipped, all other significant customer obligations have been met and collection is reasonably assured. Sales are recorded net of provisions for customer pricing allowances.

In general, the Fine Chemicals segment recognizes revenue after products are shipped, when customer acceptance has occurred, all other significant customer obligations have been met and collection is reasonably assured. The Fine Chemicals segment recognizes revenue under two contracts upon customer acceptance of the finished product, but before the finished product is delivered to the customers. These customers have specifically requested that AFC invoice for the finished product and hold the finished product until a later date. As of November 30, 2003 and 2002, finished product totaling $18 million and $10 million, respectively, in sales had not yet shipped. In certain circumstances, the Company's Fine Chemicals segment records sales when products are shipped, before customer acceptance has occurred because adequate controls are in place to ensure compliance with contractual product specifications and a substantial history of performance has been established.

Revenues from real estate sales are recognized when a sufficient down-payment has been received, financing has been arranged, title, possession, and other attributes of ownership have been transferred to the buyer.

i. RESEARCH AND DEVELOPMENT EXPENSES

Company-sponsored research and development (R&D) expenses were $16 million in 2003, $17 million in 2002 and $24 million in 2001. Included in the 2001 amounts are R&D expenses of $4 million related to the Electronics and Information Systems (EIS) business, sold to Northrop Grumman (Northrop) in October 2001 (see Note 9). Company-sponsored R&D expenses include the costs of technical activities that are useful in developing new products, services, processes or techniques, as well as expenses for technical activities that may significantly improve existing products or processes.

Customer-sponsored R&D expenditures, which are funded under government contracts, totaled $92 million in 2003, $99 million in 2002 and $215 million in 2001. Included in these amounts were R&D expenses related to the EIS business of $146 million in 2001.

j. ENVIRONMENTAL REMEDIATION COSTS

The Company accounts for identified or potential environmental remediation liabilities in accordance with the AICPA's Statement of Position 96-1 (SOP 96-1), Environmental Remediation Liabilities and Security and Exchange Commission (SEC) Staff Accounting Bulletin No. 92, Accounting and Disclosures Relating to Loss Contingencies. Under this guidance, the Company expenses, on a current basis, recurring costs associated with managing hazardous substances and pollution in ongoing operations. The Company accrues for costs associated with the remediation of environmental pollution when it becomes probable that a liability has been incurred, and its proportionate share of the amount can be reasonably estimated. In most cases only a range of reasonably possible costs can be estimated. In establishing the Company's reserves, the most probable estimated amount is used when determinable, and the minimum amount is used when no single amount in the range is more probable. The Company's environmental reserves include the costs of completing remedial investigation and feasibility studies, remedial and corrective actions, regulatory oversight costs, the cost of operation and maintenance of the remedial action plan, and employee compensation costs for employees who are expected to devote a significant amount of time to remediation efforts. Measurement of environmental reserves is based on the evaluation of currently available information with respect to each

individual environmental site and considers factors such as existing technology, presently enacted laws and regulations, and prior experience in remediation of contaminated sites. Such estimates are based on the expected costs of investigation and remediation and the likelihood that other potentially responsible parties will be able to fulfill their commitments at sites where the Company may be jointly or severally liable. The Company recognizes amounts recoverable from insurance carriers, the U.S. government or other third parties, when the collection of such amounts is probable. Pursuant to U.S. government agreements or regulations, the Company can recover a substantial portion of its environmental costs for its Aerospace and Defense segment through the establishment of prices of the Company's products and





services sold to the U.S. government. The ability of the Company to continue recovering these costs from the U.S. government depends on Aerojet's sustained business volume under U.S. government contracts and programs. See also Notes 11(b) and 11(c).

k. STOCK-BASED COMPENSATION

The Company applies the provisions of Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations to account for awards of stock-based compensation granted to employees. See also Note 12(c).

l. DERIVATIVE FINANCIAL INSTRUMENTS

During 2003, the Company entered into three foreign currency forward contracts, totaling 22 million Euro, which all expired during 2003. Forward contracts are marked-to-market each quarter and the unrealized gains or losses are included in other income and expense. Foreign currency transaction gains totaled $4 million, $1 million, and $11 million in 2003, 2002 and 2001, respectively, including gains and losses on foreign currency forward and option contracts.

The Company entered into interest rate swap agreements effective January 10, 2003 on $100 million of its variable rate term loan debt for a two-year period. Under the swap agreements, the Company makes payments based on a fixed rate of 6.02 percent and receives a London InterBank Offered Rate (LIBOR) based variable rate (4.94 percent as of November 30, 2003). The interest rate swaps are accounted for as cash flow hedges pursuant to SFAS No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities, and there was no material ineffectiveness recognized in earnings in 2003. As of November 30, 2003, the fair value of these swaps was a liability of $1 million included in other noncurrent liabilities with an offsetting amount recorded as an unrealized loss in other comprehensive income.

In December 2000, the Company entered into several foreign currency forward contracts in order to hedge against market fluctuations during negotiations to acquire The Laird Group Public Limited Company's Draftex International Car Body Seals Division (Draftex) business (see Note 9). Settlement of these contracts resulted in a gain of $11 million in 2001.

m. RELATED-PARTY TRANSACTIONS

AFC incurred expenses for services performed by NextPharma Technologies USA Inc. (NextPharma) on behalf of AFC. These expenses in 2002 were not material and in 2001, these expenses totaled $5 million. These services included sales and marketing efforts, customer interface and other related activities. From June 2000 through December 2001, NextPharma held a minority ownership interest in AFC and GenCorp held a minority ownership interest in NextPharma's parent company (see Note 9). The Company relinquished its interest in NextPharma in December 2001 and reacquired total ownership of AFC.

n. VENDOR REBATES

The Company receives rebates from suppliers based on achieving contractual purchase commitments or other performance measures. Estimated rebates from vendors are included as a reduction in cost of products sold in the period in which the rebate is earned.

2. EARNINGS PER SHARE

A reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share of common stock (EPS) is presented in the following table:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS; SHARES IN THOUSANDS) | | |
| NUMERATOR FOR BASIC EPS | | | |
| Income available to common shareholders | $ 22 | $ 30 | $ 128 |
| NUMERATOR FOR DILUTED EPS | | | |
| Income available to common shareholders | $ 22 | $ 30 | $ 128 |
| Interest on convertible subordinated notes | -- | 3 | -- |
| | $ 22 | $ 33 | $ 128 |
| DENOMINATOR FOR BASIC EPS | | | |
| Weighted average shares of common stock outstanding | 43,347 | 42,830 | 42,228 |
| DENOMINATOR FOR DILUTED EPS | | | |
| Weighted average shares of common stock outstanding | 43,347 | 42,830 | 42,228 |
| Employee stock options | 59 | 303 | 332 |
| Convertible Notes (see Note 8) | -- | 5,429 | -- |
| Other | 2 | -- | 23 |
| | 43,408 | 48,562 | 42,583 |
| EPS -- Basic | $ 0.50 | $ 0.71 | $ 3.03 |
| EPS -- Diluted | $ 0.50 | $ 0.69 | $ 3.00 |

The effect of the conversion of the Company's $150 million convertible subordinated notes, issued in April 2002, into common stock was not included in the computation of diluted earnings per share for the fiscal year ended November 30, 2003 because the effect would be antidilutive. These notes are convertible at an initial conversion rate of 54.29 shares per $1,000 principal amount outstanding. Potentially dilutive securities that are not included in the diluted EPS calculation because they would be antidilutive are employee stock options of 2,693,000 as of November 30, 2003, 825,000 as of November 30, 2002 and 917,000 as of November 30, 2001.

As permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation and Statement of Financial Accounting Standards No. 148 (SFAS 148), Accounting for Stock-Based Compensation -- Transition and Disclosure, the Company applies the existing accounting rules under APB Opinion No. 25, Accounting for Stock Issued to Employees, which provides that no compensation expense is charged for options granted at an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation expense for the Company's stock option plans been determined





based upon the fair value at the grant date for awards under these plans using market-based option valuation models, net income and the effect on net income per share would have been as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |

| | | | |
|---|---|---|---|
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | |
| Net income, as reported | $ 22 | $ 30 | $ 128 |
| Add: Stock based compensation expense reported, net of related tax effects | 1 | 1 | 1 |
| Deduct: Stock based compensation expense determined under fair value based method for all awards, net of related tax effects | (2) | (2) | (2) |
| Net income, pro forma | $ 21 | $ 29 | $ 127 |
| As reported | | | |
| Basic | $0.50 | $0.71 | $3.03 |
| Diluted | $0.50 | $0.69 | $3.00 |
| Pro forma | | | |
| Basic | $0.48 | $0.69 | $3.00 |
| Diluted | $0.48 | $0.68 | $2.97 |

Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the input assumptions can materially affect the fair value estimate, it is the Company's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of the employee stock options.

The fair value of stock options was estimated at the date of grant using a Black-Scholes stock option pricing model with the following weighted-average assumptions: risk free interest rates of 3.3 percent for 2003, 3.1 percent for 2002 and 3.5 percent for 2001; dividend yield of 1.5 percent for 2003 and 1.0 percent for 2002 and 2001; volatility factor of the expected market price of the Company's Common Stock of 0.44 for 2003, 0.47 for 2002 and 0.39 for 2001; and a weighted-average expected life of the options of five years for 2003, 2002 and 2001.

3. INVENTORIES

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| Raw materials and supplies | $ 34 | $ 32 |
| Work-in-process | 21 | 16 |
| Finished goods | 14 | 15 |
| Approximate replacement cost of inventories | 69 | 63 |
| LIFO reserves | (3) | (4) |
| Long-term contracts at average cost | 206 | 164 |
| Progress payments | (61) | (56) |
| Inventories, net | $211 | $167 |





Inventories applicable to government contracts, related to the Company's Aerospace and Defense segment, include general and administrative costs. The total of such costs incurred in 2003 and 2002 was $42 million and $50 million, respectively, and the cumulative amount of general and administrative costs in inventory is estimated to be $32 million and $24 million at November 30, 2003 and 2002, respectively.

In 2001, Aerojet recorded an inventory write-down of $46 million in cost of sales related to its participation as a propulsion supplier to a commercial launch vehicle program and also recorded a $2 million accrual for outstanding obligations connected with this effort. Aerojet's inventory consists of program unique rocket engines and propulsion systems primarily intended for use in a commercial reusable launch vehicle. The inventory write-down reflects the inability of a commercial customer to secure additional funding, no alternative purchasers willing to acquire inventory held by Aerojet and no market value.

Inventories using the LIFO method as related to the GDX Automotive segment represented 6 percent and 11 percent of inventories at replacement cost as of November 30, 2003 and 2002, respectively. (See Note 1(d).)

4. INCOME TAXES

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes. The Company files a consolidated federal income tax return with its wholly-owned subsidiaries.

The domestic and foreign components of income before income taxes are as follows:

| | AS OF NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Domestic | $14 | $15 | $173 |
| Foreign | 3 | 27 | 14 |
| Total | $17 | $42 | $187 |

The components of the Company's income tax (benefit) provision for income taxes are as follows:

| | AS OF NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| CURRENT | | | |
| United States federal | $(4) | $(14) | $ 7 |
| State and local | 3 | (4) | (19) |
| Foreign | 5 | 18 | 5 |
| | 4 | -- | (7) |
| DEFERRED | | | |
| United States federal | (9) | 16 | 47 |
| State and local | (4) | 6 | 19 |
| Foreign | 4 | (10) | -- |
| | (9) | 12 | 66 |
| Income tax (benefit) provision | $(5) | $ 12 | $ 59 |





A reconciliation of the U.S. federal statutory income tax rate to the Company's effective income tax rate is as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Statutory federal income tax rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of federal income tax benefit | 1.6 | 3.6 | 2.7 |
| Tax settlements, including interest | (56.2) | (8.9) | (7.2) |
| Foreign plant closure | (51.0) | -- | -- |
| Benefit of charitable gift | -- | (1.4) | -- |
| International operations taxed at other than the U.S. statutory rate | (14.5) | 1.5 | 0.4 |
| Write-off of French deferred taxes | 51.7 | -- | -- |
| Other, net | 4.0 | (1.5) | 0.7 |
| Effective income tax rate | (29.4)% | 28.3% | 31.6% |

The Company reduced its 2003 income tax expense by $8 million for the tax benefit resulting from the closure of a plant in France and by $9 million for domestic, federal and state income tax settlements for 1994 through 2001. The Company is under routine examinations by domestic and foreign tax authorities. While it is difficult to predict the outcome or timing of a particular tax matter, the Company believes it has adequately provided for any reasonable foreseeable outcome related to these matters, and it does not anticipate any material earnings impact from their ultimate resolutions.

The decrease to the effective tax rate attributable to international operations is a result of lower rates in China, the Czech Republic and Canada coupled with pre-tax income, and higher rates in Germany coupled with pre-tax losses, along with the effect of rate reductions on deferred taxes in the Czech Republic and Canada. The increase to the effective tax rate attributable to the write-off of French deferred taxes is due to the Company's determination that it is more likely than not that the tax benefit of net operating losses in France will not be realized in the foreseeable future.

The Company reduced its 2002 income tax expense by $1 million for the tax benefit of a charitable gift of land to the County of Muskegon in Michigan and by $4 million due to the receipt of federal and state income tax settlements.

The Company reduced its 2001 income tax expense by $13 million due to the receipt of state income tax settlements.





The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are as follows:

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| DEFERRED TAX ASSETS | | |
| Accrued estimated costs | $ 62 | $ 60 |
| Net operating loss and tax credit carry-forwards | 48 | 30 |
| Other postretirement and employee benefits | 74 | 82 |
| Total deferred tax assets | 184 | 172 |
| Valuation allowance | (14) | (8) |

| | | |
|---|---|---|
| Deferred tax assets, net of valuation allowance..... | 170 | 164 |
| DEFERRED TAX LIABILITIES | | |
| Discontinued operations..... | 2 | -- |
| Depreciation..... | 15 | 23 |
| Pensions..... | 129 | 133 |
| Other..... | 7 | -- |
| Total deferred tax liabilities..... | 153 | 156 |
| Total net deferred tax assets..... | 17 | 8 |
| Less: current deferred tax assets/(liabilities)..... | 7 | (1) |
| Noncurrent deferred tax assets..... | $ 10 | $ 9 |

The Company has worldwide tax basis net operating loss carry-forwards totaling $328 million, the majority of which are related to state operations, which expire beginning in 2004. The remaining portion relates to foreign operations, most of which have indefinite carry-forward periods. The valuation allowance relates primarily to state net operating losses and increased by $6 million in 2003, $3 million in 2002 and $2 million in 2001. Included in the deferred tax assets is a foreign tax credit carry-forward of $4 million, which expires beginning in 2005; and a research tax credit carry-forward of $2 million, which expires beginning in 2011. The Company does not provide deferred taxes on unremitted foreign earnings as it is the Company's intention to reinvest these earnings indefinitely, or to repatriate the earnings only when it is tax efficient to do so. Cumulative estimated unremitted earnings of foreign subsidiaries were $110 million as of November 30, 2003. Cash paid during the year for income taxes was $8 million in 2003, $14 million in 2002, and $15 million in 2001.





5. PROPERTY, PLANT AND EQUIPMENT

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| Land..... | $ 45 | $ 38 |
| Buildings and improvements..... | 286 | 279 |
| Machinery and equipment..... | 797 | 703 |
| Construction-in-progress..... | 30 | 23 |
| | 1,158 | 1,043 |
| Less: accumulated depreciation..... | (642) | (580) |
| Property and equipment, net..... | $ 516 | $ 463 |

Depreciation expense for 2003, 2002 and 2001 was $66 million, $56 million and $65 million, respectively.

6. OTHER NONCURRENT ASSETS

| AS OF NOVEMBER 30, | |
|---|---|
| 2003 | 2002 |
| (DOLLARS IN MILLIONS) | |

| | | |
|---|---|---|
| Intangible assets | $ 33 | $ 15 |
| Notes receivable | 20 | 20 |
| Deferred financing costs | 20 | 18 |
| Real estate held for development and leasing | 19 | 20 |
| Other | 48 | 37 |
| Other noncurrent assets | $140 | $110 |

In November 2001, the Company completed the sale of approximately 1,100 acres of property in Sacramento County, California for $28 million. The consideration included cash of approximately $7 million and a promissory note for the remainder of the sales price. The five-year promissory note bears interest that is payable quarterly and includes annual minimum principal payments of $550,000. The $23 million gain resulting from the sale of the land is included in the activity for the Real Estate segment. Subsequent to November 30, 2003, the Company reached an agreement pursuant to which the note receivable will be repaid in full in 2004 (see Note 18(d)).

The Company amortizes deferred financing costs over the term of the related debt. Amortization of financing costs was $5 million, $4 million, and $3 million in 2003, 2002 and 2001, respectively.





7. OTHER CURRENT LIABILITIES

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| Accrued goods and services | $ 86 | $ 87 |
| Advanced payments on contracts | 14 | 6 |
| Accrued compensation and employee benefits | 53 | 41 |
| Postretirement benefits, other than pension | 29 | 29 |
| Other | 63 | 37 |
| Other current liabilities | $245 | $200 |

8. LONG-TERM DEBT AND CREDIT FACILITY

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| Revolving Credit Facility, bearing interest at various rates (average rate of 3.9 percent as of November 30, 2003), expires December 2005 | $ 30 | $ 45 |
| Term Loan A, bearing interest at various rates (3.9 percent as of November 30, 2003), payable in quarterly installments of approximately $5 million plus interest through December 2004 and then four quarterly installments of approximately $7 million plus interest through December 2005, with the 2004 quarterly installments prepaid in January 2004, as discussed in Note 18 | 52 | 71 |
| Term Loan B, bearing interest at various rates (average rate | | |

| | | |
|---|---|---|
| of 5.92 percent as of November 30, 2003), payable in quarterly installments of approximately $300,000 plus interest through December 2005 and then four quarterly installments of approximately $8 million plus interest through December 2006, final payment of approximately $79 million due in March 2007 | 114 | 115 |
| Senior Subordinated Notes, bearing interest at 9.50 percent per annum, interest payments due in February and August, maturing in August 2013 | 150 | -- |
| Convertible Subordinated Notes, bearing interest at 5.75 percent per annum, interest payments due in April and October, maturing in April 2007 | 150 | 150 |
| Foreign Credit Facilities and Other | 42 | 6 |
| Total debt | 538 | 387 |
| Less: Amounts due within one year | (52) | (22) |
| Long-term debt | $486 | $365 |





As of November 30, 2003, the Company's debt maturities are summarized as follows (in millions):

| | |
|---|---|
| 2004 | $ 52 |
| 2005 | 33 |
| 2006 | 62 |
| 2007 | 239 |
| 2008 | -- |
| Thereafter | 152 |
| Total | $538 |

The estimated fair value of the Company's long-term debt was $536 million as of November 30, 2003 compared to a carrying value of $538 million. The fair value of the 5.75% Notes and 9.50% Notes were determined based on quoted market prices as of November 28, 2003. The fair value of the remaining long-term debt was determined to approximate carrying value as the interest rates are generally variable based on market interest rates and reflect current market rates available to the Company.

Cash paid for interest was $24 million, $15 million and $34 million in 2003, 2002 and 2001, respectively.

a. REVOLVING CREDIT FACILITY AND TERM LOANS

In December 2000, the Company entered into a $500 million senior credit facility (Credit Facility) to finance the acquisition of the Draftex business and to refinance a former credit facility. The Credit Facility consisted of a $150 million revolving credit facility (Revolver) maturing in December 2005, a $150 million five-year Term Loan A maturing in December 2005; and a $200 million six-year Term Loan B maturing in December 2006. Once repaid, term loans under the Credit Facility may not be reborrowed. In August 2001, the Company executed an amendment to the Credit Facility which transferred $13 million of the Revolver and $52 million of Term Loan A to Term Loan B and permanently reduced the commitments available under the Revolver from $150 million to $137 million. On October 19, 2001, the Company repaid the entire outstanding balance of Term Loan B of $264 million with proceeds from the sale of Aerojet's EIS business (see Note 9).

On February 28, 2002, the Company amended the Credit Facility to provide an additional $25 million term loan (Term Loan C). On April 5, 2002, the Company repaid the entire outstanding balance of $25 million with a portion of the net proceeds from the offering of the outstanding 5.75% Convertible Subordinated Notes discussed below. The Company does not have the ability to re-borrow these funds.

On October 2, 2002, the Company amended and restated the Credit Facility (Restated Credit Facility) to provide for a new Term Loan B in the amount of $115 million maturing in April 2007. Proceeds of the Term Loan B were used to finance the acquisition of the Redmond, Washington operations discussed in Note 9 and to repay revolving loans outstanding under the Restated Credit Facility. The maturity of Term Loan B may be extended to June 2009 if the 5.75% Convertible Subordinated Notes discussed below are repaid or otherwise redeemed.

As of November 30, 2003, the borrowing limit under the Revolver was $137 million of which the Company had outstanding borrowings of $30 million. The Company also had outstanding letters of credit of $55 million, primarily securing environmental and insurance obligations, and availability of $52 million.

The Company pays a commitment fee between 0.375 percent and 0.50 percent (based on the most recent leverage ratio) on the unused balance of the Revolver. Borrowings under the Restated Credit Facility bear interest at the borrower's option, at various rates of interest, based on an adjusted base rate (defined as the prime lending rate or federal funds rate plus 0.50 percent) or Eurocurrency rate plus, in each case, an incremental margin. For the Revolver and Term Loan A borrowings, the incremental margin is based on the most recent leverage ratio. For base rate loans, the margin ranges between 0.75 percent and 2.00 percent, and for the Eurocurrency loans, the





margin ranges between 1.75 percent and 3.00 percent. For Term Loan B borrowings the margins for base rate loans and Eurocurrency rate loans are 2.75 percent and 3.75 percent, respectively.

The Company's obligations under the Restated Credit Facility are secured by substantially all of the capital stock of its material domestic subsidiaries and 65 percent of the stock of certain of its foreign subsidiaries, to the extent owned by the Company and its subsidiaries, and by substantially all of the material domestic subsidiaries tangible and intangible personal property. The Restated Credit Facility contains certain restrictive covenants that require the Company to meet specific financial ratios and also subjects the Company and its subsidiaries to restrictions on capital expenditures, the ability to incur additional debt, the disposition of assets including real estate, and prohibits certain other types of transactions. The Restated Credit Facility permits dividend payments as long as there is no event of default. The Restated Credit Facility's four financial covenants are: an interest coverage ratio, a leverage ratio, a fixed charge coverage ratio and a consolidated net worth test, all as defined in the Restated Credit Facility. As presented in the table below, the Company was in compliance with all financial covenants as of November 30, 2003:

| | ACTUAL RATIO OR AMOUNT |
|---|---|
| Interest coverage ratio, not less than: 4.40 to 1.00..... | 5.43 to 1.00 |
| Leverage ratio, not greater than: 3.70 to 1.00..... | 3.43 to 1.00 |
| Fixed charges coverage ratio, not less than: 1.05 to 1.00... | 2.08 to 1.00 |
| Consolidated net worth, not less than $319.4 million..... | $427.7 million |

On July 29, 2003, August 25, 2003 and December 31, 2003, the Company entered into amendments with the lenders under the Restated Credit Facility. The amendments, among other things permitted the issuance of the 9.50% Senior Subordinated Notes discussed below and the issuance of the 4% Contingent Convertible Notes discussed in Note 18. The amendments provided, subject to certain limitations, for the use of the net proceeds received from the sale of these notes, and excluded these net proceeds from the mandatory prepayment provisions of the Restated Credit Facility. The amendments also amended certain of the financial and other covenants contained in the Restated Credit Facility.

Based on current forecasted financial results, the Company expects to be in compliance with all of its financial covenants for 2004, although no assurance can be given in this regard.

b. 9.50% SENIOR SUBORDINATED NOTES

In August 2003, the Company issued $150 million aggregate principal amount of 9.50% Senior Subordinated Notes (9.50% Notes) due 2013 in a private placement pursuant to Rule 144A under the Securities Act of 1933. The 9.50% Notes will mature on August 15, 2013. All or any portion of the 9.50% Notes may be redeemed by the Company at any time on or after August 15, 2008 at redemption prices beginning at 104.75 percent and reducing to 100.00 percent by 2011. In addition, at any time prior to August 15, 2006, the Company may redeem up to 35 percent of the 9.50% Notes with the net offering proceeds of one or more qualified equity offerings. If the Company undergoes a change of control or sells all or substantially all of its assets, it may be required to offer to purchase the 9.50% Notes from the holders of such notes.

The 9.50% Notes are unsecured and subordinated to all of the Company's existing and future senior indebtedness, including borrowings under its Restated Credit Facility. However, the 9.50% Notes rank senior to the 5.75% Convertible Subordinated Notes discussed below and rank senior to the 4% Contingent Convertible Subordinated Note discussed in Note 18. The 9.50% Notes are guaranteed by the Company's material domestic subsidiaries. Each subsidiary guarantee is unsecured and subordinated to the respective subsidiary's existing and future senior indebtedness, including guarantees of borrowings under the Restated Credit Facility. The 9.50% Notes and related guarantees are effectively subordinated to the Company's and the subsidiary guarantors' secured debt and to any and all debt and liabilities including trade debt of the Company's non-guarantor subsidiaries.





The indenture governing the 9.50% Notes limits the Company's ability and the ability of the Company's restricted subsidiaries, as defined in the indenture, to incur or guarantee additional indebtedness, make restricted payments, pay dividends or distributions on, or redeem or repurchase, its capital stock, make investments, issue or sell capital stock of restricted subsidiaries, create liens on assets to secure indebtedness, enter into transactions with affiliates and consolidate, merge or transfer all or substantially all of the assets of the Company. The indenture also contains customary events of default, including failure to pay principal or interest when due, cross-acceleration to other specified indebtedness, failure of any of the guarantees to be in full force and effect, failure to comply with covenants and certain events of bankruptcy, insolvency and reorganization, subject in some cases to notice and applicable grace periods.

Issuance of the 9.50% Notes generated net proceeds of approximately $145 million. The Company used $50 million of the net proceeds to repay revolving loans under its Restated Credit Facility, and the balance of the net proceeds to finance a portion of the purchase price of the acquisition of substantially all of the assets of the propulsion business of ARC and to pay related fees and expenses.

c. 5.75% CONVERTIBLE SUBORDINATED NOTES

In April 2002, the Company issued $150 million aggregate principal amount of 5.75% Convertible Subordinated Notes (5.75% Notes). The 5.75% Notes are initially convertible into 54.29 shares of the Company's Common Stock per $1,000 principal amount of the 5.75% Notes, implying a conversion price of $18.42 per share, at any time until the close of business on the business day immediately preceding the maturity date unless previously redeemed or repurchased. The 5.75% Notes are redeemable in whole or in part at the option of the holder upon a change of control at 100 percent of the principal amount of the 5.75% Notes to be repurchased, plus accrued and unpaid interest, if any, to the date of repurchase, and at the option of the Company at any time on or after April 22, 2005 if the closing price of the Company's Common Stock exceeds 125 percent of the conversion price then in effect for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the day of the mailing of the optional redemption notice at specified redemption prices, plus accrued and unpaid interest, if any.

The 5.75% Notes are general unsecured obligations and rank equal in right of payment to all of the Company's other existing and future subordinated indebtedness, and rank equal in right of payment to the 4% Contingent Convertible Subordinated Notes discussed in Note 18, and junior in right of payment to all of the Company's existing and future senior indebtedness, including all of its obligations under the Restated Credit Facilities, and all

of its existing and future senior subordinated indebtedness, including the outstanding 9.50% Notes. In addition, the 5.75% Notes are effectively subordinated to any of the Company's secured debt and to any and all debt and liabilities, including trade debt, of its subsidiaries.

The indenture governing the 5.75% Notes limits the Company's ability to, among other things, consolidate with or merge into any other person or convey, transfer or lease its properties and assets substantially as an entirety to any other person unless certain conditions are satisfied. The indenture also contains customary events of default, including failure to pay principal or interest when due, cross-acceleration to other specified indebtedness, failure to deliver shares of common stock as required, failure to comply with covenants and certain events of bankruptcy, insolvency and reorganization, subject in some cases to notice and applicable grace periods.

Issuance of the 5.75% Notes generated net proceeds of approximately $144 million. The Company used $25 million of the net proceeds to repay in full Term Loan C and $119 million to repay debt outstanding under the Credit Facility.

d. FOREIGN CREDIT FACILITIES AND OTHER

In March 2003, one of the Company's European subsidiaries entered into a $25 million credit facility to provide working capital for its European operations. This facility may be terminated by either party at any time upon notice. This credit facility is secured by certain assets of two of the Company's European subsidiaries. This facility is also guaranteed by the Company on a senior unsecured basis. As of November 30, 2003, $25 million





was outstanding under this credit facility. The Company's foreign subsidiaries have other credit lines with additional borrowing capacity totaling $13 million. As of November 30, 2003, $27 million was outstanding under foreign credit facilities. The Company also has other bank loans and equipment financing totaling $15 million as of November 30, 2003.

e. SHELF REGISTRATION

On June 20, 2002, the Company filed a shelf registration statement with the SEC under which the Company may, on a delayed basis, issue up to an aggregate principal amount of $300 million of debt securities, shares of common stock or preferred stock. Net proceeds, terms and pricing of offerings, if any, of securities issued under the shelf registration statement will be determined at the time of any such offering. There have been no issuances of debt securities or equity under the shelf registration statement.

9. ACQUISITIONS AND DIVESTITURES

ARC Acquisition

On October 17, 2003, the Company's Aerospace and Defense segment completed the acquisition of substantially all of the assets of the propulsion business of Atlantic Research Corporation, a subsidiary of Sequa Corporation, at a purchase price of $144 million, comprised of $133 million in cash and estimated direct acquisition costs and purchase price adjustments of $11 million.

The results of operations for the six week period ended November 30, 2003, are included as part of the Company's Aerospace and Defense segment. The table presented below summarizes the estimated fair value of ARC's assets acquired and liabilities assumed as of the acquisition date:

| | OCTOBER 17, 2003 |
|---|---|
| | (DOLLARS IN MILLIONS) |
| Current Assets | $ 53 |
| Noncurrent Assets | 53 |
| Intangible Assets subject to amortization(1) | |
| Customer related(2) | 12 |
| Process Technology(3) | 7 |
| Goodwill | 60 |

| | |
|---|---|
| Total Assets Acquired | 185 |
| Current Liabilities | 23 |
| Noncurrent Liabilities | 18 |
| Total Liabilities Assumed | 41 |
| Net Assets Acquired | $144 |

---

(1) 25 year weighted average useful life.

(2) 27 year life on customer related intangibles.

(3) 22 year life on process technology.

During the six week period ended November 30, 2003, the Company recorded $1 million in amortization expense related to the existing programs and process technology. The Company recorded $60 million of goodwill in its Aerospace and Defense segment and expects $30 million of goodwill to be deductible for tax purposes. As a condition to the Federal Trade Commission's approval of the acquisition of the propulsion business from ARC, Aerojet will be divesting the former ARC in-space propulsion business operated out of facilities located in New York and the United Kingdom. As such, $6 million of assets and $2 million of liabilities at these locations are recorded as held for sale and are included in prepaid expenses and other current liabilities, respectively, as of November 30, 2003.





Redmond, Washington Operations

In October 2002, Aerojet acquired the assets of the General Dynamics Ordnance and Tactical Systems Space Propulsion and Fire Suppression business (Redmond, Washington operations) for $93 million, including cash of $90 million and transaction costs of $5 million, net of a purchase price adjustment due back to the Company in the amount of $2 million.

EIS Sale

Aerojet finalized the sale of its Electronics and Information Systems business (EIS) to Northrop for $315 million in cash in October 2001, subject to certain working capital adjustments as defined in the purchase agreement. In April 2002, Aerojet reached an agreement with Northrop whereby the purchase price was reduced by $6 million. The gain on the transaction, before the purchase price adjustment, was $206 million. Both of these items were recorded as unusual charges to operations. EIS contributed net sales of $398 million and contributed $30 million to the Aerospace and Defense segment performance for 2001. The results of operations for EIS are included in the Company's Aerospace and Defense segment for all periods presented in the Consolidated Statements of Income through the sale date.

Draftex Acquisition

In December 2000, the Company acquired Draftex at an estimated purchase price of $215 million, including cash of $209 million and direct acquisition costs of $6 million, subject to certain purchase price adjustments provided for in the acquisition agreement. In February 2002, purchase price adjustments were finalized resulting in a $10 million reduction in the purchase price. Draftex is included as part of the Company's GDX Automotive segment. As part of the transaction, 11 manufacturing plants in Spain, France, Germany, Czech Republic, China, and the U.S. were acquired. The acquisition was accounted for under the purchase method of accounting. The allocation of purchase price included a reserve for certain anticipated exit costs, including involuntary employee terminations and associated benefits and facility closure costs of $17 million (see Note 15).

AFC Minority Interest Sale and Reacquisition

In June 2000, the Company sold a 20 percent equity interest in AFC to

NextPharma for $25 million in cash and exchanged an additional 20 percent equity interest in AFC for an approximate 35 percent equity interest in NextPharma's parent company. As part of the agreement, the Company continued to manage, operate, and consolidate AFC as the majority owner. In connection with the transaction, the Company recorded a gain on the sale of the minority interest of $5 million. In addition, the Company initially recorded a minority interest of $26 million, included in other long-term liabilities, and an investment in NextPharma's parent company of $6 million. In December 2001, the Company reacquired the minority interest which had a carrying value of $18 million from NextPharma for $13 million and relinquished its equity interest in the parent company of NextPharma. In addition, certain agreements between the two companies were terminated.

10. EMPLOYEE PENSION AND POSTRETIREMENT BENEFIT PLANS

a. DEFINED BENEFIT AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company has a number of defined benefit pension plans that cover substantially all salaried and hourly employees in North America. Normal retirement age is 65, but certain plan provisions allow for earlier retirement. The Company's funding policy complies with the funding requirements under applicable laws and regulations. The pension plans provide for pension benefits, the amounts of which are calculated under formulas principally based on average earnings and length of service for salaried employees and under negotiated non-wage based formulas for hourly employees. Pension plan assets are invested primarily in listed stocks and bonds.

In addition to providing pension benefits, the Company currently provides certain healthcare and life insurance benefits (postretirement benefits) to most U.S. retired employees with varied coverage by employee





groups. Aerojet employees hired after January 1, 1997 are not eligible for postretirement healthcare and life insurance benefits. All other employees hired after January 1, 1995 are not eligible for postretirement healthcare benefits. The healthcare plans generally provide for cost sharing between the Company and its retirees in the form of retiree contributions, deductibles and coinsurance. Retirees in certain other countries are provided healthcare benefits through plans sponsored by their governments. Postretirement benefit obligations are unfunded and the costs are accrued based on the date the employees become eligible for the benefits.

The following information summarizes the balance sheet impacts of the Company's defined benefit pension plans and other postretirement benefit plans. The plan assets, benefit obligations and the funded status of the plans are determined at the annual measurement date of August 31 for each year presented below.

| | DEFINED BENEFIT PENSION PLANS | | OTHER POSTRETIREMENT BENEFIT PLANS | |
|---|---|---|---|---|
| | YEAR ENDED NOVEMBER 30, | | | |
| | 2003 | 2002 | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | | | |
| CHANGE IN FAIR VALUE OF PLAN ASSETS: | | | | |
| Fair value -- beginning of year | $1,616 | $1,862 | $ -- | $ -- |
| Actual return on plan assets | 161 | (98) | -- | -- |
| Currency translation | 6 | -- | -- | -- |
| Effect of EIS sale(1) | -- | (1) | -- | -- |
| Employer contributions | 8 | (13) | 25 | 29 |
| Benefits paid | (127) | (134) | (25) | (29) |
| Fair Value -- end of year | $1,664 | $1,616 | $ -- | $ -- |
| CHANGE IN BENEFIT OBLIGATION: | | | | |
| Benefit obligation -- beginning of year | $1,549 | $1,619 | $ 196 | $ 207 |
| Service cost | 15 | 12 | 1 | 1 |

| | | | | |
|---|---|---|---|---|
| Interest cost | 112 | 118 | 13 | 14 |
| Amendments | 6 | 1 | -- | -- |
| Acquisition(2) | 9 | -- | -- | -- |
| Actuarial (gain) loss | 91 | (67) | 15 | 3 |
| Benefits paid | (127) | (134) | (25) | (29) |
| Benefit Obligation -- end of year(3) | $1,655 | $1,549 | $ 200 | $ 196 |
| Funded status of the plans | $ 9 | $ 67 | $(200) | $(196) |
| Unrecognized actuarial loss | 316 | 257 | 15 | -- |
| Unrecognized prior service cost | 18 | 14 | (12) | (16) |
| Unrecognized transition amount | (2) | (3) | -- | -- |
| Minimum funding liability | (3) | (4) | -- | -- |
| Employer contributions/benefit payments August 31 through November 30 | 2 | 2 | 6 | 7 |
| Net Asset (Liability) Recognized in the Consolidated Balance Sheets(4) | $ 340 | $ 333 | $(191) | $(205) |

---

(1) As discussed in Note 9, the Company sold its EIS business in 2001.

(2) As discussed in Note 9, the Company acquired the propulsion business of ARC in October 2003.

(3) Pension amounts include $22 million in 2003 and $19 million in 2002 for unfunded plans.

(4) Pension amounts include $22 million in 2003 and $20 million in 2002 for unfunded plans.





As of the August 31 measurement date, the accumulated benefit obligation for the defined benefit pension plans was $1.6 billion and $1.5 billion for 2003 and 2002, respectively.

Components of the amounts recognized in the Company's Consolidated Balance Sheets:

| | DEFINED BENEFIT PENSION PLANS | | OTHER POSTRETIREMENT BENEFIT PLANS | |
|---|---|---|---|---|
| | AS OF NOVEMBER 30, | | | |
| | 2003 | 2002 | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | | | |
| Prepaid benefit cost | $345 | $337 | $ -- | $ -- |
| Other current liabilities | (2) | -- | (29) | (29) |
| Long-term liabilities | (3) | (4) | (162) | (176) |
| Intangible assets | 1 | -- | -- | -- |
| Accumulated other comprehensive loss | 3 | 4 | -- | -- |
| Minimum funding liability | (4) | (4) | -- | -- |
| Net Asset (Liability) Recognized in the Consolidated Balance Sheets | $340 | $333 | $(191) | $(205) |

The Company used the following assumptions, calculated based on a weighted-average, to measure the benefit obligations and to compute the expected long-term return on assets for the Company's employee pension and postretirement benefit plans:

OTHER

| | DEFINED BENEFIT PENSION PLANS | | POSTRETIREMENT BENEFIT PLANS | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Discount rate | 6.50% | 7.25% | 6.25% | 7.00% |
| Expected long-term rate of return on plan assets | 8.75% | 8.75% | * | * |
| Rate of compensation increase | 4.50% | 4.50% | * | * |
| Initial healthcare trend rate | * | * | 11.60% | 12.00% |
| Ultimate healthcare trend rate | * | * | 5.10% | 6.00% |
| Year ultimate rate attained | * | * | 2014 | 2013 |

---

* Not applicable.

Certain actuarial assumptions, such as the assumed healthcare cost trend rates, the assumed discount rate and the long-term rate of return, have a significant effect on the amounts reported for the periodic cost of pension benefits and postretirement benefits, as well as the respective benefit obligation amounts. The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates for the postretirement benefit plans. For 2003 postretirement benefit obligations, the Company assumed an 11.6 percent annual rate of increase in the per capita cost of covered healthcare claims with the rate decreasing over 11 years until reaching 5.1 percent. The assumed discount rate represents the market rate for high-quality fixed income investments based on the expected benefit payments for the pension and postretirement benefit plans. For 2003 pension benefit obligations, the discount rate was reduced to 6.50 percent and for postretirement benefit obligations the discount rate was reduced to 6.25 percent to reflect market interest rate conditions. The long-term rate of return for plan assets is based on current and expected asset allocations, as well as historical and expected returns on various categories of plan assets. The Company assumed an expected return on plan assets of 8.75 percent for 2003 benefit obligations, consistent with 2002.

A one percentage point increase in the assumed trend rate for healthcare costs would have increased the postretirement accumulated benefit obligation by $6 million recorded as of November 30, 2003 and the effect on





the service and interest cost components of expense for 2003 would not have been significant. A one percentage point decrease in the assumed trend rate for healthcare costs would have decreased the postretirement accumulated benefit obligation by $5 million recorded as of November 30, 2003 and the effect on the service and interest cost components of expense for 2003 would not have been significant.

The Company's U.S. pension plans remain overfunded and the Company does not expect to make any net cash contributions in 2004.

Total periodic cost for pension benefits and other postretirement benefits:

| | DEFINED BENEFIT PENSION PLANS | | | OTHER POSTRETIREMENT BENEFIT PLANS | | |
|---|---|---|---|---|---|---|
| | YEAR ENDED NOVEMBER 30, | | | | | |
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | | | | |
| Service cost for benefits earned during the year | $ 15 | $ 12 | $ 15 | $ 1 | $ 1 | $ 1 |
| Interest cost on benefit obligation | 112 | 118 | 136 | 13 | 14 | 15 |
| Assumed return on plan assets(1) | (147) | (162) | (188) | -- | -- | -- |
| Amortization of unrecognized amounts | 14 | (13) | (41) | (4) | (5) | (9) |
| Special events(2) | -- | -- | 62 | -- | -- | 2 |
| Curtailment effects | -- | -- | (5) | -- | -- | (23) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net periodic benefit (income) cost..... | $ (6) | $ (45) | $ (21) | $ 10 | $ 10 | $ (14) |

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(1) Actual returns on plan assets were a gain of $161 million in 2003, a loss of $98 million in 2002 and a loss of $164 million in 2001.

(2) Includes special termination benefits totaling $10 million in 2001 related to the corporate headquarters restructuring program.

The market-related value of plan assets is smoothed over a three-year period to determine the expected return-on-assets component of annual net pension costs. This methodology results in a calculated market-related value of plan assets that is close to current value, while still mitigating the effects of short-term market fluctuations. Unrecognized gains and losses are primarily a result of the disparity between actual and expected investment returns on pension plan assets and changes in the discount rate used to calculate the discounted cash flows for both pension and postretirement benefit costs. These unrecognized gains and losses are amortized over a five year period.

b. DEFINED CONTRIBUTION PENSION PLANS

The Company sponsors a number of defined contribution pension plans. Participation in these plans is available to substantially all U.S. employees. Company contributions to these plans generally are based on a percentage of employee contributions. The cost of these plans was $7 million in 2003, $7 million in 2002 and $9 million in 2001. The Company's contribution to the plans is invested entirely in the GenCorp Stock Fund, and may be funded with cash or shares of GenCorp common stock. Beginning in 2004, most participants will be allowed to diversify their investments in GenCorp stock to other investment alternatives offered in the Plans.

c. POSTEMPLOYMENT BENEFITS

The Company provides certain postemployment benefits to its employees. Such benefits include disability-related and workers' compensation benefits and severance payments for certain employees. The Company accrues for the cost of such benefit expenses once an appropriate triggering event has occurred.





11. COMMITMENTS AND CONTINGENCIES

a. LEASE COMMITMENTS

The Company and its subsidiaries lease certain facilities, machinery and equipment and office buildings under long-term, non-cancelable operating leases. The leases generally provide for renewal options ranging from five to fifteen years and require the Company to pay for utilities, insurance, taxes and maintenance. Rent expense was $13 million in 2003, $10 million in 2002 and $8 million in 2001. The Company also leases certain surplus facilities to third parties. The Company recorded lease revenue of $6 million in 2003, 2002 and 2001 related to these arrangements which have been included in net sales. The future minimum rental commitments under all non-cancelable operating leases and lease revenue in effect as of November 30, 2003 were as follows:

| | FUTURE MINIMUM RENTAL COMMITMENTS | LEASE REVENUE |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| 2004..... | $11 | $ 4 |
| 2005..... | 10 | 5 |
| 2006..... | 8 | 5 |
| 2007..... | 6 | 4 |
| 2008..... | 5 | 1 |
| Thereafter..... | 27 | -- |
| | $67 | $19 |

b. LEGAL PROCEEDINGS

From time to time, GenCorp and its subsidiaries are subject to legal proceedings, including litigation in federal and state courts, which arise out of, and are incidental to, the ordinary course of business. The Company is also subject to governmental investigations by state and federal agencies. While the Company cannot predict the outcome of such proceedings with any degree of certainty, the potential liabilities that may result could have a material adverse effect on its financial position or the results of operations.

Groundwater Cases

Along with other industrial Potentially Responsible Parties (PRPs) and area water purveyors, Aerojet was sued in three cases by approximately 500 individual plaintiffs residing in the vicinity of Aerojet's facilities near Sacramento, California (the Sacramento cases). The Sacramento Court, through the initial pleading stage has reduced the amount of the plaintiffs in the Sacramento cases to approximately 300. Aerojet was sued in 14 cases by approximately 1,100 individual plaintiffs residing in the vicinity of Aerojet's former facility in Azusa, California (the San Gabriel Valley cases). In the San Gabriel Valley cases, the number of plaintiffs has been reduced to approximately 500. The individual plaintiffs in each of the Sacramento cases and the San Gabriel Valley cases generally seek damages for illness (in some cases death) and economic injury allegedly caused by their ingestion of groundwater contaminated or served by defendants, without specifying actual damages. Aerojet and other industrial defendants involved in the cases are required to carry on certain investigations by order of the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and the Resource Conservation and Recovery Act (RCRA).

The San Gabriel Valley cases, coordinated for trial in Los Angeles, California, are proceeding under two master complaints and pretrial discovery is in process. The trial court has ruled that regulated water entity defendants will only be held accountable based on quantitative or numerical standards such as "maximum contaminant levels" (MCL) or "action levels." The trial court also ruled that a single exceedance of a numerical standard does not constitute a violation. Rather, a violation requires a "failure to comply with the regulatory scheme, and not merely by exceedances of the MCL." Thus, an exceedance of an action level, by itself, does not





give rise to a cause of action. Plaintiffs have sought to overturn these rulings, but a final determination has not yet been made. The next step in these cases will be proceedings regarding whether any of the Public Utility Commission regulated water entity defendants served water in violation of the state and federal standards. If it is determined that the regulated water purveyors served water not in violation of drinking water standards, the regulated water purveyor defendants will be dismissed from the litigation, potentially leaving the Company and other industrial defendants that are not regulated water purveyors as the remaining party-defendants to assert their defenses. At present, approximately 162 of the remaining approximately 500 San Gabriel Valley plaintiffs are subject to early trial -- most likely in 2005. Aerojet has notified its insurers, retained outside counsel and is vigorously defending the actions.

The long-standing stay in the Sacramento cases has been lifted and discovery will commence in earnest in 2004. Trial has been set for April 2005. Aerojet has retained outside counsel and is vigorously defending these actions.

McDonnell Douglas Environmental Remediation Cost Recovery Dispute

Aerojet and McDonnell Douglas Corporation (MDC), an operating unit of The Boeing Company, are engaged in a dispute in the U.S. District Court for the Eastern District of California regarding the final allocation of liability for the environmental contamination of the Inactive Rancho Cordova Test Site (IRCTS). In 1961, IRCTS was transferred by Aerojet to a predecessor of MDC and was subsequently reacquired by Aerojet in 1984. An initial federal lawsuit filed by Aerojet against MDC in 1994 was settled in 1999 (1999 Settlement Agreement). Pursuant to the 1999 Settlement Agreement, Aerojet agreed to participate with MDC in the interim funding of certain remediation efforts at IRCTS, subject to a final cost allocation.

In 2001, a disagreement between Aerojet and MDC arose regarding the interpretation of the 1999 Settlement Agreement. In December 2001, MDC filed a second lawsuit in federal court alleging that Aerojet breached the 1999 Settlement Agreement, McDonnell Douglas Corporation v. Aerojet-General Corporation, Case No. CIV-01-2245, U.S. District Court, E.D. CA. Under that lawsuit, MDC sought to have Aerojet bear a 50 percent interim share (rather than the 10 percent interim share accepted by Aerojet) of the costs of investigating and remediating offsite perchlorate groundwater contamination, allegedly associated with activities on IRCTS.

In November 2002, Aerojet and MDC entered into discussions to settle the second lawsuit by renegotiating the temporary allocation of certain costs associated with the environmental contamination at IRCTS. The parties reached an agreement in principle to settle the allocation dispute relating to costs associated with the environmental contamination at IRCTS. However, a formal and complete written agreement resolving the dispute has not yet been completed.

Air Pollution Toxic Tort Cases

Aerojet and several other defendants have been sued by private homeowners residing in the vicinity of Chino and Chino Hills, California. The cases have been consolidated and are pending in the U.S. District Court for the Central District of California -- Baier, et al. v. Aerojet-General Corporation, et al., Case No. EDCV 00 618VAP (RNBx) CA; Kerr, et al. v. Aerojet-General Corporation, Case No. EDCV 01-19VAP (SGLx); and Taylor, et al. v. Aerojet-General Corporation, et al., Case No. EDCV 01-106 VAP (RNBx). Plaintiffs generally allege that defendants released hazardous chemicals into the air at their manufacturing facilities, which allegedly caused illness, death, and economic injury. Various motions have reduced the number of plaintiffs from 80 to 49. Discovery is proceeding in the cases. Trial is likely to be scheduled for 2005. Aerojet has notified its insurers and is vigorously defending the actions.

Water Entity Cases

In October 1999 Aerojet was sued by American States Water Company (ASWC), a local water purveyor, for damages, including unspecified past costs, future damages and replacement water for contaminated drinking water wells near Aerojet's Sacramento site's manufacturing facility. American States Water Company, et al. v.





Aerojet-General Corporation, et al., Case No. 99AS05949, Sacramento County Superior Court. Weeks before the scheduled trial, Aerojet and ASWC initiated mediation to resolve the dispute. As a result, Aerojet and ASWC have entered into a Memorandum of Understanding (MOU) to settle this matter. The settlement agreement has not yet been finalized, but the trial court has ruled that the MOU is binding. The trial date was vacated. Any disputes arising in subsequent negotiations with respect to the settlement agreement are to be resolved by arbitration subject to the continuing jurisdiction of the trial court for enforcement or ancillary purposes.

Aerojet's recent agreement with the Sacramento County Water Agency (the County) in which Aerojet agreed to transfer all of its remediated groundwater to the County is anticipated to satisfy Aerojet's water replacement obligations in eastern Sacramento County. Subject to various provisions of the County agreement, including approval under California Environmental Quality Act, the County will assume Aerojet's responsibility for providing replacement water to ASWC and other impacted water purveyors up to the amount of remediated water Aerojet transfers to the County. Aerojet has also agreed to pay the County approximately $13 million over several years toward the cost of constructing a replacement water supply project. If the amount of Aerojet's transferred water is in excess of the replacement water provided to the impacted water purveyors, the County has committed to make such water available for the development of Aerojet's land in an amount equal to the excess.

In October 2002, Aerojet, along with approximately 65 other individual and corporate defendants, was served with four civil suits filed in the U.S. District Court for the Central District of California that seek recovery of costs allegedly incurred in response to the contamination present at the South El Monte Operable Unit (SEMOU) of the San Gabriel Valley Superfund site. The cases are denominated as follows: The City of Monterey Park v. Aerojet-General

Corporation, et al., (CV-02-5909 ABC (RCx)); San Gabriel Basin Water Quality Authority v. Aerojet-General Corporation, et al., (CV-02-4565 ABC (RCx)); San Gabriel Valley Water Company v. Aerojet-General Corporation, et al., (CV-02-6346 ABC (RCx)) and Southern California Water Company v. Aerojet-General Corporation, et al., (CV-02-6340 ABC (RCx)). The cases have been coordinated for ease of administration by the court. The plaintiffs' claims are based upon allegations of discharges from a former site in the El Monte area, as more fully discussed below under the headings "San Gabriel Valley Basin, California -- South El Monte Operable Unit." Aerojet is vigorously defending the actions as its investigations do not identify a credible connection between the contaminants identified by the water entities in the SEMOU and those detected at Aerojet's former facility located in El Monte, California, near the SEMOU (East Flair Drive site). Aerojet has notified its insurers of these claims. Discovery is ongoing and a trial is likely to be scheduled for early 2005. The EPA has retained the services of a professional mediator to assist the recipients of its Unilateral Administrative Order (UAO) for groundwater investigation and remediation to form a group and negotiate with the EPA and the water entities. The cost estimates to implement projects under the UAO prepared by EPA and the water entities range from $77 million to $127 million.

Wotus, et al. v. GenCorp Inc. and OMNOVA Solutions Inc.

In October 2000, a group of hourly retirees filed a federal lawsuit against GenCorp and OMNOVA Solutions Inc. (OMNOVA) disputing certain retiree medical benefits. Wotus, et al. v. GenCorp Inc., et al., U.S.D.C., N.D. OH (Cleveland, OH), Case No. 5:00-CV-2604. The retirees seek rescission of the then current Hourly Retiree Medical Plan established in the Spring of 1994, and the reinstatement of the prior plan terms. The crux of the dispute relates to union and GenCorp negotiated modifications to retiree benefits that, in exchange for other consideration, now require retirees to make benefit contributions as a result of caps on Company-paid retiree medical costs implemented in late 1993. A retiree's failure to pay contributions results in a termination of benefits.

The plaintiffs consist of four hourly retirees from the Jeannette, Pennsylvania facility of OMNOVA, the company spun-off from GenCorp on October 1, 1999, two hourly retirees from OMNOVA's former Newcomerstown, Ohio facility, and three hourly retirees from GenCorp's former tire plants in Akron, Ohio; Mayfield, Kentucky; and Waco, Texas. The plaintiffs sought class certification seeking to represent all eligible hourly retirees formerly represented by the unions URW or USWA. The unions, however, are not party to the suit and have agreed not to support such litigation pursuant to an agreement negotiated with GenCorp. In December 2003,





the trial court denied plaintiffs' motion for class action certification. The plaintiffs have filed a motion asking the trial court to reconsider its order denying class certification. That motion was denied by the court. GenCorp prevailed in similar litigation filed in 1995 involving salaried employees and arising at its Wabash, Indiana location. Divine, et al. v. GenCorp Inc., U.S.D.C., N.D. IN (South Bend, IN), Case No. 96-CV-0394-AS. Extensive discovery occurred in this case throughout most of 2003. GenCorp has given notice to its insurance carriers and is vigorously defending these claims. A trial in the Ohio federal court is not expected until sometime after the summer in 2005.

OMNOVA has requested defense and indemnification from GenCorp regarding this matter. GenCorp has denied this request and the party-defendants are now engaged in alternative dispute resolution proceedings as required pursuant to the GenCorp-OMNOVA spin-off in 1999.

The arbitration is proceeding before an arbitrator. The parties are currently engaged in discovery proceedings, including depositions. In the trial court, OMNOVA Solutions has filed a motion to be dismissed alleging that it is "not a party" to the agreements giving rise to the dispute. GenCorp intends to file a motion seeking a stay of the trial proceedings until the arbitration of Omnova's indemnification claim is resolved, or in the alternative, to allow GenCorp to file a cross-claim against OMNOVA. The parties currently are conducting discovery and it is anticipated that the arbitration will be decided in the spring of 2004.

GenCorp Inc. v. Olin Corporation

In August 1991, Olin Corporation (Olin) advised GenCorp that under a 1962 manufacturing agreement with Olin (the 1962 Agreement), it believed GenCorp to

be jointly and severally liable for certain Superfund remediation costs, estimated by Olin to be $70 million. The costs are associated with a former Olin manufacturing facility and its waste disposal sites in Ashtabula County, Ohio. In 1993, GenCorp sought a declaratory judgment in federal court (the Ohio Court) that the Company is not responsible for such environmental remediation costs. GenCorp Inc. v. Olin Corporation, Case No. 5:93CV2269, U.S. District Court, N.D. Ohio. Olin counterclaimed seeking a judgment that GenCorp is liable for a share of remediation costs. GenCorp argued that it was not derivatively or directly liable as an arranger for disposal of waste at the Big D site, both as a matter of fact and law. As a defense to Olin's counterclaim, GenCorp asserted that under the terms of the 1962 Agreement, Olin had a contractual obligation to insure against environmental and other risks and that its failure to protect such insurance payments under these policies precluded Olin from recovery against GenCorp for these remediation costs. Further, GenCorp claims that any failure on Olin's part to comply with the terms of such insurance policies would result in GenCorp being entitled to breach of contract remedies resulting in a reduction in any CERCLA liability amounts determined to be owed to Olin that would have otherwise been recovered from Olin's insurance carriers (the Reduction Claims).

In 1999, the Ohio Court rendered an interim decision on CERCLA liability. The Ohio Court found GenCorp 30 percent liable and Olin 70 percent liable for remediation costs at "Big D Campground" landfill (the Big D site). The Ohio Court also found GenCorp 40 percent liable and Olin 60 percent liable for remediation costs, including costs for off-site disposal (other than the Big D site) and costs attributable to contamination at the Olin TDI facility, a plant built and operated by Olin on GenCorp property near the Big D site. However, the trial court did not rule on GenCorp's reduction claims and determined it would hold these claims in abeyance.

In a related case, on August 27, 2002, the U.S. District Court for the Southern District of New York (the NY Court) ruled that Olin failed to protect its right to payments under its insurance policies for the Big D site. The NY Court based its ruling on the fact that Olin had failed to timely notify its insurance carriers of its claims. Given Olin's contractual obligations and the NY Court's finding that Olin failed to give proper notice of a claim under these insurance policies, management could not then, or at this time, estimate the possible amount of liability arising from this case, if any.

Olin appealed the NY Court's ruling to the Second Circuit Court of Appeals. In November 2003, the Second Circuit Court of Appeals vacated the NY Court's decision with respect to Olin's excess insurance carriers. While the appeals court upheld the dismissal as to the primary carriers, it held the trial court failed to make a record





sufficient to dismiss the excess carriers. Thus, the court returned the case to the NY Court for further proceedings holding that the decision could not be upheld on the basis of the facts as outlined in the NY Court's decision. On further review, the NY Court may still decide that Olin's notice to the excess insurance carriers remains untimely or could decide it was timely. If the NY Court decides Olin's notice was untimely, the Ohio Court could rule in GenCorp Inc. v. Olin Corporation that Olin's late notice constituted a breach of its obligation under the 1962 Agreement to protect the insurance; or it could conclude that Olin's conduct does not support GenCorp's Reduction Claims and thus does not reduce GenCorp's liability. If the Ohio Court rules that Olin's late notice is a breach of the 1962 Agreement, then it must determine the damages suffered by GenCorp as a result of the breach. GenCorp has argued that the proper measure of damages is the coverage limits of the policies that Olin forfeited -- an amount in this case that is more than sufficient to cover GenCorp's entire liability.

Nonetheless, on November 21, 2002, the Ohio Court issued a memorandum opinion and judgment entering "final" judgment in favor of Olin in the amount of approximately $19 million plus prejudgment interest in the amount of approximately $10 million. At that time, the Ohio Court did not decide GenCorp's Reduction Claims against Olin. The Ohio Court held that GenCorp's Reduction Claims "are held in abeyance pending the resolution of [Olin's] appeal in the New York insurance litigation."

On January 22, 2003, the Ohio Court issued a judgment order stating the case was "terminated" on the Ohio Court's docket. However, in its memorandum opinion and order of the same date, the Ohio Court stated "[w]hether there was

an insurable event upon which Olin would have been entitled to recovery had it provided its insurers with timely notice... and... whether GenCorp is entitled to credit based upon Olin's omission which foreclosed insurance recovery for Big D, remain unresolved." Management believes that GenCorp's recovery on its Reduction Claims could range from a nominal amount to an amount sufficient to reduce the judgment against GenCorp in its entirety.

The Company has appealed its CERCLA contribution liability to the Sixth Circuit Court of Appeals (the Court of Appeals). GenCorp Inc. v. Olin Corporation, Docket Nos. 03-3019; 03-3211, United States Court of Appeals for the Sixth Circuit. The Company believes that it is not directly or indirectly liable as an arranger for Olin's waste disposal at the Big D site and that it did not either actively control Olin's waste disposal choices or operate the plant on a day-to-day basis. Management believes it will prevail on appeal. The parties have submitted their briefs to the Court of Appeals and have requested oral argument, which is expected to be set, if granted, during the spring or summer of 2004 and judgment appeals court to follow in late 2004 or 2005.

GenCorp's Reduction Claims portion of the case is on hold pending final resolution of the NY Court's determination as to whether Olin's notice to its insurance carriers was or was not timely. Irrespective of the outcome of its appeal, the Company believes it has contractual protection against Olin's claims by virtue of Olin's obligations to procure and protect insurance. The Ohio Court had previously stated that pursuant to the terms of the 1962 Agreement, it was Olin's contractual obligation to obtain insurance coverage and the evidence adduced during the litigation showed that Olin had in place insurance coverage during the period in question in the amount of $40 million to $50 million.

In summary, while the Ohio Court has found the Company liable to Olin for a CERCLA contribution payment, the Company has concluded it is not appropriate to accrue any additional amount related to that finding because: (a) the Company previously accrued the entire amount of its estimated potential liability for contamination at the Olin TDI facility and related offsite contamination, except for disposal at the Big D site; (b) the Company believes it will prevail on appeal on the basis that it is not derivatively or directly liable as an arranger for disposal at the Big D site, both as a matter of fact and law; and (c) irrespective of whether, upon exhausting all avenues of appeal, there is a finding of CERCLA liability, the Company believes that: (i) if Olin prevails in its appeal of the NY Court ruling, the Company will ultimately benefit from available insurance proceeds and may make no payment to Olin; or (ii) if Olin fails in its appeal, that Olin's breach of its contractual obligations to provide insurance will result in a reduction in, or elimination of, some or all of such liability. In any event, the possible amount of additional liability arising from this case or any reduction in GenCorp's liability, if any, cannot be established at this time.





Vinyl Chloride Toxic Tort Cases

Between the early 1950's and 1985, GenCorp produced polyvinyl chloride (PVC) resin at its former Ashtabula, Ohio facility. PVC is the most common form of plastic currently on the market. A building block compound of PVC is vinyl chloride (VC), now listed as a known carcinogen by several governmental agencies. OSHA has strictly regulated workplace exposure to VC since 1974.

Since the mid-1990's, GenCorp has been named in 33 toxic tort cases involving alleged exposure to VC. With the exception of one case brought by the family of a former Ashtabula employee, GenCorp is alleged to be a "supplier/manufacturer" of PVC and/or a civil co-conspirator with other VC and PVC manufacturers. Plaintiffs generally allege that GenCorp suppressed information about the carcinogenic risk of VC to industry workers, and placed VC or PVC into commerce without sufficient warnings. Of these 33 cases, 15 have been settled or dismissed on terms favorable to the Company, including the case where GenCorp was the employer. During 2003, one case was dismissed against GenCorp and other alleged co-conspirators because the plaintiff could not establish any evidence of fraud or conspiracy to commit fraud, and since the case is still pending against the VC suppliers no appeal has been taken. Another case was dismissed in 2003 on statute of limitations grounds and the appeal by the plaintiff in that case was later dismissed.

Of the 18 currently pending cases (one of the cases pending against the Company as of November 30, 2003 was dismissed on December 1, 2003), there are

two cases which allege VC exposure through various aerosol consumer products. In these cases, VC is alleged to have been used as an aerosol propellant during the 1960's, and the suits name numerous consumer product manufacturers, in addition to more than 30 chemical manufacturers. GenCorp used VC internally, but never supplied VC for aerosol or any other use. The other 16 cases involve employees at VC or PVC facilities which had no connection to GenCorp, one of which is a class action seeking a medical monitoring program for former employees at a PVC facility in New Jersey. The complaints in each of these cases assert GenCorp's involvement in the alleged conspiracy stems from GenCorp's membership in trade associations. Given the lack of any significant consistency to claims (i.e., as to product, operational site, or other relevant assertions) filed against the Company, the Company is unable to make a reasonable estimate of the future costs of pending claims or unasserted claims. Accordingly, no estimate of future liability has been accrued for such contingencies. GenCorp is vigorously defending against all claims in these cases.

Asbestos Litigation

Over the years, both GenCorp and Aerojet have from time to time been named as defendants in lawsuits alleging personal injury or death due to exposure to asbestos in building materials or in manufacturing operations. The majority have been filed in Madison County, Illinois and San Francisco, California. Since 1998, more than 80 of these asbestos lawsuits have been resolved, with the majority being dismissed and many being settled for less than $40 thousand each. As of November 30, 2003, there were 42 asbestos cases pending, including the Goede case, which is on appeal.

In November 2002, a jury verdict against Aerojet in the amount of approximately $5 million in the Circuit Court of the City of St. Louis, Missouri, led to a judgment of approximately $2 million after setoff based on plaintiffs' settlements with other defendants, which the Company has accrued. Goede et al. v. A. W. Chesterton Inc. et al., Case No. 012-9428, Circuit Court, City of St. Louis, MO. The $3 million setoff was based on plaintiffs' settlements with other defendants. Post-trial motions filed by Aerojet and the plaintiffs were denied by the trial court. Aerojet has appealed and is asking the appellate court to vacate the judgment and order a new trial based on, among other things, the trial court's actions during trial that denied Aerojet the opportunity to introduce testimony from certain witnesses and to introduce certain evidence at trial. The appellate court heard oral arguments on December 9, 2003. A ruling is expected in early 2004.

Given the lack of any significant consistency to claims (i.e., as to product, operational site, or other relevant assertions), filed against the Company, the Company is unable to make a reasonable estimate of the future costs of pending claims or unasserted claims. Accordingly, no estimate of future liability has been accrued for such contingencies.





Other Legal Matters

The Company and its subsidiaries are subject to other legal actions, governmental investigations and proceedings relating to a wide range of matters in addition to those discussed above. While there can be no certainty regarding the outcome of any litigation, investigation or proceeding, in the opinion of the Company's management, after reviewing the information that is currently available with respect to such matters, any liability that may ultimately be incurred with respect to these matters is not expected to materially affect the consolidated financial condition of the Company. The effect of the resolution of these matters on the Company's financial condition and results of operations, the Company's liquidity and available financial resources cannot be predicted because any such effect depends on both future results of operations, liquidity position and available financial resources, and the amount and timing of the resolution of such matters. In addition, it is possible that amounts could be significant in any particular reporting period.

c. ENVIRONMENTAL MATTERS

Sacramento, California

In 1989, a federal district court in California approved a Partial Consent Decree (Decree) requiring Aerojet to conduct a Remedial Investigation/Feasibility Study (RI/FS) of Aerojet's Sacramento site. The Decree

required Aerojet to prepare a RI/FS report on specific environmental conditions present at the site and alternatives available to remediate such conditions. Aerojet also is required to pay for certain governmental oversight costs associated with Decree compliance. Beginning in the mid 1990's, the State of California expanded its surveillance of perchlorate and nitrosodimethylamine (NDMA). Under the RI/FS, traces of these chemicals were detected using new testing protocols in public water supply wells near Aerojet's Sacramento site.

Aerojet has substantially completed its efforts under the Decree to determine the nature and extent of contamination at the Sacramento site. Aerojet has preliminarily identified the technologies that will likely be used to remediate the site and has estimated costs using generic remedial costs from Superfund remediation databases. Aerojet will continue to conduct feasibility studies to refine technical approaches and costs to remediate the site. The remediation costs are principally for design, construction, enhancement and operation of groundwater and soil treatment facilities, ongoing project management and regulatory oversight, and are expected to be incurred over a period of approximately 15 years. Aerojet is also addressing groundwater contamination both on and off its facilities through the development of operable unit feasibility studies. On August 19, 2002, the U.S. Environmental Protection Agency (EPA) issued an administrative order requiring Aerojet to implement the EPA approved remedial action for the Western Groundwater Operable Unit. A nearly identical order was issued by the California Regional Water Quality Control Board, Central Valley (Central Valley RWQCB). A discussion of Aerojet's efforts to estimate these costs is contained below under the heading "Environmental Reserves and Estimated Recoveries."

On April 15, 2002, the United States District Court approved and entered a Stipulation and Order Modifying the Partial Consent Decree (Stipulation and Order). Among other things, the Stipulation and Order removed approximately 2,600 acres of Aerojet's property from the requirements of the Decree and from the Superfund site designation, enabling the Company to put the 2,600 acres to more productive use. The Stipulation and Order (i) requires GenCorp to provide a guarantee of up to $75 million (in addition to a prior $20 million guarantee) to assure that remediation activities at the Sacramento site are fully funded; (ii) requires Aerojet to provide a short-term and long-term plan to replace lost water supplies; and (iii) divides the Superfund site into "Operable Units" to allow Aerojet and the regulatory agencies to more efficiently address and restore priority areas. For the first three years of the Stipulation and Order, the new guarantee is partially offset by financial assurances provided in conjunction with the Baldwin Park Operable Unit (BPOU) agreement (discussed below). Obligations under the $75 million aggregate guarantee are limited to $10 million in any year. Both the $75 million aggregate guarantee and the $10 million annual limitation are subject to adjustment annually for inflation.

On August 27, 2003, Aerojet entered into an agreement with the Sacramento County Water Agency (the County) whereby it agreed to transfer all of its remediated groundwater to the County. Subject to various





provisions of the County agreement including approval under California Environmental Quality Act, the County will assume responsibility for providing replacement water to ASWC and other impacted water purveyors up to the amount of remediated water Aerojet transfers to the County. Aerojet has also agreed to pay to the County approximately $13 million over several years toward the cost of constructing a replacement water supply project. If the amount of Aerojet's transferred water is in excess of the replacement water provided to the impacted water purveyors, the County has committed to make water available for the development of Aerojet's land in an amount equal to the excess. In December 2003 and January 2004, Aerojet entered into certain agreements with ASWC which, when combined with Aerojet's agreement with the County are anticipated to satisfy Aerojet's obligations under EPA and RWQCB Orders to provide replacement water in eastern Sacramento County.

Aerojet leased a portion of the Sacramento site to Douglas Aircraft for rocket assembly and testing from 1957 to 1961 and sold approximately 3,800 acres, including the formerly leased portion, to Douglas Aircraft in 1961. Aerojet reacquired the property known as IRCTS from MDC, the successor to Douglas Aircraft and now an operating unit of The Boeing Company, in 1984. Both MDC and Aerojet were ordered to investigate and remediate environmental contamination by certain orders issued in 1991 and 1994 by the California Department of Toxic Substance Control (DTSC) and a similar 1997 order of the Central Valley RWQCB. Aerojet filed suit against MDC to recover costs Aerojet

incurred resulting from compliance with the orders. Aerojet-General Corporation v. McDonnell Douglas Corporation, et al., Case No. CVS 94-1862 WBS JFM. In 1999, Aerojet and MDC entered into a settlement agreement to allocate responsibility for a portion of the costs incurred under the orders and to negotiate responsibility for the remaining costs. On December 7, 2001, MDC brought suit against Aerojet in the U.S. District Court for the Eastern District of California alleging breach of the settlement agreement and seeking specific performance and declaratory relief. McDonnell Douglas Corporation v. Aerojet-General Corporation, Civ.S-01-2245. The alleged breach involves interpretation of the 1999 settlement agreement and subsequent cost sharing agreement between MDC and Aerojet pertaining to contribution by each company toward investigation and remediation costs ordered by the DTSC and the Central Valley RWQCB. DTSC and the Central Valley RWQCB issued their orders alleging both companies were responsible for environmental contamination allegedly existing at and migrating onto and from the IRCTS site.

In November 2002, Aerojet and MDC entered into discussions to settle the second lawsuit by renegotiating the temporary allocation of certain costs associated with the environmental contamination at IRCTS. The parties reached an agreement in principle to settle the allocation dispute relating to costs associated with the environmental contamination at IRCTS. However, a formal and complete written agreement resolving the dispute has not yet been executed.

The California Department of Toxic Substances (DTSC), through the Attorney General's Office, recently proposed certain penalties against the Company relating to its findings in connection with audits for 2000, 2002 and 2003 at the Company's Sacramento, California facility. The Company is currently discussing such penalties with the Attorney General's Office and expects to reach a settlement on such matters in the near future.

San Gabriel Valley Basin, California

Baldwin Park Operable Unit

Aerojet, through its former Azusa, California site, was named by the EPA as a PRP in the portion of the San Gabriel Valley Superfund Site known as the Baldwin Park Operable Unit. A Record of Decision (ROD) regarding regional groundwater remediation was issued and Aerojet and 18 other PRPs received Special Notice Letters requiring groundwater remediation. All of the Special Notice Letter PRPs are alleged to have been a source of volatile organic compounds (VOCs). Aerojet's investigation demonstrated that the groundwater contamination by VOCs is principally upgradient of Aerojet's former property and that lower concentrations of VOC contaminants are present in the soils of Aerojet's former property. The EPA contends that of the 19 PRPs identified by the EPA, Aerojet is one of the four largest sources of VOC groundwater contamination at the BPOU. Aerojet contests the EPA's position regarding the source of contamination and the number of responsible PRPs.





In May 1997, as a result of the development of more sensitive measuring methods, perchlorate was detected in wells in the BPOU. NDMA was also detected using newly developed measuring methods. Suspected sources of perchlorate include Aerojet's solid rocket development and manufacturing activities in the 1940's and 1950's, military ordnance produced by another company at a facility adjacent to the Aerojet facilities in the 1940's, the burning of confiscated fireworks by local fire departments, and fertilizer used in agriculture. NDMA is a suspected byproduct of liquid rocket fuel activities by Aerojet in the same time period. NDMA is also a contaminant in cutting oils used by many businesses and is found in many foods. In addition, a chemical known as 1,4 dioxane is present and is being treated at the BPOU. Aerojet may be a minor contributor of this chemical.

On June 30, 2000, the EPA issued a Unilateral Administrative Order (UAO) ordering the PRPs to implement a remedy consistent with the ROD, but still encouraging the PRPs to attempt to negotiate an agreement with the local purveyors. The PRPs agreed to comply.

On November 23, 1999, the California Regional Water Quality Control Board, Los Angeles Region (Los Angeles RWQCB) issued orders to Aerojet and other PRPs to conduct groundwater investigations on their respective sites. As a result, the Los Angeles RWQCB ordered Aerojet to conduct limited soil gas extraction, which Aerojet is implementing, and to evaluate remedies for perchlorate

contamination in soils.

Following extended negotiations, Aerojet, along with seven other PRPs (the Cooperating Respondents) signed a Project Agreement in late March 2002 with Water Quality Authority, Watermaster, Valley County Water District, La Puente Valley Water District, San Gabriel Valley Water Company, Suburban Water Systems and California Domestic Water Company (the Water Entities). The Project Agreement became effective on May 9, 2002, following approval by a California Superior Court and the finalization of policy language on the $100 million Baldwin Park Operable Unit Manuscript Environmental Site Liability Policy from Chubb Custom Insurance Company covering certain Project risks.

The basic structure of the Project Agreement is for the Cooperating Respondents to fund and financially assure (in the form of cash or letters of credit) the cost of certain treatment and water distribution facilities to be owned and operated by the Water Entities. Actual funding would be provided by funds placed in escrow at the start of each three-month period to cover anticipated costs for the succeeding quarter.

The Cooperating Respondents will also fund operation and maintenance of treatment facilities (not including ordinary operating expenses of the Water Entities, certain costs for replacement water that may be incurred by such Water Entities and related administrative costs, (O&M Costs)). The Cooperating Respondents are required to maintain sufficient financial assurance to cover the estimated O&M Costs for two years. Actual payments for O&M Costs would be made at the start of each three-month period to cover anticipated costs for the succeeding six-month period. When fully constructed, six treatment facilities will be treating in excess of 25,000 gallons per minute for the purposes of ROD implementation and providing a potable water supply. The Project Agreement has a term of 15 years. The Project Agreement also settles the past environmental claims of the Water Entities.

Aerojet and the other Cooperating Respondents have entered into an interim allocation agreement that establishes the interim payment obligations of Aerojet and the remaining Cooperating Respondents for the costs of the Project Agreement. Under the interim allocation, Aerojet is responsible for approximately two-thirds of all project costs, pending completion of any allocation proceeding. All project costs are subject to reallocation among the Cooperating Respondents.

A significant amount of public funding is available to offset project costs. To date, Congress has appropriated approximately $47 million (so called Title 16 or Dreier funds), which is potentially available for payment of project costs. All such funding will require Water Quality Authority (WQA) action to allocate funds to the project, which the WQA is currently considering. Approximately $28 million of the funding has been allocated to the project and additional funds may follow in later years.

As part of the EIS sale to Northrop in October 2001, the EPA approved a Prospective Purchaser Agreement with Northrop to absolve it of pre-closing liability for contamination caused by the Azusa facility, which liability will remain with Aerojet. As part of that agreement, Aerojet agreed to put $40 million into an irrevocable escrow





for the BPOU project to fund Aerojet's obligations under the Project Agreement. In addition, GenCorp agreed to provide a $25 million guarantee of Aerojet's obligations under the Project Agreement. During the first three years of the Project Agreement, the GenCorp guarantee is partially offset by other financial assurances provided in conjunction with the Project Agreement.

Also as part of the EIS sale to Northrop, Aerojet paid the EPA $9 million which was an amount to be offset against Aerojet's share of the EPA's total claimed past costs (EPA now claims past costs are approximately $28 million). A very substantial share of the EPA's past costs relate to the period prior to 1997 when the sole contamination being considered involved VOCs. Aerojet believes that it is responsible for less than 10 percent of these costs. Unresolved at this time is the issue of California's past costs which were last estimated at approximately $4 million.

Aerojet intends to continue to defend itself vigorously to assure that it is appropriately treated with other PRPs and that costs of any remediation are properly allocated among all PRPs. Aerojet has notified its insurers and is

pursuing claims under its insurance policies.

South El Monte Operable Unit

On December 21, 2000, Aerojet received an order from the Los Angeles RWQCB requiring a work plan for investigation of Aerojet's former El Monte facility. On January 22, 2001, Aerojet filed an appeal of the order with the Los Angeles RWQCB asserting selective enforcement. The appeal had been held in abeyance pending negotiations with the Los Angeles RWQCB, but due to a two-year limitation on the abeyance period, the appeal was dismissed without prejudice. In March 2001, Aerojet submitted a limited work plan to the Los Angeles RWQCB. On February 21, 2001, Aerojet received a General Notice Letter from the EPA Region IX naming Aerojet as a PRP to the SEMOU of the San Gabriel Valley Superfund site. Aerojet continues to negotiate with the Los Angeles RWQCB for a limited investigation of this former facility. Aerojet has begun the process of obtaining access agreements should the Los Angeles RWQCB approve Aerojet's work plan. Because its appeal was dismissed without prejudice, Aerojet may refile its appeal if negotiations with the Los Angeles RWQCB are unsuccessful.

On April 1, 2002, Aerojet received a special notice letter from the EPA (dated March 28, 2002) that requested Aerojet to enter into negotiations with the EPA regarding the performance of a remedial design and remedial action for the SEMOU. In light of this letter, Aerojet performed a limited site investigation of the East Flair Drive Site. The data collected and summarized in the Field Investigation Report showed that chemicals including TCE and PCE were present in the soil and groundwater at and near the East Flair Drive Site. The Field Investigation Report also showed that the hydraulic gradient at the East Flair Drive Site is oriented toward the northeast. This finding indicates that the site is not a likely source of contamination at the SEMOU, as the groundwater flow at the site is away from the SEMOU and not toward it. Given the data indicating that the East Flair Drive Site is not a source of the contamination at the SEMOU, Aerojet requested that the EPA reconsider its issuance of the SEMOU special notice letter.

On August 29, 2003, the EPA issued a Unilateral Administrative Order (UAO) against Aerojet and approximately 40 other parties requiring them to conduct the remedial design and remedial action in the SEMOU. The impact of the UAO on the recipients is not clear as the remedy is already being implemented by the water entities.

Aerojet has been served with civil suits filed in the U.S. District Court for the Central District of California by four public and private water companies. The suits seek recovery of costs allegedly incurred in response to the contamination present in the SEMOU. Plaintiffs allege that groundwater in the SEMOU is contaminated with chlorinated solvents that were released into the environment by Aerojet and other parties causing plaintiffs to incur unspecified response costs and other damages. Aerojet's investigations to date have not identified a credible connection between the contaminants identified by the water entities in the SEMOU and those detected at Aerojet's former facility located at 9100 & 9200 East Flair Drive, El Monte, California, which lies in or near the SEMOU.





Aerojet was successful in its efforts to eliminate several of the claims initially raised by the water entities. However, other claims remain. Initial discovery requests have been served on the plaintiffs.

The EPA has retained the services of a professional mediator to assist the recipients of the UAO for groundwater investigation and remediation to form a group and negotiate with EPA and the water entities. The cost estimates to implement projects under the UAO prepared by the EPA and the water entities range from $77 - $127 million.

Former Atlantic Research Corporation Sites

In October 2003, Aerojet completed its acquisition of the propulsion business from ARC and thereby assumed existing leases on certain ARC operating facilities. Aerojet also purchased one ARC facility located in Orange County, Virginia. The leased facilities included ARC's main operating facility located in Camden, Arkansas, as well as production facilities in Clear Lake, Utah; Vernon, California; Niagara Falls, New York; and Westcott, United Kingdom. Aerojet also assumed leases of non-production sales and administrative office facilities in Gainesville, Virginia. Aerojet did not assume the lease on ARC's

operating facility in Gainesville, Virginia. Some of such facilities have environmental contamination issues, but none of the sites are a listed federal "Superfund" site or are otherwise subject to any federal or state court orders regarding site remediation for which Aerojet is the respondent. The Camden facility is currently undergoing voluntary remediation.

See also Environmental Reserves and Estimated Recoveries below.

Other Sites

The Company has studied remediation alternatives for its closed Lawrence, Massachusetts facility, which was primarily contaminated with PCBs, and has begun site remediation and off-site disposal of debris. As part of these remediation efforts, the Company is working with local, state and federal officials and regulatory agencies to return the property to a beneficial use. The time frame for the remediation and redevelopment project is currently estimated to range from two to three years.

The Company is also currently involved, together with other companies, in approximately 26 other Superfund and non-Superfund remediation sites. In many instances, the Company's liability and proportionate share of costs have not been determined largely due to uncertainties as to the nature and extent of site conditions and the Company's involvement. While government agencies frequently claim PRPs are jointly and severally liable at such sites, in the Company's experience, interim and final allocations of liability costs are generally made based on relative contributions of waste. Based on the Company's previous experience, its allocated share has frequently been minimal, and in many instances, has been less than one percent. Also, the Company is seeking recovery of its costs from its insurers.

d. ENVIRONMENTAL RESERVES AND ESTIMATED RECOVERIES

Reserves

The Company continually reviews estimated future remediation costs that could be incurred by the Company which take into consideration the investigative work and analysis of the Company's engineers, and the advice of its legal staff regarding the status and anticipated results of various administrative and legal proceedings. In most cases only a range of reasonably possible costs can be estimated. In establishing the Company's reserves, the most probable estimated amount is used when determinable and the minimum is used when no single amount is more probable. The timing of payment for estimated future environmental costs is subject to variability and depends on the timing of regulatory approvals for planned remedies and the construction and completion of the remedies.

During 2003 and 2002, the Company completed a review of estimated future environmental costs which incorporated, but was not limited to the following: (i) status of work completed since the last estimate; (ii) expected cost savings related to the substitution of new remediation technology and to information not





available previously; (iii) obligations for reimbursement of regulatory agency service costs; (iv) updated BPOU cost estimates; (v) costs of complying with the Western Groundwater Administrative Order, including replacement water and remediation upgrades at Aerojet's Sacramento site; (vi) estimated costs related to IRCTS and Aerojet's Sacramento site; (vii) new information related to the extent and location of previously unidentified contamination; and (viii) additional construction costs. The Company's review of estimated future remediation costs resulted in a net increase in the Company's environmental reserves of $12 million in 2003 and $107 million in 2002.

The effect of the final resolution of environmental matters and the Company's obligations for environmental remediation and compliance cannot be accurately predicted due to the uncertainty concerning both the amount and timing of future expenditures and due to regulatory or technological changes. The Company believes, on the basis of presently available information, that the resolution of environmental matters and the Company's obligations for environmental remediation and compliance will not have a material adverse effect on the Company's results of operations, liquidity or financial condition. The Company will continue its efforts to mitigate past and future costs through pursuit of claims for recoveries from insurance coverage and other PRPs and continued investigation of new and more cost effective remediation alternatives and associated technologies.

A summary of the Company's environmental reserve activity is shown below:

| | NOVEMBER 30, 2000 | 2001 EXPENDITURES | NOVEMBER 30, 2001 | 2002 ADDITIONS | 2002 EXPENDITURES | NOVEMBER 30, 2002 | 2003 ADDITIONS |
|---|---|---|---|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | | | | | |
| Aerojet | $320 | $(68) | $252 | $107 | $(41) | $318 | $12 |
| Other Sites | 33 | (6) | 27 | -- | (5) | 22 | -- |
| Environmental Reserves | $353 | $(74) | $279 | $107 | $(46) | $340 | $12 |

| | 2003 EXPENDITURES | NOVEMBER 30, 2003 |
|---|---|---|
| | (DOLLARS IN MILLIONS) | |
| Aerojet | $(32) | $298 |
| Other Sites | (5) | 17 |
| Environmental Reserves | $(37) | $315 |

As of November 30, 2003, the Aerojet reserves include $180 million for the Sacramento site and $108 million for BPOU. The reserves for other sites include $9 million for the Lawrence, Massachusetts site.

Estimated Recoveries

On January 12, 1999, Aerojet and the U.S. government implemented the October 1997 Agreement in Principle (Global Settlement) resolving certain prior environmental and facility disagreements, with retroactive effect to December 1, 1998. The Global Settlement covered all environmental contamination at the Sacramento and Azusa sites. Under the Global Settlement, Aerojet and the U.S. government resolved disagreements about an appropriate cost-sharing ratio. The Global Settlement provides that the cost-sharing ratio will continue into the foreseeable future.

Pursuant to the Global Settlement covering environmental costs associated with Aerojet's Sacramento site and its former Azusa site, the Company can recover up to 88 percent of its environmental remediation costs for these sites through the establishment of prices for Aerojet's products and services sold to the U.S. government. Allowable environmental costs are charged to these contracts as the costs are incurred. Aerojet's mix of contracts can affect the actual reimbursement made by the U.S. government. Because these costs are recovered through forward-pricing arrangements, the ability of Aerojet to continue recovering these costs from the U.S. government depends on Aerojet's sustained business volume under U.S. government contracts and programs and the relative size of Aerojet's commercial business.

In conjunction with the sale of EIS, Aerojet entered into an agreement with Northrop whereby Aerojet will be reimbursed by Northrop for a portion of environmental expenditures eligible for recovery under the Global Settlement. Amounts reimbursed are subject to annual limitations, with excess amounts carrying over to subsequent periods, the total of which will not exceed $190 million over the term of the agreement, which ends in 2028. As of November 30, 2003, $168 million in potential future reimbursements was available over the remaining life of the agreement.





As part of the acquisition of the ARC propulsion business, Aerojet entered into an agreement with ARC pursuant to which Aerojet is responsible for up to $20 million of costs (Pre-Close Environmental Costs) associated with environmental issues that arose prior to Aerojet's acquisition of the ARC propulsion business. Pursuant to a separate agreement with the U.S. government which was entered into prior to closing of the ARC acquisition, these Pre-Close Environmental Costs will be treated as allowable overhead costs combined with Aerojet's environmental costs under the Global Settlement, and will be recovered through the establishment of prices for Aerojet's products and services sold to the U.S. government. These costs will be allocated to all Aerojet operations (including the previously excluded Redmond, Washington operations) beginning in

2005.

As a result of the ARC acquisition, Aerojet has signed a Memorandum of Understanding with the U.S. government agreeing to key assumptions and conditions that will preserve the original methodology to be used in recalculating the percentage split between Aerojet and Northrop. Aerojet presented a proposal to the U.S. government based on the Memorandum of Understanding and expects to complete an agreement in the near term.

In conjunction with the review of its environmental reserves discussed above, the Company revised its estimate of costs that will be recovered under the Global Settlement based on business expected to be conducted under contracts with the U.S. government and its agencies in the future. The adjustments to the environmental remediation reserves and estimated future cost recoveries did not affect operating results in 2002 as the impact of increases to the reserves of $107 million was offset by increased estimated future recoveries. In 2003, due to the Global Settlement and Memorandum of Understanding with the government, both discussed above, which allow for costs to be allocated to all Aerojet operations beginning in 2005 and for a decrease of the costs allocated to Northrop annually, Aerojet increased its environmental reserves by $12 million and estimated recoveries by $13 million, which resulted in a $1 million gain in the Company's statement of operations.

e. ARRANGEMENTS WITH OFF-BALANCE SHEET RISK

As of November 30, 2003, obligations required to be disclosed in accordance with FASB Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others consisted of:

-- $55 million in outstanding commercial letters of credit expiring in 2004 and securing obligations for environmental remediation, insurance coverage and litigation.

-- Up to $120 million aggregate in guarantees by GenCorp of Aerojet's obligations to government agencies for environmental remediation activities, subject to partial offsets for other financial assurances provided in conjunction with these obligations. (See Note 11(c).)

-- $37 million in guarantees by GenCorp of bank loans and lines of credit of its subsidiaries.

-- Guarantees, jointly and severally, by its material domestic subsidiaries, of GenCorp's obligations under its bank credit agreements and its $150 million Senior Subordinated Notes due August 2013 (see Note 8 and Note 16).

f. CONCENTRATION OF CREDIT RISK

The Company invests available cash in money market securities of various banks, commercial paper and asset-backed securities of various financial institutions, other companies with high credit ratings and securities backed by the U.S. government.

As of November 30, 2003 and 2002, the amount of commercial receivables were $108 million and $111 million, respectively. Receivables for the GDX Automotive segment of $87 million as of November 30, 2003 and $84 million as of November 30, 2002, are due primarily from General Motors, the Ford Motor Company and Volkswagen. As of November 30, 2003 and 2002, the amount of U.S. government receivables,





excluding receivables for environmental remediation recovery, was $68 million and $28 million, respectively. The Company's accounts receivables are generally unsecured and are not backed by collateral from its customers.

As of November 30, 2003 and 2002, the U.S. government receivables include unbilled amounts of $21 million and $4 million, respectively, relating to long-term contracts. Such amounts are billed either upon delivery of completed units or settlements of contracts. The unbilled receivables amount as of November 30, 2003 is expected to be collected in years subsequent to 2004.

12. SHAREHOLDERS' EQUITY

a. PREFERENCE STOCK AND PREFERRED SHARE PURCHASE RIGHTS

In January 1997, the Board of Directors extended for ten additional years GenCorp's Shareholder Rights Plan (Plan), as amended. When the Plan was originally adopted in 1987, the Directors declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock, payable to shareholders of record on February 27, 1987. Rights outstanding as of November 30, 2003 and 2002 totaled 44.1 million and 43.3 million, respectively. The Plan provides that under certain circumstances each Right will entitle shareholders to buy one one-hundredth of a share of a new Series A Cumulative Preference Stock at an exercise price of $100. The Rights are exercisable only if a person or group acquires 20 percent or more of GenCorp's common stock or announces a tender or exchange offer that will result in such person or group acquiring 30 percent or more of the common stock. GenCorp is entitled to redeem the Rights at two cents per Right at any time until ten days after a 20 percent position has been acquired (unless the Board elects to extend such time period, which in no event may exceed 30 days). If the Company is involved in certain transactions after the Rights become exercisable, a holder of Rights (other than Rights beneficially owned by a shareholder who has acquired 20 percent or more of GenCorp's common stock, which Rights become void) is entitled to buy a number of the acquiring company's common shares, or GenCorp's common stock, as the case may be, having a market value of twice the exercise price of each Right. A potential dilutive effect may exist upon the exercise of the Rights. The Rights under the extended Plan expire on February 18, 2007. Until a Right is exercised, the holder has no rights as a stockholder of the Company including, without limitation, the right to vote as a stockholder or to receive dividends.

As of November 30, 2003, 1.5 million shares of $1.00 par value Series A Cumulative Preference Stock were reserved for issuance upon exercise of Preferred Share Purchase Rights.

b. COMMON STOCK

As of November 30, 2003, the Company had 150.0 million authorized shares of common stock, par value $0.10 per share (Common Stock), of which 44.3 million shares were issued, 43.8 million shares were outstanding and 16.8 million shares were reserved for future issuance for discretionary payments of the Company's portion of retirement savings plan contributions, exercise of stock options, payment of awards under stock-based compensation plans and conversion of the Company's Notes (See Notes 8(d) and 18).

During the years ended November 30, 2003 and 2002, the Company paid quarterly dividends on its Common Stock of $0.03 per share (or $0.12 on an annual basis).

c. STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation under APB 25 and related interpretations. Under APB 25, stock options granted to employees by the Company generate no expense when the exercise price of the stock options at the date of grant equals the market value of the underlying common stock.

The 1999 Equity and Performance Incentive Plan (1999 Plan), provides stock options to key employees and directors. Stock options issued under the 1999 Plan are, in general, exercisable in one-third increments at one year, two years, and three years from the date of grant.





The 1999 Plan also provides for grants of restricted stock. Grants to certain key employees of the Company were made under the plan with vesting either based upon the attainment of specified performance targets or after three years. Key employees of the Company were granted 239,000, 130,000 and 279,000 restricted shares in 2003, 2002 and 2001, respectively. Restricted shares granted in 2001 generally vest annually over a five-year period if the Company meets EPS growth targets as specified in the Plan. Restricted shares granted in 2002 vest based on stock performance or three years from date of grant. Restricted shares granted in 2003 generally vest annually over a three year period if the Company meets EPS targets set by the Organization & Compensation Committee of the Board. Unvested restricted shares are canceled upon the employee's termination of employment or if earnings or stock performance targets

are not achieved. During 2003, 2002 and 2001, 33,500, 139,950 and 111,750 shares, respectively were canceled due to terminations. In 2003 and 2002, 17,900 and 66,550 shares, respectively were canceled because earnings targets were not achieved. The Organization & Compensation Committee of the Board has discretion over increasing or decreasing the actual number of shares to vest in any period.

The Company's 1997 Stock Option Plan and 1993 Stock Option Plan each provide for an aggregate of 2.5 million shares of the Company's Common Stock to be purchased pursuant to stock options or to be subject to stock appreciation rights which may be granted to selected officers and key employees at prices equal to the fair market value of a share of common stock on the date of grant. Stock options issued under the 1997 and 1993 Stock Option Plans are, in general, exercisable in 25 percent increments at six months, one year, two years and three years from the date of grant. No stock appreciation rights have been granted.

A summary of the Company's stock option activity, and related information for the years ended November 30 are as follows:

| | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|
| | STOCK OPTIONS (000S) | WEIGHTED AVERAGE EXERCISE PRICE | STOCK OPTIONS (000S) | WEIGHTED AVERAGE EXERCISE PRICE | STOCK OPTIONS (000S) | WEIGHTED AVERAGE EXERCISE PRICE |
| Outstanding at beginning of year | 3,307 | $10.72 | 3,512 | $10.38 | 3,545 | $ 9.96 |
| Granted | 477 | $ 8.10 | 426 | $12.06 | 769 | $11.10 |
| Exercised | (48) | $ 8.71 | (226) | $ 8.36 | (522) | $ 7.85 |
| Forfeited/canceled | (225) | $10.46 | (405) | $10.56 | (280) | $11.49 |
| Outstanding at end of year | 3,511 | $10.41 | 3,307 | $10.72 | 3,512 | $10.38 |
| Exercisable at end of year | 2,765 | $10.56 | 2,451 | $10.49 | 2,287 | $10.37 |

The weighted average grant-date fair value of stock options granted in 2003 was $3.37, $4.91 for stock options granted in 2002, and $4.01 for stock options granted in 2001.





The following table summarizes the range of exercise prices and weighted-average exercise prices for options outstanding and exercisable as of November 30, 2003 under the Company's stock option plans:

| | | OUTSTANDING | | | EXERCISABLE | |
|---|---|---|---|---|---|---|
| YEAR IN WHICH STOCK OPTIONS WERE ISSUED | RANGE OF EXERCISE PRICES | STOCK OPTIONS OUTSTANDING (000S) | WEIGHTED AVERAGE EXERCISE PRICE | WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS) | STOCK OPTIONS EXERCISABLE (000S) | WEIGHTED AVERAGE EXERCISE PRICE |
| 1994 | $ 6.66-$ 7.26 | 167 | $ 6.80 | 0.7 | 167 | $ 6.80 |
| 1995 | $ 5.67-$ 5.94 | 152 | $ 5.88 | 1.8 | 152 | $ 5.88 |
| 1996 | $ 6.53-$ 8.91 | 147 | $ 8.34 | 2.9 | 147 | $ 8.34 |
| 1997 | $ 9.24-$15.64 | 492 | $11.10 | 3.4 | 492 | $11.10 |
| 1998 | $ 9.76-$16.06 | 355 | $15.91 | 4.3 | 355 | $15.91 |
| 1999 | $ 9.40-$13.59 | 456 | $ 9.95 | 5.4 | 456 | $ 9.95 |
| 2000 | $ 7.06-$10.13 | 419 | $ 9.30 | 6.2 | 419 | $ 9.30 |
| 2001 | $10.44-$13.10 | 505 | $11.04 | 7.3 | 397 | $10.96 |
| 2002 | $ 9.77-$15.43 | 374 | $12.23 | 8.6 | 155 | $11.93 |
| 2003 | $ 6.53-$ 9.29 | 444 | $ 8.08 | 9.3 | 25 | $ 7.73 |
| | | 3,511 | | | 2,765 | |

d. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF INCOME TAXES

Comprehensive income (loss) encompasses net income and other comprehensive income items, which includes all other non-owner transactions and events that change shareholders' equity. The Company's other comprehensive loss includes the effects of foreign currency translation adjustments, changes in the fair value of certain derivative financial instruments and changes in the minimum funding liability for pension obligations.

The components of other accumulated other comprehensive income (loss), net of the related income tax effects are presented in the following table:

| | FOREIGN CURRENCY TRANSLATION ADJUSTMENTS | MINIMUM PENSION LIABILITY, NET OF TAXES | UNREALIZED LOSS ON CASH FLOW HEDGE DERIVATIVE | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) |
|---|---|---|---|---|
| | | (DOLLARS IN MILLIONS) | | |
| NOVEMBER 30, 2001 | $(33) | $ (1) | $ -- | $(34) |
| Change for period | 22 | (1) | -- | 21 |
| NOVEMBER 30, 2002 | (11) | (2) | -- | (13) |
| Change for period | 46 | -- | (1) | 45 |
| NOVEMBER 30, 2003 | $ 35 | $ (2) | $ (1) | $ 32 |

13. OPERATING SEGMENTS AND RELATED DISCLOSURES

The Company's continuing operations are organized into four business segments based on different products and customer bases: Aerospace and Defense, GDX Automotive, Fine Chemicals and Real Estate. In the past, the results of the Company's real estate activities have been included in the Aerospace and Defense segment. However, the Company recently filed an application with the County of Sacramento for the development of approximately 1,400 acres of its Sacramento area land and the Company believes that this is an appropriate time to begin presenting Real Estate as a separate business segment in its financial reporting. Segment financial information for prior periods has been restated to reflect this change. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 1).





The Company evaluates its operating segments based on several factors, of which the primary financial measure is segment performance. Segment performance represents net sales from continuing operations less applicable costs, expenses and provisions for restructuring and unusual items relating to operations. Segment performance excludes corporate income and expenses, provisions for unusual items not related to the operations, interest expense, income taxes and minority interest. See Note 15 for a description of restructuring and unusual items by operating segment.

Sales in 2003, 2002 and 2001 directly and indirectly to the U.S. government and its agencies (principally the DoD) totaled $264 million, $244 million and $574 million, respectively, and were generated by the Aerospace and Defense segment. Comparable amounts excluding EIS were $176 million in 2001. Sales to three individually significant customers comprised $229 million, $157 million and $170 million of GDX sales in 2003, $224 million, $183 million and $147 million in 2002, and $259 million, $188 million and $150 million in 2001. During 2003, the Company's Aerospace and Defense segment recorded intersegment sales of $5 million to the GDX Automotive segment. Profit on intersegment sales was not material.

Selected financial information for each reportable segment is as follows:

YEAR ENDED NOVEMBER 30,

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | (DOLLARS IN MILLIONS) | | |
| NET SALES: | | | |
| Aerospace and Defense | $ 321 | $ 271 | $ 604 |
| GDX Automotive | 786 | 806 | 808 |
| Fine Chemicals | 58 | 52 | 38 |
| Real Estate | 32 | 6 | 36 |
| Intersegment sales elimination | (5) | -- | -- |
| Total | $1,192 | $1,135 | $1,486 |
| SEGMENT PERFORMANCE: | | | |
| Aerospace and Defense | $ 45 | $ 32 | $ 9 |
| Retirement benefit plan income | 3 | 24 | 48 |
| Unusual items, net | (5) | (12) | 197 |
| AEROSPACE AND DEFENSE TOTAL | 43 | 44 | 254 |
| GDX Automotive | 18 | 33 | (15) |
| Retirement benefit plan income (expense) | (4) | 5 | 11 |
| Asset impairment charges | (6) | -- | -- |
| Restructuring charges | -- | (2) | (29) |
| GDX AUTOMOTIVE TOTAL | 8 | 36 | (33) |
| Fine Chemicals | 8 | 3 | (14) |
| Retirement benefit plan expense | -- | -- | -- |
| Restructuring charges | -- | -- | (1) |
| FINE CHEMICALS TOTAL | 8 | 3 | (15) |
| REAL ESTATE | 23 | 3 | 26 |
| TOTAL | $ 82 | $ 86 | $ 232 |





| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| RECONCILIATION OF SEGMENT PERFORMANCE TO INCOME BEFORE INCOME TAXES: | | | |
| Segment Performance | $ 82 | $ 86 | $ 232 |
| Interest expense | (28) | (16) | (33) |
| Corporate retirement benefit plan income (expense) | (3) | 6 | 13 |
| Corporate and other expenses | (34) | (31) | (17) |
| Corporate restructuring charges | -- | -- | (10) |
| Corporate unusual items, net | -- | (3) | 2 |
| INCOME BEFORE INCOME TAXES | $ 17 | $ 42 | $ 187 |
| Aerospace and Defense | $ 11 | $ 14 | $ 20 |
| GDX Automotive | 36 | 27 | 21 |
| Fine Chemicals | 2 | 4 | 8 |
| Real Estate | -- | -- | -- |
| Corporate | -- | -- | -- |
| CAPITAL EXPENDITURES | $ 49 | $ 45 | $ 49 |
| Aerospace and Defense | $ 22 | $ 17 | $ 26 |
| GDX Automotive | 45 | 38 | 39 |
| Fine Chemicals | 8 | 7 | 6 |
| Real Estate | 1 | -- | -- |
| Corporate | 5 | 4 | 6 |
| DEPRECIATION AND AMORTIZATION | $ 81 | $ 66 | $ 77 |

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| Aerospace and Defense | $ 955 | $ 754 |
| GDX Automotive | 577 | 539 |
| Fine Chemicals | 102 | 107 |
| Real Estate | 49 | 51 |
| Identifiable assets | 1,683 | 1,451 |
| Corporate | 224 | 185 |
| ASSETS | $1,907 | $1,636 |
| Aerospace and Defense | 2,487 | 1,712 |
| GDX Automotive | 7,346 | 8,199 |
| Fine Chemicals | 144 | 146 |
| Real Estate | 7 | 5 |
| Corporate | 54 | 50 |
| EMPLOYEES (UNAUDITED) | 10,038 | 10,112 |

The Company's operations are located primarily in North America and Europe. Inter-area sales are not significant to the total sales of any geographic area. Unusual items included in segment performance pertained only to the U.S.





Geographic segment information is presented in the table below:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| United States | $ 611 | $ 605 | $ 979 |
| Germany | 233 | 225 | 210 |
| Canada | 109 | 103 | 110 |
| Spain | 61 | 56 | 57 |
| France | 57 | 58 | 62 |
| U.S. export sales | 69 | 48 | 34 |
| Other | 52 | 40 | 34 |
| NET SALES | $1,192 | $1,135 | $1,486 |

| | AS OF NOVEMBER 30, | |
|---|---|---|
| | 2003 | 2002 |
| | (DOLLARS IN MILLIONS) | |
| United States | $339 | $306 |
| Germany | 96 | 84 |
| Canada | 23 | 21 |
| Spain | 30 | 26 |
| France | 20 | 22 |

| | | |
|---|---|---|
| Other | 26 | 23 |
| | 534 | 482 |
| Corporate | 1 | 1 |
| LONG-LIVED ASSETS | $535 | $483 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. QUARTERLY FINANCIAL DATA (UNAUDITED)

| | THREE MONTHS ENDED | | | |
|---|---|---|---|---|
| | FEBRUARY 28 | MAY 31 | AUGUST 31 | NOVEMBER 30 |
| | (DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS) | | | |
| 2003 | | | | |
| Net sales | $ 271 | $ 315 | $ 283 | $ 323 |
| Cost of products sold | $ 228 | $ 254 | $ 237 | $ 260 |
| Unusual items | -- | -- | $ 2 | $ 3 |
| Income (loss) before income taxes | $ 5 | $ 15 | $ (7) | $ 4 |
| Net income (loss) | $ 3 | $ 10 | $ (3) | $ 12 |
| Basic earnings (loss) per common share | $0.07 | $0.22 | $(0.07) | $0.27 |
| Diluted earnings (loss) per common share | $0.07 | $0.21 | $(0.07) | $0.25 |
| 2002 | | | | |
| Net sales | $ 249 | $ 303 | $ 266 | $ 317 |
| Cost of products sold | $ 210 | $ 244 | $ 216 | $ 265 |
| Unusual items | $ 2 | $ 7 | -- | $ 6 |
| Income before income taxes | $ 5 | $ 10 | $ 12 | $ 15 |
| Net income | $ 3 | $ 6 | $ 8 | $ 13 |
| Basic earnings per common share | $0.07 | $0.14 | $ 0.19 | $0.30 |
| Diluted earnings per common share | $0.07 | $0.14 | $ 0.19 | $0.28 |

15. RESTRUCTURING AND UNUSUAL ITEMS

Restructuring actions taken by the Company are summarized as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| GDX Automotive | $ -- | $ 2 | $ 29 |
| Fine Chemicals | -- | -- | 1 |
| Corporate Headquarters | -- | -- | 10 |
| Restructuring expense | $ -- | $ 2 | $ 40 |

In November 2003, the Company announced it was closing a GDX manufacturing facility in Chartres, France. The decision resulted primarily from declining sales volumes with French automobile manufacturers. The closure, which is scheduled to be completed during the second quarter of fiscal 2004, is expected to result in a 2004 pre-tax expense of $12 million to $22 million. After considering expected offsets for U.S. income tax benefits, the plan is not expected to result in a significant cash outlay. The Company has not yet recorded expenses associated with the employee transition component of the plan. Once an agreement has been reached with the approximate 260 employees affected by this plan, the Company will recognize the related costs in accordance with SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities. In

the fourth quarter of fiscal 2003, the Company recorded asset impairment charges in other income and expense of $6 million and also reduced net deferred tax assets by $3 million related to this plan. The Company accounted for these charges under SFAS 144 Accounting for the Impairment or Disposal of Long Lived Assets.





In September 2002, the Company announced a restructuring in the GDX Automotive segment. The plan resulted in the closure of a plant in Germany and reduced staffing levels at the Farmington Hills, Michigan headquarters. A pre-tax charge for the $2 million cost of the restructuring was included in segment performance.

In 2001, the Company implemented restructuring plans which included GDX, AFC and Corporate Headquarters. The GDX restructuring program and segment consolidation included the closure of the Marion, Indiana and Ballina, Ireland manufacturing facilities and resulted in the elimination of approximately 760 employee positions. The decision to close these facilities was precipitated by excess capacity and deterioration of performance and losses at these sites. The decision to close the Ballina, Ireland plant was also due to difficulty in retaining plant personnel in light of low unemployment levels in the region. Remaining programs from these facilities were transferred to other facilities. This restructuring program resulted in a pre-tax charge of $29 million. The restructuring program was substantially complete by the end of 2001. There was an additional restructuring program directed at the Draftex business, which resulted in the elimination of more than 500 employee positions, the cost of which was offset by an adjustment to goodwill. The restructuring plan implemented at AFC during 2001 included the elimination of 50 employee positions and resulted in a charge of $1 million. This program increased operational efficiency without reducing production capabilities. Also in 2001, the Company implemented a restructuring of its corporate headquarters. The restructuring included an early retirement program which was offered to certain eligible employees. The program resulted in a $10 million pre-tax charge to operations.

Charges associated with unusual items are summarized as follows:

| | YEAR ENDED NOVEMBER 30, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | (DOLLARS IN MILLIONS) | | |
| AEROSPACE AND DEFENSE: | | | |
| Unrecoverable portion of legal settlement with local water company | $ 5 | $ -- | $ -- |
| Write-off of the Redmond, Washington operations in-process research and development (Note 9) | -- | 6 | -- |
| Aerojet sale of EIS business (Note 9) | -- | 6 | (206) |
| Tax-related (customer reimbursements of tax recoveries) | -- | -- | 9 |
| | 5 | 12 | (197) |
| CORPORATE HEADQUARTERS: | | | |
| Environmental remediation insurance cost recovery | -- | -- | (2) |
| Reacquisition of AFC minority interest (Note 9) | -- | 2 | -- |
| Write-off of bank fees for Term Loan C repayment | -- | 1 | -- |
| | -- | 3 | (2) |
| Net unusual expense (income) | $ 5 | $ 15 | $(199) |

In 2003, Aerojet recorded unusual charges totaling $5 million representing the unrecoverable portion of an estimated legal settlement with a local water company related to contaminated wells. See Water Entity Cases in Note 11(b) for more information.

In 2002, Aerojet charged $6 million to expense for acquired in-process research and development resulting from the acquisition of the Redmond, Washington operations. The charge is included as an unusual item in segment operating results. In 2002, Aerojet reached an agreement with Northrop on

purchase price adjustments related to the sale of its EIS business whereby Aerojet reduced the purchase price by $6 million. The purchase price reduction is recorded as an expense in segment operating profit. Also in 2002, the Company reacquired the minority ownership interest in its AFC subsidiary and certain agreements between AFC and NextPharma were terminated, resulting in an expense of $2 million.





In 2001, the Company recorded a gain of $206 million related to the sale of EIS to Northrop. The transaction is discussed above under the discussion of results of operations for the Aerospace and Defense segment. Also in 2001, the Company settled outstanding claims with the Internal Revenue Service and the State of California. The benefit of the tax refunds, $13 million on an after-tax basis, was recorded in the income tax provision. The portion of the tax refunds that will be repaid over time to the Company's defense customers is reflected as an unusual expense item of $9 million in segment income ($5 million after tax). Accordingly, after repayment to the Company's defense customers, the Company will retain $8 million of the claims settled.

## 16. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

The Company is providing condensed consolidating financial information for its material domestic subsidiaries that have guaranteed the Senior Subordinated Notes and for those subsidiaries that have not guaranteed the Senior Subordinated Notes. These 100 percent owned subsidiary guarantors have, jointly and severally, fully and unconditionally guarantee the Senior Subordinated Notes. The subsidiary guarantees are senior subordinated obligations of each subsidiary guarantor and rank (i) prior in right of payment with all senior indebtedness, (ii) equal in right of payment with all senior subordinated indebtedness and (iii) senior in right of payment to all subordinated indebtedness, in each case, of that subsidiary guarantor. The subsidiary guarantees will also be effectively subordinated to any secured indebtedness of the subsidiary guarantor with respect to the assets securing that indebtedness. Absent both default and notice as specified in the Company's Credit Facility and agreements governing the Company's outstanding convertible notes and the Senior Subordinated Notes, there are no restrictions on the Company's ability to obtain funds from its subsidiary guarantors by dividend or loan.

The Company has not presented separate financial and narrative information for each of the subsidiary guarantors, because it believes that such financial and narrative information would not provide investors with any additional information that would be material in evaluating the sufficiency of the guarantees. Therefore, the following condensed consolidating financial information summarizes the financial position, and results of operations and cash flows for the Company's guarantor and non-guarantor subsidiaries.





CONDENSED CONSOLIDATING STATEMENTS OF INCOME

| NOVEMBER 30, 2003 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Net sales | $209 | $471 | $512 | $ -- | $1,192 |
| Cost of products sold | 183 | 360 | 436 | -- | 979 |
| Selling, general and administrative | 44 | 15 | 28 | -- | 87 |
| Depreciation and amortization | 18 | 34 | 29 | -- | 81 |
| Other, net | (4) | (3) | 7 | -- | -- |
| Interest expense | 15 | 4 | 9 | -- | 28 |
| Income (loss) before income taxes | (47) | 61 | 3 | -- | 17 |
| Income tax benefit (provision) | 28 | (17) | (6) | -- | 5 |
| Income (loss) before equity earnings | (19) | 44 | (3) | -- | 22 |
| Equity earnings of subsidiaries | 41 | -- | -- | (41) | -- |

| | | | | | |
|---|---|---|---|---|---|
| Net Income | $ 22 | $ 44 | $ (3) | $(41) | $ 22 |

| NOVEMBER 30, 2002 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Net sales | $236 | $416 | $483 | $ -- | $1,135 |
| Cost of products sold | 207 | 321 | 407 | -- | 935 |
| Selling, general and administrative | 24 | 11 | 20 | -- | 55 |
| Depreciation and amortization | 18 | 28 | 20 | -- | 66 |
| Other, net | 15 | 5 | 1 | -- | 21 |
| Interest expense | 4 | 4 | 8 | -- | 16 |
| Income (loss) before income taxes | (32) | 47 | 27 | -- | 42 |
| Income tax benefit (provision) | 13 | (17) | (8) | -- | (12) |
| Income (loss) before equity earnings | (19) | 30 | 19 | -- | 30 |
| Equity earnings of subsidiaries | 49 | -- | -- | (49) | -- |
| Net Income | $ 30 | $ 30 | $ 19 | $(49) | $ 30 |





CONDENSED CONSOLIDATING STATEMENTS OF INCOME (CONTINUED)

| NOVEMBER 30, 2001 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Net sales | $259 | $754 | $473 | $ -- | $1,486 |
| Cost of products sold | 252 | 656 | 420 | -- | 1,328 |
| Selling, general and administrative | 27 | 8 | 7 | -- | 42 |
| Depreciation and amortization | 23 | 35 | 19 | -- | 77 |
| Gain on sale of subsidiary | -- | (206) | -- | -- | (206) |
| Other, net | 12 | 7 | 6 | -- | 25 |
| Interest expense | 19 | 7 | 7 | -- | 33 |
| Income (loss) before income taxes | (74) | 247 | 14 | -- | 187 |
| Income tax benefit (provision) | 37 | (90) | (6) | -- | (59) |
| Income (loss) before equity earnings | (37) | 157 | 8 | -- | 128 |
| Equity earnings of subsidiaries | 165 | -- | -- | (165) | -- |
| Net Income | $128 | $157 | $ 8 | $(165) | $ 128 |





CONDENSED CONSOLIDATING BALANCE SHEETS

| NOVEMBER 30, 2003 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Cash | $ 9 | $ 3 | $ 52 | $ -- | $ 64 |
| Accounts receivable | 10 | 92 | 74 | -- | 176 |
| Inventories | 5 | 173 | 33 | -- | 211 |

| | | | | | |
|---|---|---|---|---|---|
| Prepaid expenses and other..... | 12 | 47 | 6 | -- | 65 |
| Total current assets..... | 36 | 315 | 165 | -- | 516 |
| Property, plant and equipment, net..... | 61 | 260 | 195 | -- | 516 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs... | -- | 183 | -- | -- | 183 |
| Prepaid pension asset..... | 145 | 195 | 5 | -- | 345 |
| Goodwill..... | 22 | 99 | 76 | -- | 197 |
| Intercompany, net..... | (271) | 408 | (137) | -- | -- |
| Other noncurrent assets, net..... | 1,135 | 138 | 52 | (1,175) | 150 |
| Total assets..... | $1,128 | $1,598 | $ 356 | $(1,175) | $1,907 |
| Short-term borrowings and current portion of long-term debt..... | $ 22 | $ -- | $ 30 | $ -- | $ 52 |
| Accounts payable..... | 19 | 39 | 56 | -- | 114 |
| Other current liabilities..... | 50 | 216 | 55 | -- | 321 |
| Total current liabilities..... | 91 | 255 | 141 | -- | 487 |
| Long-term debt, net of current portion..... | 479 | -- | 7 | -- | 486 |
| Reserves for environmental remediation..... | 11 | 251 | -- | -- | 262 |
| Postretirement benefits other than pensions..... | 99 | 53 | 10 | -- | 162 |
| Other noncurrent liabilities..... | 20 | 59 | 3 | -- | 82 |
| Total liabilities..... | 700 | 618 | 161 | -- | 1,479 |
| Total shareholders' equity..... | 428 | 980 | 195 | (1,175) | 428 |
| Total liabilities and shareholders' equity..... | $1,128 | $1,598 | $ 356 | $(1,175) | $1,907 |





CONDENSED CONSOLIDATING BALANCE SHEETS (CONTINUED)

| NOVEMBER 30, 2002 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Cash..... | $ -- | $ 13 | $ 35 | $ -- | $ 48 |
| Accounts receivable..... | 12 | 64 | 63 | -- | 139 |
| Inventories..... | 5 | 131 | 31 | -- | 167 |
| Prepaid expenses and other..... | 2 | 25 | 2 | -- | 29 |
| Total current assets..... | 19 | 233 | 131 | -- | 383 |
| Property, plant and equipment, net..... | 64 | 224 | 175 | -- | 463 |
| Recoverable from the U.S. government and other third parties for environmental remediation costs... | -- | 208 | -- | -- | 208 |
| Prepaid pension asset..... | 139 | 199 | (1) | -- | 337 |
| Goodwill..... | 22 | 41 | 63 | -- | 126 |
| Intercompany, net..... | (367) | 535 | (168) | -- | -- |
| Other noncurrent assets, net..... | 1,047 | 100 | 43 | (1,071) | 119 |
| Total assets..... | $ 924 | $1,540 | $ 243 | $(1,071) | $1,636 |
| Short-term borrowings and current portion of long-term debt..... | $ 20 | $ -- | $ 2 | $ -- | $ 22 |
| Accounts payable..... | 17 | 27 | 45 | -- | 89 |
| Other current liabilities..... | 6 | 208 | 48 | -- | 262 |
| Total current liabilities..... | 43 | 235 | 95 | -- | 373 |
| Long-term debt, net of current portion..... | 361 | -- | 4 | -- | 365 |
| Reserves for environmental remediation..... | 15 | 286 | -- | -- | 301 |
| Postretirement benefits other than pensions..... | 108 | 60 | 8 | -- | 176 |

| | | | | | |
|---|---|---|---|---|---|
| Other noncurrent liabilities..... | 37 | 22 | 2 | -- | 61 |
| Total liabilities..... | 564 | 603 | 109 | -- | 1,276 |
| Total shareholders' equity..... | 360 | 937 | 134 | (1,071) | 360 |
| Total liabilities and shareholders' equity..... | $ 924 | $1,540 | $ 243 | $(1,071) | $1,636 |





CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

| NOVEMBER 30, 2003 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities..... | $ (1) | $ 34 | $ 11 | $ -- | $ 44 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures..... | (10) | (15) | (24) | -- | (49) |
| Acquisitions of businesses, net of cash acquired..... | -- | (138) | -- | -- | (138) |
| Other investing activities..... | -- | -- | 7 | -- | 7 |
| Net cash (used in) investing activities..... | (10) | (153) | (17) | -- | (180) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Net transfers (to) from parent..... | (86) | 109 | (23) | -- | -- |
| Borrowings (repayments) on notes payable and long-term debt, net.... | 117 | -- | 26 | -- | 143 |
| Other financing activities..... | (11) | -- | 12 | -- | 1 |
| Net cash provided by financing activities..... | 20 | 109 | 15 | -- | 144 |
| Effect of exchange rate fluctuations on cash and cash equivalents..... | -- | -- | 8 | -- | 8 |
| Net increase (decrease) in cash and cash equivalents..... | 9 | (10) | 17 | -- | 16 |
| Cash and cash equivalents at beginning of year..... | -- | 13 | 35 | -- | 48 |
| Cash and cash equivalents at end of year..... | $ 9 | $ 3 | $ 52 | $ -- | $ 64 |





CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (CONTINUED)

| NOVEMBER 30, 2002 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Net cash provided by (used in) operating activities..... | $ 7 | $ (52) | $ 28 | $ -- | $ (17) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures..... | (12) | (21) | (12) | -- | (45) |
| Acquisitions of businesses, net of cash acquired..... | -- | (91) | -- | -- | (91) |
| Other investing activities..... | -- | (6) | 1 | -- | (5) |
| Net cash (used in) investing activities..... | (12) | (118) | (11) | -- | (141) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Net transfers (to) from parent..... | (175) | 180 | (5) | -- | -- |
| Borrowings (repayments) on notes | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| payable and long-term debt, net.... | 161 | -- | (1) | -- | 160 |
| Other financing activities..... | 18 | -- | (19) | -- | (1) |
| Net cash provided by (used in) financing activities..... | 4 | 180 | (25) | -- | 159 |
| Effect of exchange rate fluctuations on cash and cash equivalents..... | -- | -- | 3 | -- | 3 |
| Net increase (decrease) in cash and cash equivalents..... | (1) | 10 | (5) | -- | 4 |
| Cash and cash equivalents at beginning of year..... | 1 | 3 | 40 | -- | 44 |
| Cash and cash equivalents at end of year..... | $ -- | $ 13 | $ 35 | $ -- | $ 48 |



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (CONTINUED)

| NOVEMBER 30, 2001 | PARENT | GUARANTOR SUBSIDIARIES | NON-GUARANTOR SUBSIDIARIES | ELIMINATIONS | CONSOLIDATED |
|---|---|---|---|---|---|
| Net cash (used in) operating activities..... | $(40) | $ -- | $ (29) | $ -- | $ (69) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Capital expenditures..... | (11) | (28) | (10) | -- | (49) |
| Proceeds from disposition of EIS business..... | -- | 315 | -- | -- | 315 |
| Acquisitions of businesses, net of cash acquired..... | (54) | -- | (130) | -- | (184) |
| Other investing activities..... | 3 | 9 | -- | -- | 12 |
| Net cash provided by (used in) investing activities..... | (62) | 296 | (140) | -- | 94 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | | | |
| Net transfers (to) from parent..... | 101 | (295) | 194 | -- | -- |
| Borrowings (repayments) on notes payable and long-term debt, net.... | -- | -- | -- | -- | -- |
| Other financing activities..... | 2 | -- | -- | -- | 2 |
| Net cash provided by (used in) financing activities..... | 103 | (295) | 194 | -- | 2 |
| Effect of exchange rate fluctuations on cash and cash equivalents..... | -- | -- | -- | -- | -- |
| Net increase in cash and cash equivalents..... | 1 | 1 | 25 | -- | 27 |
| Cash and cash equivalents at beginning of year..... | -- | 2 | 15 | -- | 17 |
| Cash and cash equivalents at end of year..... | $ 1 | $ 3 | $ 40 | $ -- | $ 44 |

17. NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004 except for companies with special purpose entities which must apply for provisions of FIN 46 to those special purpose entities, no later than the first reporting period after

December 15, 2003. The adoption of FIN 46 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirely, or as hybrid instruments with debt host contracts and embedded derivative features. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS 150





requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and, as such, SFAS 150 represents a significant change in practice in the accounting for a number of mandatorily redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's results of operations, liquidity, or financial condition.

18. SUBSEQUENT EVENTS

a. 4% Contingent Convertible Subordinated Notes

In January 2004, the Company issued $125 million aggregate principal amount of its 4% Contingent Convertible Subordinated Notes (4% Notes) due 2024 in a private placement pursuant to Rule 144A under the Securities Act of 1933. The 4% Notes will mature in January 2024. Interest on the notes accrues at a rate of 4 percent per annum and is payable on January 16 and July 16, beginning July 16, 2004. In addition, contingent interest will be paid during any six-month period commencing with the six-month period beginning January 16, 2008, if the average market price of a 4% Note for the five trading days ending on the third trading day immediately preceding the relevant six-month period equals 120 percent or more of the principal amount of the notes.

Each $1,000 principal amount of the 4% Notes is convertible at each holder's option into 64.8088 shares of the Company's common stock (subject to adjustment as provided in the Indenture dated January 16, 2003, by and between the Company and The Bank of New York, as Trustee (the Indenture)) only if: (i) during any calendar quarter if the closing price of the common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the immediately preceding calendar quarter exceed 120 percent of the conversion price on that 30th trading day; (ii) the Company has called the notes for redemption and redemption has not yet occurred, (iii) during the five trading day period after any five consecutive trading day period in which the average trading price of the notes for each day of such five-day period is less than 95 percent of the product of the common stock price on that day multiplied by the number of shares of common stock issuable upon conversion of $1,000 principal amount of the notes, or (iv) certain corporate events have occurred. The conversion rate of 64.8088 shares for each $1,000 principal amount of the 4% Notes is equivalent to an initial conversion price of $15.43 per share of the Company's common stock. None of these events have occurred subsequent to the issuance of the notes.

The Company may redeem some or all of the 4% Notes for cash on or after January 19, 2010. In addition, the Company may redeem some or all of the notes for cash on or after January 19, 2008 if the closing price of the common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the preceding calendar month is more than 125 percent of the conversion price of $15.43. Each holder may require the Company to repurchase for cash all or a portion of its notes on January 16, 2010, 2014, and 2019, or, subject to certain exceptions, upon a change of control of the Company. In all

cases for either redemption of the notes or repurchase of the notes at the option of the holder, the price is equal to 100 percent of the principal amount of the notes, plus accrued and unpaid interest, including contingent interest and liquidated damages, if any.

The 4% Notes are general unsecured obligations and rank equal in right of payment to all of the Company's other existing and future subordinated indebtedness, including the 5.75% Notes discussed in Note 8, and junior in right of payment to all of the Company's existing and future senior indebtedness, including all of its obligations under the Credit Facilities and all of its existing and future senior subordinated indebtedness, including the outstanding 9.50% Notes -- see Note 8. In addition, the 4% Notes are effectively subordinated to any of the Company's secured debt and to any and all debt and liabilities, including trade debt of its subsidiaries.

The indenture governing the 4% Notes limits the Company's ability to, among other things, consolidate with or merge into any other person or convey, transfer or lease it properties and assets substantially as an entirety to





any other person unless certain conditions are satisfied. The Indenture also contains customary events of default, including failure to pay principal or interest when due, cross-acceleration to other specified indebtedness, failure to deliver shares of common stock as required, failure to comply with covenants and certain events of bankruptcy, insolvency and reorganization, subject in some cases to notice and applicable grace periods.

Issuance of the 4% Notes generated net proceeds of approximately $119 million. The terms of the Company's senior credit facilities were amended on December 31, 2003 to allow the use of the net proceeds first to repay the $40 million of outstanding borrowings under the Revolver, and second, to pre-pay the next 12 months of scheduled principal amortization under the Term Loan A in the amount of $19 million. The remaining net proceeds of $60 million will be used for general corporate purposes, which may include further repayment of existing senior indebtedness or possible future acquisitions. Amounts repaid under the Revolver may be reborrowed at any time and from time to time and the borrowings may be used for any purpose, subject only to the limitations contained in the agreements governing that facility. See Note 8 for additional information.

b. 9.50% SENIOR SUBORDINATED NOTES

On January 9, 2004 the Company commenced an offer to exchange the notes for registered, publicly tradable notes that have substantially identical terms as the notes. The exchange offer expired on February 6, 2004.

c. LEGAL MATTERS

The Company recorded a pre-tax charge, reflected in selling, general and administrative expenses, in the amount of $1 million to reflect the following items:

- The DTSC, through the Attorney General's Office recently proposed certain penalties against the Company relating to its findings in connection with audits for 2000, 2002, and 2003 at the Company's Sacramento, California facility. The Company is currently negotiating the amount of such penalties with the Attorney General's Office and expects to reach a settlement on such matters in the near future.

- The Company recently settled an asbestos case involving a former subsidiary. The charge includes the settlement costs and associated litigation costs.

d. NOTE RECEIVABLE PAYMENT

In February 2004, the Company entered into an agreement with a regional home builder to sell approximately 100 acres of land, subject to certain closing conditions. In conjunction with this agreement, the Company will receive full payment of the outstanding note receivable in the amount of $20 million in 2004.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND

FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report (the Evaluation Date). Based on this evaluation, the Company's principal executive officer and principal financial officer concluded as of the Evaluation Date that the Company's disclosure controls and procedures were effective such that the information relating to the Company, including its consolidated subsidiaries, required to be disclosed in the Company's Securities and Exchange Commission (SEC) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.



PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information with respect to nominees who will stand for election as a director of the Company at the March 31, 2004 Annual Meeting of Shareholders is set forth under the heading "Nomination and Election of Directors" in the Company's 2004 Proxy Statement and is incorporated herein by reference. Information with respect to directors of the Company whose terms extend beyond the March 31, 2004 Annual Meeting of Shareholders is set forth under the heading "Nomination and Election of Directors" in the Company's 2004 Proxy Statement and is incorporated herein by reference.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following information is given as of December 31, 2003, and except as otherwise indicated, each individual has held the same office during the preceding five-year period.

| NAME | TITLE | OTHER BUSINESS EXPERIENCE SINCE 12/1/98 | AGE 12/31/03 |
|---|---|---|---|
| Terry L. Hall | Chairman of the Board (since December 2003), President and Chief Executive Officer (since July 2002) | Senior Vice President and Chief Operating Officer, November 2001 -- July 2002; Senior Vice President and Chief Financial Officer of the Company, July 2001 -- November 2001; Senior Vice President and Chief Financial Officer; Treasurer of the Company, October 1999 -- July 2001; on special assignment as Chief Financial Officer of Aerojet, May 1999 -- October 1999, Senior Vice President and Chief Financial Officer of US Airways Group, Inc., 1998, Chief Financial Officer of Apogee Enterprise Inc., 1995 -- 1997 | 49 |
| Gregory Kellam Scott | Senior Vice President, Law; General Counsel and Secretary (since September 2002) | Vice President and General Counsel, Kaiser Hill Company LLC, 2000 -- 2002; Justice, Colorado Supreme Court, 1993 -- 2000 | 55 |
| Yasmin R. Seyal | Senior Vice President and Chief Financial Officer (since May 2002) | Acting Chief Financial Officer and Senior Vice President, Finance, November 2001 -- May 2002; Treasurer of the Company, July 2000 -- September 2002; Assistant Treasurer and Director of Tax of the Company, March 2000 -- July 2000; Director of Treasury and Taxes of the Company, October 1999 -- April 2000; Director of Taxes as well as other management positions within Aerojet, 1989 -- April 1999 | 46 |
| Michael F. Martin | Vice President of the Company and President of Aerojet (since November 2001) | Acting President of Aerojet, April 2001 -- October 2001; Vice President and Controller of the Company, October 1999 -- November 2001; Vice President and Controller of Aerojet, September 1993 -- October 1999 | 57 |

(table continued on following page)


(table continued from preceding page)

| NAME | TITLE | OTHER BUSINESS EXPERIENCE SINCE 12/1/98 | AGE 12/31/03 |
|---|---|---|---|
| Dr. Joseph Carleone | Vice President of the Company and President of Aerojet Fine Chemicals LLC (since September 2000) | Vice President and General Manager, Remote Sensing Systems and Vice President, Operations at Aerojet, 1999 -- 2000; Vice President, Operations, 1997 -- 2000; Vice President, Tactical Product Sector, 1994 -- 1997 | 57 |
| William A. Purdy, Jr. | Vice President of the Company and President, Real Estate (since March 2002) | Managing Director, Development, Transwestern Investment Company LLC, January 1997 -- March 2002; Chief Financial Officer of American Health Care Providers Inc., April 1996 -- January 1997 | 59 |
| Chris W. Conley | Vice President, Environmental, Health & Safety (since October 1999) | Director Environmental, Health & Safety, March 1996 -- October 1999; Environmental Consultant, 1994 -- 1996. | 45 |
| Linda B. Cutler | Vice President, Corporate Communications (since May 2002) | Vice President, Communications of the Company, March 2002 -- May 2002; Strategic Market Manager, Telecommunications and Video Services of Output Technology Solutions, September 2000 -- March 2002; Vice President, Marketing and Corporate Communications of Output Technology Solutions, January 2000 -- September 2000; Vice President, Investor Relations and Corporate Communications of USCS International, April 1996 -- December 1999. | 50 |
| Kari Van Gundy | Vice President, Treasurer (since October 2002) | Senior Vice President, eCommerce, Zenith Insurance Company, June 2000 -- September 2002; Senior Vice President, Finance & Treasurer, CalFarm Insurance Company, May 1997 -- September 1999 | 46 |
| Mark A. Whitney | Vice President, Law; Deputy General Counsel and Assistant Secretary (since April 2003) | Senior Corporate Counsel, Tyco International (US) Inc., June 1999 -- March 2003; Associate Corporate Counsel, Tyco International (US) Inc., November 1996 -- June 1999 | 40 |

The Company's executive officers generally hold terms of office of one year and/or until their successors are elected.

CODE OF ETHICS AND CORPORATE GOVERNANCE GUIDELINES

The Company has adopted a code of ethics known as the "Code of Business Conduct" that applies to the Company's employees including the principal executive officer, principal financial officer, principal accounting officer and controller. The Company makes available on its Internet web site at www.GenCorp.com (and in print to any shareholder who requests them) the Company's current Code of Business Conduct and the Company's corporate governance guidelines.



SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Information regarding compliance with Section 16(a) of the Exchange Act is set forth under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's 2004 Proxy Statement and is incorporated herein by reference.

MATERIAL CHANGES FOR DIRECTOR NOMINEE PROCEDURES

Since the date of the Company's 2003 Proxy Statement, the Board of Directors of the Company has not made any material changes to the procedures by which shareholders of the Company may recommend nominees to the Company's Board of Directors

AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT

Information regarding the Audit Committee and the Audit Committee's Financial Expert is set forth under the heading "Board of Directors Meetings and

Committees -- Audit Committee" in the Company's 2004 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is set forth under the heading "Compensation of Executive Officers" in the Company's 2004 Proxy Statement and is incorporated herein by reference. Information regarding director compensation is set forth under the heading "Compensation of Directors" on the Company's 2004 Proxy Statement and is incorporated herein by reference. Information regarding employment contracts, termination of employment and change in control agreements is set forth under the heading "Employment Contracts and Termination of Employment and Change in Control Arrangements" in the Company's 2004 Proxy Statement and is incorporated herein by reference. Information regarding compensation committee interlocks is set forth under the heading "Compensation Committee Interlocks and Insider Participation" in the Company's 2004 Proxy Statement and is incorporated herein by reference. The Company's Board Compensation Committee Report on Executive Compensation is set forth under the heading "Board Compensation Committee Report on Executive Compensation" in the Company's 2004 Proxy Statement and is incorporated herein by reference. The performance graph required by this Item is set forth under the heading "Performance Graph" in the Company's 2004 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding the security ownership of certain beneficial owners and management is set forth under the heading "Holdings of Shares of the Company's Capital Stock" in the Company's 2004 Proxy Statement and is incorporated herein by reference.



EQUITY COMPENSATION PLAN INFORMATION

The table below sets forth certain information regarding the following equity compensation plans of the Company, pursuant to which the Company has made equity compensation available to eligible persons, as of November 30, 2003: (i) GenCorp Inc. 1993 Stock Option Plan; (ii) GenCorp Inc. 1997 Stock Option Plan; and (iii) GenCorp Inc. 1999 Equity and Performance Incentive Plan. All three plans have been approved by shareholders.

| PLAN CATEGORY | NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a) | WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b) | NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by shareholders | 3,510,676 | $10.4010 | 197,724(1) |
| Equity compensation plans not approved by shareholders(2) | -- | N/A | -- |
| Total | 3,510,676 | $10.4010 | 197,724 |

---

(1) The number of shares issued as restricted shares, deferred shares or performance shares is limited under the GenCorp Inc. 1999 Equity and Performance Incentive Plan to 900,000 common shares and, during any period of three consecutive fiscal years, the maximum number of common shares covered by awards of restricted shares, deferred shares or performance shares granted to any one participant is limited to 900,000 common shares. The GenCorp Inc. 1999 Equity and Performance Incentive Plan further provides that no participant may receive an award in any one calendar year of performance shares or performance units having an aggregate maximum value as of the date of grant in excess of $2,000,000.

(2) The Company also maintains the GenCorp Inc. and Participating Subsidiaries Deferred Bonus Plan. This plan allows participating employees to defer a

portion of their compensation for future distribution. All or a portion of such deferrals may be allocated to an account based on the Company's common stock and does permit limited distributions in the form of Company common shares. However, distributions in the form of common shares are permitted only at the election of the Organization & Compensation Committee of the Board of Directors and, according to the terms of the plan, officers of the Company are never permitted to receive distributions in the form of Company common shares. The table does not include information about this plan because no options, warrants or rights are available under this plan and no specific number of shares are set aside under this plan as available for future issuance. Based upon the price of Company common shares on November 30, 2003, the maximum number of shares that could be distributed to non-officer employees (if permitted by the Organization & Compensation Committee) would be 31,208.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain transactions and employment agreements with management is set under the heading "Employment Contracts and Termination of Employment and Change of Control Arrangements" in the Company's 2004 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees for professional audit services rendered by Ernst & Young (E&Y) for the audit of the Company's annual financial statements for the years ended November 30, 2003 and November 30, 2002, and fees billed for other services rendered by E&Y during those periods as well as information regarding the Audit Committee's approval relating to such engagements is disclosed under the heading "Appointment of Independent Auditor -- Principal Accountant Fees and Services" in the Company's 2004 Proxy Statement and is incorporated herein by reference.



PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

The following documents are filed as part of this report:

(a)(1) and (2) FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

A listing of financial statements and financial statement schedules is set forth in a separate section of this report on page GC-1 which is incorporated herein by reference.

(a)(3) EXHIBITS

An index of exhibits begins on page -i- of this report which is incorporated herein by reference.

(b) REPORTS ON FORM 8-K

On September 8, 2003, the Company filed a Form 8-K to furnish under Item 9 (Regulation FD disclosure) and Item 12 incorporating its press release dated September 4, 2003, which stated that the Company revised previously issued earnings guidance for the third quarter and fiscal 2003, and announced several personnel actions had or would be taken at the GDX executive level.

On October 6, 2003, the Company filed a Form 8-K to furnish under Item 9 (Regulation FD disclosure) and Item 12 under Item 5 thereof incorporating its press release dated October 6, 2003, which stated that the Company reported financial results for the third quarter ended August 31, 2003.

On October 9, 2003, the Company filed a Form 8-K incorporating its press release dated October 3, 2003, which stated that Michael Bryant had resigned from his positions as president of GDX Automotive and as vice president of GenCorp Inc.

On October 16, 2003, the Company filed a Form 8-K to furnish under Item 9 (Regulation FD disclosure) and Item 12 incorporating its press release dated October 15, 2003, which stated that the Company reported that due to pending settlement negotiations of a legal action involving its subsidiary,

Aerojet-General Corporation, previously reported loss per share for the third quarter would increase and previously reported earnings per share for the year to date would decrease.

On October 23, 2003, the Company filed a Form 8-K under Item 5 thereof incorporating its press release dated October 17, 2003, in which the Company announced that GenCorp's Aerojet-General Corporation subsidiary had completed the acquisition of substantially all of the assets related to the propulsion business of Atlantic Research Corporation, a subsidiary of Sequa Corporation.

On November 20, 2003, the Company filed a Form 8-K under Item 5 thereof incorporating its press release dated November 19, 2003, in which the Company stated that its Board of Directors unanimously elected Terry L. Hall as Chairman of the Board, effective December 1, 2003.

On November 20, 2003, the Company filed a Form 8-K under Item 5 thereof incorporating its press release dated November 20, 2003, in which the Company announced that the Board of Directors approved a project to close Snappon SA, a company located in Chartres France, one of three GDX Automotive manufacturing facilities located in France.

(c) EXHIBITS

The response to this portion of Item 15 is set forth in a separate section of this report immediately following the exhibit index.

(d) FINANCIAL STATEMENT SCHEDULES

All financial statement schedules have been omitted because they are inapplicable, not required by the instructions or because the required information is either incorporated herein by reference or included in the financial statements or notes thereto included in this report.



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 27, 2004 GENCORP INC.

By: /s/ TERRY L. HALL
Terry L. Hall
Chairman of the Board, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | SIGNATURE | TITLE | DATE |
|---|---|---|---|
| By: | /s/ TERRY L. HALL<br>Terry L. Hall | Chairman of the Board, President and Chief Executive Officer/Director (Principal Executive Officer) | February 27, 2004 |
| By: | /s/ YASMIN R. SEYAL<br>Yasmin R. Seyal | Senior Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | February 27, 2004 |
| By: | *<br>J. Robert Anderson | Director | February 27, 2004 |
| By: | * | Director | February 27, 2004 |

| | | | |
|---|---|---|---|
| | J. Gary Cooper | | |
| By: | * | Director | February 27, 2004 |
| | James J. Didion | | |
| By: | * | Director | February 27, 2004 |
| | Irving Gutin | | |
| By: | * | Director | February 27, 2004 |
| | William K. Hall | | |
| By: | * | Director | February 27, 2004 |
| | James M. Osterhoff | | |
| By: | * | Director | February 27, 2004 |
| | Steven G. Rothmeier | | |
| By: | * | Director | February 27, 2004 |
| | Sheila E. Widnall | | |
| By: | * | Director | February 27, 2004 |
| | Robert A. Wolfe | | |
| By: | /s/ MARK A. WHITNEY | Attorney-in-Fact pursuant to Powers of Attorney filed herewith | February 27, 2004 |
| | Mark A. Whitney | | |



ANNUAL REPORT ON FORM 10-K
ITEM 15(a)(1)(2) AND (3), (c) AND (d)
LIST OF FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES
EXHIBIT INDEX
CERTAIN EXHIBITS
FISCAL YEAR ENDED NOVEMBER 30, 2003
GENCORP INC.
SACRAMENTO, CALIFORNIA 95853-7012

GENCORP INC

ITEM 15(a)(1) AND (2)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

All financial statement schedules have been omitted because they are inapplicable, not required by the instructions or because the required information is either incorporated herein by reference or included in the financial statements or notes thereto included in this report.



EXHIBIT INDEX

| TABLE ITEM NO. | EXHIBIT DESCRIPTION |
|---|---|
| 2.1 | Asset Purchase Agreement by and between Aerojet-General Corporation and Northrop Grumman Systems, dated April 19, 2001 was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K dated November 5, 2001 (File No. 1-1520), and is incorporated herein by reference.** |
| 2.2 | Amendment No. 1 to Asset Purchase Agreement by and between Aerojet and Northrop Grumman, dated September 19, 2001 was filed as Exhibit 2.2 to the Company's Current Report on Form 8-K dated November 5, 2001 (File No. 1-1520), and is incorporated herein by reference.** |
| 2.3 | Amendment No. 2 to Asset Purchase Agreement by and between Aerojet and Northrop Grumman, dated October 19, 2001 was filed as Exhibit 2.3 to the Company's Current Report on Form 8-K dated November 5, 2001 (File No. 1-1520), and is incorporated herein by reference.** |
| 2.4 | Amended and Restated Environmental Agreement by and between Aerojet and Northrop Grumman, dated October 19, 2001 was filed as Exhibit 2.4 to the Company's Current Report on Form 8-K dated November 5, 2001 (File No. 1-1520), and is incorporated herein by reference. |
| 2.5 | Guaranty Agreement by GenCorp Inc. for the Benefit of Northrop Grumman was filed as Exhibit 2.5 to the Company's Current Report on Form 8-K dated November 5, 2001 (File No. 1-1520), and is incorporated herein by reference. |
| 2.6 | Purchase Agreement, dated May 2, 2003, between Atlantic Research Corporation and Aerojet-General Corporation was filed as Exhibit 10.1 to GenCorp Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2003 (File No. 1-1520) and is incorporated herein by reference.** |
| 2.7 | First Amendment to Purchase Agreement, dated August 29, 2003, between Aerojet-General Corporation and Atlantic Research Corporation was filed as Exhibit 2.2 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference.** |
| 2.8 | Second Amendment to Purchase Agreement, dated September 30, 2003, between Aerojet-General Corporation and Atlantic Research Corporation was filed as Exhibit 2.2 to GenCorp Inc.'s Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2003 (File No. 1-1520) and is incorporated herein by reference.* |
| 2.9 | Third Amendment to Purchase Agreement, dated October 16, 2003, between Aerojet-General Corporation and Atlantic Research Corporation was filed as Exhibit 2.4 to GenCorp's Amendment No. 1 to Form S-4 Registration Statement dated December 15, 2003 (file no. 333-109518) and is incorporated herein by reference.* |
| 2.10 | Agreement by and between The Laird Group Public Limited Company (the Laird Group) and GenCorp for the sale and purchase of all of the issued shares of various companies comprising the Draftex International Car Body Seals Division (Draftex) was filed as Exhibit 10.1 to the Current Report on Form 8-K dated December 29, 2000 (File No. 1-1520), and is incorporated herein by reference. |
| 2.11 | Deed of Variation, Waiver and Settlement dated March 16, 2002 by and between the Company and The Laird Group |

| | |
|---|---|
| | resolving the remaining adjustments to the purchase price of the Draftex business and certain claims of the Company and The Laird Group was filed as Exhibit 2 to the Company's Quarterly report on Form 10-Q for the fiscal quarter ended February 28, 2002 (File No. 1-1520), and is incorporated herein by reference. |
| 2.12 | Asset Purchase Agreement by and between General Dynamics OTS (Aerospace), Inc. and Aerojet-General Corporation dated August 26, 2002 was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2002 (File No. 1-1520) and is incorporated herein by reference. |
| 3.1 | Amended Articles of Incorporation of GenCorp filed with the Secretary of State of Ohio on August 7, 2003 was filed as Exhibit 3.1 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference. |



| TABLE ITEM NO. | EXHIBIT DESCRIPTION |
|---|---|
| 3.2 | The Amended Code of Regulations of GenCorp, as amended on March 29, 2000, was filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2000 (File No. 1-1520), and is incorporated herein by reference. |
| 4.1 | Amended and Restated Rights Agreement (with exhibits) dated as of December 7, 1987 between GenCorp and Morgan Shareholder Services Trust Company as Rights Agent was filed as Exhibit D to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1987 (File No. 1-1520), and is incorporated herein by reference. |
| 4.2 | Amendment to Rights Agreement among GenCorp, The First Chicago Trust Company of New York, as resigning Rights Agent and The Bank of New York, as successor Rights Agent, dated August 21, 1995, was filed as Exhibit A to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1995 (File No. 1-1520), and is incorporated herein by reference. |
| 4.3 | Amendment to Rights Agreement between GenCorp and The Bank of New York as successor Rights Agent, dated January 20, 1997, was filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated January 20, 1997 (File No. 1-1520), and is incorporated herein by reference. |
| 4.4 | Indenture dated April 5, 2002 between GenCorp and The Bank of New York, as trustee, relating to GenCorp's 5.75% Convertible Subordinated Notes due 2007 was filed as Exhibit 4.4 to GenCorp's Form S-3 Registration Statement No. 333-89796 dated June 4, 2002 and is incorporated herein by reference. |
| 4.5 | Registration Rights Agreement dated April 5, 2002 by and among GenCorp, Deutsche Bank Securities Inc., ABN AMRO Rothschild LLC and Banc One Capital Markets, Inc. was filed as Exhibit 4.5 to GenCorp's Form S-3 Registration Statement No. 333-89796 dated June 4, 2002 and is incorporated herein by reference. |
| 4.6 | Form of 5.75% Convertible Subordinated Notes (included in Exhibit 4.4) was filed as Exhibit 4.6 to GenCorp's Form S-3 Registration Statement No. 333-89796 dated June 4, 2002 and is incorporated herein by reference. |
| 4.7 | Indenture, dated as of August 11, 2003, between GenCorp Inc., the Guarantors named therein and The Bank of New York, as trustee was filed as Exhibit 4.1 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference. |
| 4.8 | Registration Rights Agreement, dated as of August 11, 2003, among GenCorp the Guarantors named therein and the Initial Purchasers named therein was filed as Exhibit 4.2 to |

| | |
|---|---|
| | GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference. |
| 4.9 | Form of Initial 9 1/2% Senior Subordinated Notes (included in Exhibit 4.7) was filed as Exhibit 4.3 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518 and is incorporated herein by reference. |
| 4.10 | Form of Exchange Notes (included in Exhibit 4.7) was filed as Exhibit 4.4 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference. |
| 4.11* | Indenture dated January 16, 2004 between GenCorp and The Bank of New York, as trustee, relating to GenCorp's 4% Contingent Convertible Subordinated Notes due 2004. |
| 4.12* | Registration Rights Agreement dated January 16, 2004 by and among GenCorp, Deutsche Bank Securities Inc., Wachovia Capital Markets, LLC, Scotia Capital (USA) Inc., BNY Capital Markets, Inc., NatCity Investments, Inc. and Wells Fargo Securities, LLC. |
| 4.13* | Form of 4% Contingent Convertible Subordinated Notes (included in Exhibit 4.11). |
| 10.1 | Distribution Agreement dated September 30, 1999 between GenCorp Inc. and OMNOVA Solutions Inc. (OMNOVA) was filed as Exhibit B to the Company's Annual Report on Form 10-K for the fiscal year ended November 19, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.2 | Tax Matters Agreement dated September 30, 1999 between GenCorp and OMNOVA was filed as Exhibit C to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No 1-1520), and is incorporated herein by reference. |



| TABLE ITEM NO. | EXHIBIT DESCRIPTION |
|---|---|
| 10.3 | Alternative Dispute Resolution Agreement dated September 30, 1999 between GenCorp and OMNOVA was filed as Exhibit D to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.4 | Agreement on Employee Matters dated September 30, 1999 between GenCorp Inc. and OMNOVA was filed as Exhibit E to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.5 | Services and Support Agreement between GenCorp Inc. and OMNOVA was filed as Exhibit F to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.6 | Amendment No. 1 to Amended and Restated Credit Agreement and Limited Waiver and Consent, dated July 29, 2003, among GenCorp, Deutsche Bank Trust Company Americas (f/k/a Bankers Trust Company), for itself, as a Lender, and as Administrative Agent for the Lenders, and the other Lenders signatory thereto was filed as Exhibit 10.1 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference. |
| 10.7 | Amendment No. 2 to Amended and Restated Credit Agreement, dated August 25, 2003, among GenCorp, Deutsche Bank Trust Company Americas (f/k/a Bankers Trust Company), for itself, as a Lender, and as Administrative Agent for the Lenders, and the other Lenders signatory thereto was filed as Exhibit 10.2 to GenCorp's Form S-4 Registration Statement dated October 6, 2003 (File no. 333-109518) and is incorporated herein by reference. |
| 10.8* | Amendment No. 3 to Amended and Restated Credit Agreement, dated December 31, 2003, among GenCorp, Deutsche Bank Trust Company Americas (f/k/a Bankers Trust Company), for itself, |

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| | as a Lender, and as Administrative Agent for the Lenders, and the other Lenders signatory thereto. |
| 10.9 | An Employment Agreement dated July 28, 1997 between the Company and Robert A. Wolfe was filed as Exhibit A to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997 (File No. 1-1520), and is incorporated herein by reference. |
| 10.10 | Employment Agreement dated May 6, 1999 between the Company and Terry L. Hall was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 1999 (File No. 1-1520) and is incorporated herein by reference. |
| 10.11 | Severance Agreement dated as of October 1, 1999 between the Company and Robert A. Wolfe was filed as Exhibit G to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.12 | Employment Retention Agreement dated November 30, 2001 between the Company and Robert A. Wolfe providing supplemental retirement benefits and other matters was filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001 (File No. 1-1520) and is incorporated herein by reference. |
| 10.13 | Form of Severance Agreement granted to certain executive officers of the Company to provide for payment of an amount equal to annual base salary and highest average annual incentive compensation awarded during three most recent previous fiscal years or, if greater, target award for the fiscal year in question, multiplied by a factor of two or three, as the case may be, if their employment should terminate for any reason other than death, disability, willful misconduct or retirement within three years after a change in control, as such term is defined in such agreement was filed as Exhibit D to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997 (File No. 1-1520), and is incorporated herein by reference. |
| 10.14 | GenCorp Inc. 1999 Equity and Performance Incentive Plan was filed as Exhibit H to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.15 | GenCorp 1996 Supplemental Retirement Plan for Management Employees effective March 1, 1996 was filed as Exhibit B to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1996 (File No. 1-1520), and is incorporated herein by reference. |



| TABLE ITEM NO. | EXHIBIT DESCRIPTION |
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| 10.16 | Benefits Restoration Plan for Salaried Employees of GenCorp Inc. and Certain Subsidiary Companies as amended and restated effective December 1, 1986, was filed as Exhibit G to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1987 (File No. 1-1520), and is incorporated herein by reference. |
| 10.17 | Information relating to the Deferred Bonus Plan of GenCorp Inc. is contained in Post-Effective Amendment No. 1 to Form S-8 Registration Statement No. 2-83133 dated April 18, 1986 and is incorporated herein by reference. |
| 10.18 | Amendment to the Deferred Bonus Plan of GenCorp Inc. effective as of April 5, 1987, was filed as Exhibit I to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1987 (File No. 1-1520), and is incorporated herein by reference. |
| 10.19 | GenCorp Inc. Deferred Compensation Plan for Nonemployee Directors effective January 1, 1992 was filed as Exhibit A to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1991 (File No. 1-1520), and is |

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| | incorporated herein by reference. |
| 10.20 | GenCorp Inc. 1993 Stock Option Plan effective March 31, 1993 was filed as Exhibit 4.1 to Form S-8 Registration Statement No. 33-61928 dated April 30, 1993 and is incorporated herein by reference. |
| 10.21 | GenCorp Inc. 1997 Stock Option Plan effective March 26, 1997 was filed as Exhibit 4.1 to Form S-8 Registration Statement No. 333-35621 dated September 15, 1997 and is incorporated herein by reference. |
| 10.22 | 1999 GenCorp Key Employee Retention Plan providing for payment of up to two annual cash retention payments to Eligible Employees who satisfactorily continue their employment with GenCorp, attain specified performance objectives (including the spin-off of the GenCorp Performance Chemicals and Decorative and Building Products Divisions), and meet all plan provisions was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.23 | Form of Key Employee Retention Letter Agreement was filed as Exhibit I to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.24 | 1999 GenCorp Key Employee Retention Plan was filed as Exhibit J to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.25 | Form of Relocation Agreement between the Company and certain Employees was filed as Exhibit K to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.26 | Form of Restricted Stock Agreement between the Company and Nonemployee Directors providing for payment of part of Directors' compensation for service on the Board of Directors in Company stock was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 1998 (File No. 1-1520), and is incorporated herein by reference. |
| 10.27 | Form of Restricted Stock Agreement between the Company and Nonemployee Directors providing for payment of part of Directors' compensation for service on the Board of Directors in Company stock was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.28 | Form of Director and Officer Indemnification Agreement was filed as Exhibit L to the Company's Annual Report on Form10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.29 | Form of Director Indemnification Agreement was filed as Exhibit M to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |
| 10.30 | Form of Officer Indemnification Agreement was filed as Exhibit N to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1999 (File No. 1-1520), and is incorporated herein by reference. |



| TABLE ITEM NO. | EXHIBIT DESCRIPTION |
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| 10.31 | GenCorp Inc. Executive Incentive Compensation Program, amended September 8, 1995 to be effective for the 1996 fiscal year was filed as Exhibit E to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1997 (File No. 1-1520), and is incorporated herein by reference. |

10.32 2001 Supplemental Retirement Plan For GenCorp Executives effective December 1, 2001, incorporating the Company's Voluntary Enhanced Retirement Program was filed as Exhibit 10.29 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001 (File No. 1-1520) and is incorporated herein by reference.

10.33 Credit Agreement among GenCorp, as the Borrower, Bankers Trust Company, as Administrative Agent, Bank One, NA, as Syndication Agent, Deutsche Bank Securities Inc. and Banc One Capital Markets, Inc., as Joint Lead Arrangers and Joint Book Manager and Various Lending Institutions was filed as Exhibit 10.2 to the Current Report on Form 8-K dated December 29, 2000 (File No. 1-1520), and is incorporated herein by reference.

10.34 Amendment No. 1 to Credit Agreement and Amendment No. 1 to Post Closing Agreement dated January 26, 2001, Amendment No. 2 to Credit Agreement, Amendment No. 2 to Post Closing Agreement, Amendment No. 1 to Collateral Agreements, and Limited Waiver dated August 31, 2001, Limited Waiver dated October 15, 2001, Limited Waiver and Temporary Commitment Increase Agreement dated November 20, 2001, Limited Waiver and Amendment dated December 31, 2001, Limited Waiver dated February 15, 2002, Amendment No. 4 to Credit Agreement and Waiver dated February 28, 2002, between the Company and Bankers Trust Company as a Lender and as Administrative Agent for the Lenders (Administrative Agent), and the other Lenders signatory to the Credit Agreement, was filed as Exhibit 4.5 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2001 (File No. 1-1520) and is incorporated herein by reference.

10.35 Amendment No. 5 to Credit Agreement and Waiver dated March 28, 2002 between the Company and Bankers Trust Company, as Lender and as Administrative Agent for the Lenders, and the other Lenders signatory to the Credit Agreement was filed as Exhibit 4 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2002 (File No. 1-1520), and is incorporated herein by reference.

10.36 Form of Director Nonqualified Stock Option Agreement between the Company and Nonemployee Directors providing for annual grant of nonqualified stock options prior to February 28, 2002, valued at $30,000 was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2002 (File No. 1-1520), and is incorporated herein by reference.

10.37 Form of Director Nonqualified Stock Option Agreement between the Company and Nonemployee Directors providing for an annual grant of nonqualified stock options on or after February 28, 2002, valued at $30,000 in lieu of further participation in Retirement Plan for Nonemployee Directors was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2002 (File No. 1-1520), and is incorporated herein by reference.

10.38 Form of Employee Restricted Stock Agreement between the Company and certain Officers providing for vesting based on attainment of a specified stock price within a specified time period was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2002 (File No. 1-1520) and is incorporated herein by reference.

10.39 Agreement to Amend and Restate dated as of October 2, 2002, among GenCorp, The Bank of Nova Scotia as Documentation Agent, ABN AMRO Ban, N.V., as Syndication Agent, and Deutsche Bank Trust Company Americas (f/k/a Bankers Trust Company), as Administrative Agent together with Annex I which is the Amended and Restated Credit Agreement among GenCorp Inc., as the Borrower, Deutsche Bank Trust Company Americas, as Administrative Agent, ABM AMRO Bank, N.V., as Syndication Agent, Deutsche Bank Securities Inc. and ABM AMRO Incorporated, as Joint Lead Arrangers, The Bank of Nova Scotia, as Documentation Agent and various lending institutions dated as of December 28, 2002 and amended and restated as of October 2, 2002 was filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2002 (File No. 1-1520) and is incorporated herein by reference.

| TABLE ITEM NO. | EXHIBIT DESCRIPTION |
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| 10.40 | Offer Letter from the Company dated May 14, 2002, as accepted by Michael T. Bryant on July 2, 2002 was filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002 (File No. 1-1520), and is incorporated herein by reference. |
| 10.41 | Modified Employment Retention Agreement dated July 26, 2002, between the Company and Robert A. Wolfe was filed as Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002 (File No. 1-1520), and is incorporated herein by reference. |
| 10.42 | Independent Consulting Agreement dated as of September 16, 2002 between William R. Phillips and the Company for consulting services starting on September 30, 2002, as amended by Amendment One to Independent Consulting Agreement executed by William R. Phillips on January 2, 2003, and by the Company on January 6, 2003 was filed as Exhibit 10.40 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002 (File No. 1-1520), and is incorporated herein by reference. |
| 21.1* | Listing of subsidiaries of the Company. |
| 23.1* | Consent of Ernst & Young LLP, Independent Auditors. |
| 24.1* | Powers of Attorney executed by J. R. Anderson, J. G. Cooper, J. J. Didion, I. Gutin, W. K. Hall, J. M. Osterhoff, S. G. Rothmeier, S. E. Widnall and Robert A. Wolfe, Directors of the Company. |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 as amended, and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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* Filed herewith. All other exhibits have been previously filed.

** Schedules and Exhibits have been omitted, but will be furnished to the SEC upon request.

Exhibit 4.11

GENCORP INC.
4% Contingent Convertible Subordinated Notes
Due 2024

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INDENTURE
Dated as of January 16, 2004

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THE BANK OF NEW YORK,

AS TRUSTEE

INDENTURE dated as of January 16, 2004 between GenCorp Inc., an Ohio corporation (the "Company"), and The Bank of New York, as trustee (the "Trustee").

Both parties agree as follows for the benefit of the other and for the equal and ratable benefit of the registered holders of the Company's 4% Contingent Convertible Subordinated Notes Due 2024.

## ARTICLE 1.

## DEFINITIONS AND INCORPORATION BY REFERENCE

### SECTION 1.1. DEFINITIONS.

The terms defined in this Section 1.1 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.1.

"Affiliate" of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent" means any Registrar, Paying Agent or Conversion Agent.

"Beneficial Owner" shall be determined in accordance with Rules 13d-3 and 13d-5 promulgated by the Securities and Exchange Commission under the Exchange Act or any successor provision, except that a person shall be deemed to have "beneficial ownership" of all shares that the person has the right to acquire, whether such right is exercisable immediately or only after the passage of time.

"Board of Directors" means the Board of Directors of the Company or any authorized committee of the Board of Directors.

"Board Resolution" means a copy of a resolution certified by the

secretary or an assistant secretary of such Person to have been duly adopted by the Board of Directors of such Person or any duly authorized committee thereof and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means a day that is not a Legal Holiday.

"Cash" or "cash" means such coin or currency of the United States as at any time of payment is legal tender for the payment of public and private debts.

"Closing Price" with respect to (a) the Company's Common Stock, means the closing sale price per share (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on

such date for our Common Stock as reported in composite transactions reported on the New York Stock Exchange or, if the Common Stock is not listed on the New York Stock Exchange, on the principal United States securities exchange on which the Common Stock is traded or, if the Common Stock is not listed on a United States national or regional securities exchange, as reported by the Nasdaq System, or, if it is not reported by the Nasdaq System, as determined in good faith by a member firm of the New York Stock Exchange selected by the Company and (b) with respect to any other securities, on any day, shall mean the closing sale price regular way on such day or, in case no such sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in each case on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the average of the closing bid and asked prices of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or if not so available, in such manner as furnished by any New York Stock Exchange member firm selected from time to time by the Board of Directors for that purpose, or a price determined in good faith by the Board of Directors or, to the extent permitted by applicable law, a duly authorized committee thereof, whose determination shall be conclusive.

"Common Stock" means any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which is not subject to redemption by the Company. Subject to the provisions of Section 4.12, however, shares issuable on conversion of Securities shall include only shares of Common Stock, $0.10 par value per share (which is the class designated as Common Stock of the Company at the date of this Indenture), or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which are not subject to redemption by the Company; provided that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion to which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the party named as such in this Indenture until a successor replaces it pursuant to this Indenture and thereafter means the successor. The foregoing sentence shall likewise apply to any subsequent successor or successors.

"Consolidated Net Worth" means, with respect to any Person, the consolidated stockholders' equity (excluding any capital stock that by its terms is, or upon the happening of an event or passage of time would be, required to be redeemed prior to the maturity of the Securities or is redeemable at the option of the holder thereof at any time prior to such maturity or is convertible or exchangeable for debt securities at any time prior to such maturity at the option of the holder thereof) of such Person and its consolidated subsidiaries, as determined in accordance with generally accepted accounting principles.

"Contingent Interest" shall mean an amount of interest payable at a rate equal to 0.50% per annum using a principal amount equal to the average of the Trading Price for the five Trading Days ending on the third Trading Day immediately preceding the first day of the applicable Contingent Interest Period (the "Contingent Interest Average Trading Price") per $1,000 principal amount of Securities in respect of any Contingent Interest Period, if the Contingent Interest Average Trading Price equals $1,200 or more.

"Contingent Interest Period" shall mean any six-month interest period from January 16 to, but excluding, July 16, and from July 16 to, but excluding, January 16, with the initial six-month period commencing on January 16, 2008.

"Continuing Director" means, as of any date of determination, any member of the Board of Directors of the Company who (i) was a member of such Board of Directors on the date of the original issuance of the Securities or (ii) was nominated for election or elected to the Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

"Corporate Trust Office" of the Trustee means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office initially is located at 101 Barclay Street, 8W, New York, NY 10286, Attn: Corporate Trust Division or such other address as the Trustee may designate from time to time by notice to the Company or the principal corporate trust office of any successor Trustee (or such other address as a successor Trustee may designate from time to time by notice to the Company).

"Credit Agreement" means the Agreement to Amend and Restate dated as of October 2, 2002, among the Company and the lenders named therein, together with Annex I which is the Amended and Restated Credit Agreement among GenCorp and the lenders named therein, dated as of December 28, 2000 and amended and restated as of October 2, 2002, and amended as of July 29, 2003, August 25, 2003 and December 31, 2003, and any deferrals, renewals, extensions, replacements, refinancings or refundings thereof, or amendments, modifications or supplements thereto or replacements thereof of all or any portion of the indebtedness under such agreement or any successor or replacement agreement and any agreement providing therefor (including, without limitation, any agreement increasing the amount borrowed thereunder or adding additional balances or guarantors thereunder), whether by or with the same or any other lender, creditors, or group of creditors, and including related notes, guarantee agreements, security agreements and other instruments and agreements executed in connection therewith and whether by the same or any other agent, lender or group of lenders.

"DBSI" means Deutsche Bank Securities Inc.

"Default" or "default" means any event which is, or after notice or passage of time, or both, would be, an Event of Default.

"Depositary" means, with respect to the Securities issuable or issued in whole or in part in global form, The Depository Trust Company as the Depositary with respect to the Securities, until a successor shall have been appointed and becomes such pursuant to the applicable provisions of this Indenture, and thereafter, "Depositary" shall mean or include such successor.



"Designated Senior Indebtedness" means (i) indebtedness under or in respect of the Credit Agreement, or any credit facility or credit line of any foreign subsidiary of the Company and (ii) any other indebtedness constituting Senior Indebtedness which, at the time of determination, has an aggregate principal amount of at least $25 million. The instrument, agreement or other document evidencing any Designated Senior Indebtedness may place limitations and conditions on the right of such Senior Indebtedness to exercise the rights of Designated Senior Indebtedness.

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

"Existing Convertible Notes" means the Company's 5 3/4% Convertible Subordinated Notes due 2007.

"Existing Senior Subordinated Notes" means the Company's 9 1/2% Senior

Subordinated Notes due 2013.

"Holder" or "Securityholder" means the person in whose name a Security is registered on the Registrar's books.

"Indenture" means this Indenture as amended or supplemented from time to time.

"Initial Purchasers" means Deutsche Bank Securities Inc., Wachovia Capital Markets, LLC, Scotia Capital (USA) Inc., BNY Capital Markets, Inc., NatCity Investments, Inc. and Wells Fargo Securities, LLC as initial purchasers under the Purchase Agreement.

"Instrument" means any agreement, indenture, instrument or other document under which any obligation is evidenced, assumed, guaranteed or secured.

"Market Capitalization" as of any date of calculation means the average Closing Price of the Company's Common Stock on the 10 Trading Days immediately prior to such date of calculation multiplied by the average aggregate number of shares of the Company's Common Stock outstanding on the 10 Trading Days immediately prior to such date.

"Officer" means the Chairman of the Board, the President, any Vice President, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the General Counsel, the Treasurer or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers of the Company; provided, however, that for purposes of Section 6.4 "Officers' Certificate" means a certificate signed by the principal executive officer, principal financial officer or principal accounting officer of the Company.

"Opinion of Counsel" means a written opinion from legal counsel who is reasonably acceptable to the Trustee. The counsel may be an employee of or counsel to the Company.

"Payment Dates" means January 16 and July 16, the payment dates of the Securities.



"Payment Default" means any default in the payment of principal of (or premium, if any) or interest on Senior Indebtedness.

"Payment in full" or "paid in full" means payment in full in cash.

"Person" or "person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof.

"PORTAL Market" means the Private Offerings, Resales and Trading through Automated Linkages Market operated by the National Association of Securities Dealers, Inc. or any successor thereto.

"Principal" or "principal" of a debt security, including the Securities, means the principal of the security plus, when appropriate, the premium, if any, on the security.

"Purchase Agreement" means the Purchase Agreement dated January 12, 2004 by and among the Company and the Initial Purchasers.

"Purchase Option" means the option to purchase up to $25,000,000 in aggregate principal amount of Securities granted by the Company to DBSI pursuant to Section 2(c) of the Purchase Agreement.

"QIB" means a "Qualified Institutional Buyer" as that term is defined in Rule 144A.

"Record Dates" means January 1 and July 1, the record dates of the Securities.

"Redemption Date" or "redemption date," when used with respect to any

Security to be redeemed, means the date fixed for such redemption pursuant to this Indenture, as set forth in the form of Security annexed as Exhibit A hereto.

"Redemption Price" or "redemption price," when used with respect to any Security to be redeemed, means the price fixed for such redemption pursuant to this Indenture, as set forth in the form of Security annexed as Exhibit A hereto.

"Registration Rights Agreement" means the Registration Rights Agreement dated as of the date hereof between the Company and the Initial Purchasers and certain permitted assigns.

"Regulation S" means Regulation S promulgated under the Securities Act.

"Representative" means the indenture trustee or other trustee, agent or representative for any class of Senior Indebtedness.

"Rule 144" means Rule 144 as promulgated under the Securities Act (or any successor provision) as it may be amended from time to time.

"Rule 144A" means Rule 144A as promulgated under the Securities Act (or any successor provision) as it may be amended from time to time.



"SEC" or "Commission" means the Securities and Exchange Commission.

"Securities" means the 4% Contingent Convertible Subordinated Notes Due 2024 or any of them (each a "Security"), as amended or supplemented from time to time, that are issued under this Indenture.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Senior Agent" means, on any date, the Representative of the class of Senior Indebtedness having the highest principal amount (including all revolving credit, letter of credit and other working capital commitments) then outstanding.

"Senior Indebtedness" means the principal of, premium, if any, and interest on, and fees, costs, enforcement expenses, collateral protection expenses and other reimbursement or indemnity obligations in respect of, and any other payments due pursuant to, any of the following, whether outstanding as of the date of this Indenture or incurred or created thereafter, unless, in the case of any particular indebtedness, the instrument creating or evidencing the same or pursuant to which the same is outstanding expressly provides that such indebtedness shall not be senior in right of payment to the Securities:

- all of the Company's indebtedness, obligations and other liabilities, contingent or otherwise, for money borrowed that is evidenced by a note, bond, debenture, loan agreement or similar instrument or agreement, including, without limitation, all amounts outstanding from time to time under the Credit Agreement and the Existing Senior Subordinated Notes;

- all of the Company's noncontingent obligations (1) for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction, (2) under any interest rate swaps, caps, collars, options and similar arrangements, and (3) under any foreign exchange contract, currency swap arrangement, futures contract, currency option contract or other foreign currency hedges;

- all of the Company's obligations for the payment of money relating to capital lease obligations;

- all of the Company's obligations pursuant to the guarantee by the Company or certain subsidiaries of indebtedness of foreign subsidiaries of the Company pursuant to the credit facilities and credit lines of such foreign subsidiaries;

- any liabilities of the Company's subsidiaries described in the preceding clauses that the Company has guaranteed or which are

otherwise the legal liability of the Company; and

- renewals, extensions, refundings, refinancings, restructurings, amendments and modifications of any such obligations of the Company;



provided, however, that in no event shall Senior Indebtedness include (a) indebtedness or other obligations owed to any of the Company's subsidiaries or affiliates, (b) trade account payables or any other obligation of the Company to trade accounts created or assumed by GenCorp incurred in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities), (c) any liabilities for federal, state, local or other taxes owed or owing by the Company or any of the subsidiaries, (d) the Company's obligations under the Existing Convertible Notes, (e) obligations with respect to capital stock of the Company, (f) the Company's obligations under the Securities or (g) indebtedness of the Company that is by its terms expressly subordinated in right of payment to the Securities.

"Significant Subsidiary" means any Subsidiary or group of Subsidiaries which has: (i) consolidated assets or in which the Company and its other Subsidiaries have investments, equal to or greater than 10% of the total consolidated assets of the Company at the end of its most recently completed fiscal year; or (ii) consolidated gross revenue equal to or greater than 10% of the consolidated gross revenue of the Company for its most recently completed fiscal year.

"Subsidiary" means any corporation, association or other business entity of which at least a majority of the total capital stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more of the Company's other Subsidiaries or a combination thereof.

"TIA" means the Trust Indenture Act of 1939, as amended by the Trust Indenture Reform Act of 1990 and as in effect on the date of this Indenture, except as provided in Section 11.3, and except to the extent any amendment to the Trust Indenture Act expressly provides for application of the Trust Indenture Act as in effect on another date.

"Trading Price" on any date of determination means the average of the secondary market bid quotations per $1,000 in principal amount of Securities obtained by the Trustee for $5,000,000 in principal amount of Securities at approximately 3:30 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers selected by the Company; provided that if at least three such bids cannot reasonably be obtained by the Trustee, but two such bids are obtained, then the average of the two bids shall be used, and if only one such bid can reasonably be obtained by the Trustee, such one bid shall be used. If the Trustee cannot reasonably obtain at least one bid for $5,000,000 in principal amount of Securities from a nationally recognized securities dealer or, in the reasonable judgment of the Company, the bid quotations are not indicative of the secondary market value of the Securities, then the Trading Price shall be determined in good faith by a member firm of the New York Stock Exchange selected by the Company.

"Transfer Restricted Security" means securities that bear or are required to bear the legend set forth in Section 2.6(c) or (d).

"Trust Officer" means any officer in the Corporate Trust Office of the Trustee, including any vice president, assistant vice president, assistant treasurer, trust officer or any other officer customarily performing functions similar to those performed by any of the above-designated officers who shall, in any case, be responsible for the administration of this Indenture or have



familiarity with it, and also means, with respect to a particular corporate matter, any other officer of the Trustee to whom corporate trust matters are referred because of his knowledge of and familiarity with the particular subject.

"Trustee" means The Bank of New York until a successor replaces it in accordance with the provisions of this Indenture and thereafter means the successor The foregoing sentence shall likewise apply to any subsequent successor or successors.

"Voting Stock" means stock or securities of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a person (irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

SECTION 1.2. OTHER DEFINITIONS.

| Defined Term | Section |
|---|---|
| "Bankruptcy Law" | 8.1 |
| "Change of Control" | 3.10 |
| "Change of Control Repurchase Date" | 3.10 |
| "Change of Control Repurchase Notice" | 3.11(b) |
| "Change of Control Repurchase Price" | 3.10 |
| "Company Notice" | 3.11(a) |
| "Company Notice Date" | 3.11(a) |
| "Company Order" | 2.2 |
| "Conversion Agent" | 2.3 |
| "Conversion Price" | 4.6 |
| "Custodian" | 8.1 |
| "Effective Conversion Price" | 4.1(c) |
| "Event of Default" | 8.1 |
| "Ex-Dividend Date" | 4.1 |
| "Global Note" | 2.6(a) |
| "Group" | 3.10(1) |
| "Legal Holiday" | 12.7 |
| "Liquidated Damages" | 6.12(a) |
| "Optional Redemption" | 3.1 |
| "Paying Agent" | 2.3 |
| "Payment Blockage Period" | 5.5 |
| "Payment of the Securities" | 5.5 |
| "Principal Value Conversion" | 4.1(c) |
| "Purchase Party" | 3.8 |
| "Quarter" | 4.1(a) |
| "Registrar" | 2.3 |
| "Registration Default" | 6.12 |
| "Registration Statement" | 6.12(a) |
| "Repurchase Date" | 3.9 |



| Defined Term | Section |
|---|---|
| "Repurchase Price" | 3.9 |
| "Repurchase Notice" | 3.11(b) |
| "Restricted Securities" | 2.6(c) |
| "Stockholder Rights Plan" | 4.6(h) |
| "Trading Days" | 4.6(g) |
| "Trading Price Condition" | 4.1(c) |
| "Trigger Event" | 4.6(h) |
| "U.S. Government Obligations" | 10.1 |

SECTION 1.3. INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.

This Indenture is hereby made subject to, and shall be governed by, the provisions of the TIA required to be part of and to govern indentures qualified under the TIA. The following TIA terms used in this Indenture have the following meanings:

"Commission" means the SEC.
"indenture securities" means the Securities.
"indenture security holder" means a Securityholder.
"indenture to be qualified" means this Indenture.
"indenture trustee" or "institutional trustee" means the Trustee.
"obligor" on the indenture securities means the Company or any other obligor on the Securities.

All other terms used in this Indenture that are defined in the TIA, defined by a TIA reference to another statute or defined by SEC rule and not otherwise defined herein have the meanings assigned to them therein.

SECTION 1.4. RULES OF CONSTRUCTION.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles in effect on the date hereof, and any other reference in this Indenture to "generally accepted accounting principles" refers to generally accepted accounting principles in effect on the date hereof;

(3) "or" is not exclusive;

(4) words in the singular include the plural, and words in the plural include the singular;

(5) definitions are equally applicable to the masculine as well as to the feminine and neuter genders of such terms;

(6) provisions apply to successive events and transactions; and



(7) "herein," "hereof" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

## ARTICLE 2.

## THE SECURITIES

SECTION 2.1. DESIGNATION, FORM AND DATING.

The Securities shall be designated as the 4% Contingent Convertible Subordinated Notes Due 2024. Other than as provided in Section 2.6, the Securities and the Trustee's certificate of authentication to be borne by the Securities shall be substantially in the form of Exhibit A attached hereto, which is incorporated in and made part of this Indenture. The Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to the terms and provisions of the Securities and to be bound thereby. In addition to such legends as may be required pursuant to Section 2.6, any of the Securities may have imprinted thereon such legends or endorsements as the officers executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which the Securities may be listed or any trading system on which the Securities may be admitted, or to conform to usage. Each Security shall be dated the date of its authentication.

SECTION 2.2. EXECUTION AND AUTHENTICATION.

Two Officers of the Company shall sign the Securities for the Company by manual or facsimile signature. If an Officer whose signature is on a Security no longer holds that office at the time the Trustee authenticates the Security, the Security shall be valid nevertheless. A Security shall not be valid until an authorized signatory of the Trustee manually signs the certificate of authentication on the Security, which signature shall be conclusive evidence that the Security has been authenticated under this Indenture.

The Trustee shall authenticate and make available for delivery Securities for original issue in the aggregate principal amount of up to $100,000,000, upon a written order or orders of the Company signed by two Officers or by an Officer and an Assistant Treasurer or Assistant Secretary of the Company (a "Company Order"). The Company Order shall specify the amount of Securities to be authenticated and the date on which the original issue of Securities is to be authenticated. Upon the exercise of the Purchase Option by DBSI, additional Securities in the aggregate principal amount of up to $25,000,000 shall be executed by the Company in the aforementioned manner and delivered to the Trustee for authentication, and shall thereupon be authenticated and delivered by the Trustee upon Company Order. The aggregate principal amount of Securities outstanding under this Indenture at any time may not exceed $125,000,000, except as provided in Section 2.7.

The Trustee shall act as the initial authenticating agent. Thereafter, the Trustee may appoint an authenticating agent acceptable to the Company to authenticate Securities. An authenticating agent may authenticate Securities whenever the Trustee may do so. Each



reference in this Indenture to authentication by the Trustee includes authentication by such agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Securities shall be issuable only in registered form without coupons only in denominations of $1,000 and any integral multiple thereof.

SECTION 2.3. REGISTRAR, PAYING AGENT AND CONVERSION AGENT.

The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (the "Registrar"), an office or agency where Securities may be presented for payment (the "Paying Agent"), an office or agency where Securities may be presented for conversion (the "Conversion Agent") and an office or agency for service of notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-Registrars, one or more additional Paying Agents and one or more additional Conversion Agents. The term "Registrar" includes any co-Registrar, the term "Paying Agent" includes any additional Paying Agent and the term "Conversion Agent" includes any additional Conversion Agent.

The Company shall enter into an appropriate agency agreement with any Agent not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such Agent. The Company shall notify the Trustee of the name and address of any Agent not a party to this Indenture. If the Company fails to maintain a Registrar, Paying Agent or a Conversion Agent or fails to give the foregoing notice, the Trustee shall act as such. The Company or any Affiliate of the Company may act as Paying Agent (except for the purposes of Section 6.3 and Article 10), Registrar or Conversion Agent.

The Company initially appoints the Trustee as Registrar, Paying Agent and Conversion Agent in connection with the Securities.

SECTION 2.4. PAYING AGENT TO HOLD MONEY IN TRUST.

If the Company shall at any time act as its own Paying Agent, it will, on or before each due date of the principal of and premium, if any, or interest (together with any Liquidated Damages in respect thereof) on any of the Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal of, premium, if any, or interest on any of the Securities (together with any Liquidated Damages in respect thereof) so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents, it will, prior to 10:00 a.m., New York City time, on each due date of the principal of and premium, if any, or interest (together with any Liquidated Damages in respect thereof) on any Securities, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held in trust for the benefit of the Persons

entitled to such principal, premium, if any, or interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.



The Company will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section 2.4, that such Paying Agent will, subject to Section 5.7:

(1) hold all sums held by it for the payment of the principal of, premium, if any, or interest on Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee written notice of any default by the Company (or any other obligor upon the Securities) in the making of any payment of principal, premium, if any, or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Company may at any time require a Paying Agent to pay all money held by it to the Trustee and to account for any funds distributed by it. Upon doing so, the Paying Agent should have no further liability for the money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company in trust for the payment of the principal of, and premium, if any, or interest (together with any Liquidated Damages in respect thereof) on any Security and remaining unclaimed for two years after such principal and premium, if any, or interest has become due and payable shall be paid, subject to applicable escheatment laws, to the Company on written request of the Company, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper selected by the Company and published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 2.5. SECURITYHOLDER LISTS.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee at least five Business Days prior to each semi-annual interest Payment Date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Securityholders.



SECTION 2.6. TRANSFER AND EXCHANGE.

(a) The Securities shall be issued in registered form and shall be transferable only upon surrender for registration of transfer of any Security to the Registrar or any co-registrar at the office or agency of the Company designated as Registrar or co-registrar pursuant to Section 2.3, and satisfaction of the requirements for such transfer set forth in this Section 2.6, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

Securities may be exchanged for other Securities of any authorized denominations and of a like aggregate principal amount, upon surrender of the Securities to be exchanged at any such office or agency maintained by the Company pursuant to Section 6.10. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Securityholder making the exchange is entitled to receive bearing numbers not contemporaneously outstanding.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

All Securities presented or surrendered for registration of transfer or for exchange, redemption or conversion shall (if so required by the Company or the Registrar) be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company, and the Securities shall be duly executed by the Securityholder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax, assessment or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities.

Neither the Company nor the Trustee nor any Registrar or any Company registrar shall be required to exchange or register a transfer of (a) any Securities for a period of fifteen (15) days next preceding any selection of Securities to be redeemed or (b) any Securities or portions thereof selected for redemption pursuant to Section 3.3 or (c) any Securities or portion thereof surrendered for conversion pursuant to Article 4.

So long as the Securities are eligible for book-entry settlement with the Depositary, or unless otherwise required by law, all Securities that upon initial issuance are beneficially owned by QIBs will be represented by a Security in global form registered in the name of the Depositary or the nominee of the Depositary (the "Global Note"). The transfer and exchange of beneficial interests in the Global Note shall be effected through the Depositary in accordance with this Indenture and the procedures of the Depositary therefor. The Trustee shall make appropriate endorsements to reflect increases or decreases in the principal amounts of the Global Note as set forth on the face of the Security to reflect any such transfers. Except as provided



below, beneficial owners of the Global Note shall not be entitled to have certificates registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form and will not be considered holders of such Securities in global form.

(b) Any Security in global form may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Indenture as may be required by the Custodian, the Depositary or by the National Association of Securities Dealers, Inc. in order for the Securities to be tradable on The PORTAL Market or as may be required for the Securities to be tradable on any other market developed for trading of securities pursuant to Rule 144A or required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange or automated quotation system upon which the Securities may be listed or traded or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Securities are subject.

(c) Every Security that bears or is required under this Section 2.6(c) to bear the legend set forth in this Section 2.6(c) (together with any Common Stock issued upon conversion of the Securities and required to bear the legend set forth in Section 2.6(d), collectively, the "Restricted Securities") shall be subject to the restrictions on transfer set forth in this Section 2.6(c) (including those set forth in the legend set forth below) unless such restrictions on transfer shall be waived by written consent of the Company, and the Holder of each such Transfer Restricted Security, by such Holder's acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in Sections 2.6(c) and 2.6(d), the term "transfer" encompasses any sale,

pledge, transfer or other disposition whatsoever of any Restricted Security.

Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any certificate evidencing such Security (and all securities issued in exchange therefor or substitution thereof, other than Common Stock, if any, issued upon conversion thereof, which shall bear the legend set forth in Section 2.6(d), if applicable) shall bear a legend in substantially the following form, unless such Security has been sold pursuant to a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such transfer), or unless otherwise agreed by the Company in writing, with written notice thereof to the Trustee:

> THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.
>
> THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO GENCORP INC., ITS



> SUBSIDIARIES, ITS AFFILIATES OR THE AFFILIATES OF ITS SUBSIDIARIES, (II) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) PURSUANT TO RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (IV) PURSUANT TO ANOTHER APPLICABLE EXEMPTION FROM REGISTRATION OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. PRIOR TO A TRANSFER OF THIS SECURITY PURSUANT TO CLAUSE (III) OR (IV) ABOVE, THE HOLDER OF THIS SECURITY MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE COMPANY AND THE TRUSTEE OR THE TRANSFER AGENT, AS APPLICABLE, SUCH CERTIFICATES AND OTHER INFORMATION, INCLUDING A LEGAL OPINION, AS THEY MAY REASONABLY REQUIRE TO CONFIRM THAT ANY TRANSFER BY IT OF THIS SECURITY COMPLIES WITH THE FOREGOING RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT, DIRECTLY OR INDIRECTLY, ENGAGE IN ANY HEDGING TRANSACTION WITH REGARD TO THIS SECURITY EXCEPT AS PERMITTED BY THE SECURITIES ACT.
>
> THE FOREGOING LEGEND MAY BE REMOVED FROM THE SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

Any Security (or security issued in exchange or substitution therefor) as to which such restrictions on transfer shall have expired in accordance with their terms or as to which the conditions for removal of the foregoing legend set forth therein have been satisfied may, upon surrender of such Security for exchange to the Registrar in accordance with the provisions of this Section 2.6, be exchanged for a new Security or Securities, of like tenor and aggregate principal amount, which shall not bear the restrictive legend required by this Section 2.6(c).

Notwithstanding any other provisions of this Indenture (other than the provisions set forth in Section 2.6(b) and in this Section 2.6(c)), the Global Note may not be transferred as a whole or in part except by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary.

The Depositary shall be a clearing agency registered under the Exchange Act. The Company initially appoints The Depository Trust Company to act as Depositary with respect to the Global Note. Initially, the Global Note shall be issued to the Depositary, registered in the name of Cede & Co., as the nominee

of the Depositary, and deposited with the Custodian for Cede & Co. Securityholders may hold their interests in the Global Note directly through DTC if they are DTC participants, or indirectly through DTC participants.



Securities in certificated form shall be transferred to all beneficial owners in exchange for their beneficial interests in Global Notes only if (i) the Depositary (x) notifies the Company that it is unwilling or unable to continue as Depositary for any Global Note or (y) has ceased to be a clearing agency registered under the Exchange Act and, in each case, a successor depositary is not appointed by the Company within 90 days of such notice, (ii) the Company, in its discretion, decides to discontinue use of the system of book-entry transfer through the Depositary or (iii) a Default or an Event of Default has occurred and is continuing. In any such case, the Company will execute, and the Trustee, upon receipt of an Officers' Certificate for the authentication and delivery of Securities, will authenticate and deliver, Securities in certificated form, in aggregate principal amount equal to the principal amount of the Global Note, in exchange for such Global Note.

If a Security in certificated form is issued in exchange for any portion of the Global Note after the close of business at the office or agency where such exchange occurs on any record date and before the opening of business at such office or agency on the next succeeding interest Payment Date, interest will not be payable on such interest Payment Date in respect of such Security, but will be payable on such interest Payment Date, subject to the provisions of paragraphs 1 and 2 of the Security, only to the person to whom interest in respect of such portion of the Global Note is payable in accordance with the provisions of this Indenture and the Securities.

Securities in certificated form issued in exchange for all or a part of the Global Note pursuant to this Section 2.6 shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Upon execution and authentication, the Trustee shall deliver such Securities in certificated form to the persons in whose names such Securities in certificated form are so registered.

At such time as all interests in the Global Note have been redeemed, converted, canceled, exchanged for Securities in certificated form, or transferred to a transferee who receives Securities in certificated form thereof, such Global Note shall, upon receipt thereof, be canceled by the Trustee in accordance with standing procedures and instructions existing between the Depositary and the Custodian. At any time prior to such cancellation, if any interest in the Global Note is redeemed, converted, repurchased or canceled, the principal amount of the Global Note shall, in accordance with the standing procedures and instructions existing between the Depositary and the Custodian, be appropriately reduced and an endorsement shall be made on such Global Note, by the Trustee or the Custodian, at the direction of the Trustee, to reflect such reduction.

(d) Until the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), any stock certificate representing Common Stock issued upon conversion of such Security shall bear a legend in substantially the following form, unless such Common Stock has been sold pursuant to a registration statement that has been declared effective under the Securities Act (and which continues to be effective at the time of such transfer) or such Common Stock has been issued upon conversion of Securities that have been transferred pursuant to a registration statement that has been declared effective



under the Securities Act, or unless otherwise agreed by the Company in writing with written notice thereof to the transfer agent:

> THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE

EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO GENCORP INC., ITS SUBSIDIARIES, ITS AFFILIATES OR THE AFFILIATES OF ITS SUBSIDIARIES, (II) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) PURSUANT TO RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (IV) PURSUANT TO ANOTHER APPLICABLE EXEMPTION FROM REGISTRATION OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. PRIOR TO A TRANSFER OF THIS SECURITY PURSUANT TO CLAUSE (III) OR (IV) ABOVE, THE HOLDER OF THIS SECURITY MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE COMPANY AND THE TRUSTEE OR THE TRANSFER AGENT, AS APPLICABLE, SUCH CERTIFICATES AND OTHER INFORMATION, INCLUDING A LEGAL OPINION, AS THEY MAY REASONABLY REQUIRE TO CONFIRM THAT ANY TRANSFER BY IT OF THIS SECURITY COMPLIES WITH THE FOREGOING RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT, DIRECTLY OR INDIRECTLY, ENGAGE IN ANY HEDGING TRANSACTION WITH REGARD TO THIS SECURITY EXCEPT AS PERMITTED BY THE SECURITIES ACT.

THE FOREGOING LEGEND MAY BE REMOVED FROM THE SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.

Any such Common Stock as to which such restrictions on transfer shall have expired in accordance with their terms or as to which the conditions for removal of the foregoing legend set forth therein have been satisfied may, upon surrender of the certificates representing such shares of Common Stock for exchange in accordance with the procedures of the transfer agent for the



Common Stock, be exchanged for a new certificate or certificates for a like number of shares of Common Stock, which shall not bear the restrictive legend required by this Section 2.6(d).

(e) Any Security or Common Stock issued upon the conversion or exchange of a Security that, prior to the expiration of the holding period applicable to sales thereof under Rule 144(k) under the Securities Act (or any successor provision), is purchased or owned by the Company or any Affiliate thereof may not be resold by the Company or such Affiliate unless registered under the Securities Act or resold pursuant to an exemption from the registration requirements of the Securities Act in a transaction which results in such Securities or Common Stock, as the case may be, no longer being "restricted securities" (as defined under Rule 144).

(f) Each Holder of a Security agrees to indemnify the Company and the Trustee against any liability that may result from the transfer, exchange or assignment of such Holder's Security in violation of any provision of this Indenture and/or applicable United States Federal or state securities law.

The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Security (including any transfers between or among depositary participants or beneficial owners of interests in the Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 2.7. REPLACEMENT SECURITIES.

If any mutilated Security is surrendered to the Company or the Trustee, or the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, and there is delivered to the

Company and the Trustee such Security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute, and upon its written request the Trustee shall authenticate and deliver, in exchange for any such mutilated Security or in lieu of any such destroyed, lost or stolen Security, a new Security of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, or is about to be redeemed by the Company pursuant to Article 3, the Company in its discretion may, instead of issuing a new Security, pay or redeem such Security, as the case may be.

Upon the issuance of any new Securities under this Section 2.7, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) in connection therewith.



Every new Security issued pursuant to this Section 2.7 in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Securities duly issued hereunder.

The provisions of this Section 2.7 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 2.8. OUTSTANDING SECURITIES.

Securities outstanding at any time are all Securities authenticated by the Trustee, except for those canceled by it, those delivered to it for cancellation and those described in this Section 2.8 as not outstanding.

If a Security is replaced pursuant to Section 2.7, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Security is held by a bona fide purchaser.

If the Paying Agent (other than the Company or an Affiliate of the Company) holds on a redemption date, repurchase date or maturity date money sufficient to pay the principal of, premium, if any, and accrued interest on Securities payable on that date, then on and after that date such Securities cease to be outstanding and interest (including Contingent Interest and Liquidated Damages, if any) on them ceases to accrue; provided that if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture.

Subject to the restrictions contained in Section 2.9, a Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

SECTION 2.9. TREASURY SECURITIES.

In determining whether the Holders of the required principal amount of Securities have concurred in any notice, direction, waiver or consent, Securities owned by the Company or any other obligor on the Securities or by any Affiliate of the Company or of such other obligor shall be disregarded, except that for purposes of determining whether the Trustee shall be protected in relying on any such notice, direction, waiver or consent, only Securities which a Trust Officer of the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith shall not be disregarded if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to the Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

SECTION 2.10. TEMPORARY SECURITIES.

Until definitive Securities are ready for delivery, the Company may prepare and execute, and, upon the order of the Company, the Trustee shall

authenticate and deliver temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but



may have variations that the Company with the consent of the Trustee considers appropriate for temporary Securities. Every such temporary Security shall be executed by the Company and authenticated by the Trustee upon the same conditions and in substantially the same manner, and with the same effect, as the definitive Securities. Without unreasonable delay the Company will execute and deliver to the Trustee definitive Securities and thereupon any or all temporary Securities may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 6.10 and the Trustee shall authenticate and deliver in exchange for such temporary Securities an equal aggregate principal amount of definitive Securities. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities authenticated and delivered hereunder.

SECTION 2.11. CANCELLATION.

The Company at any time may deliver Securities to the Trustee for cancellation. The Registrar, the Paying Agent and the Conversion Agent shall forward to the Trustee any Securities surrendered to them for transfer, exchange, payment or conversion. The Trustee and no one else shall cancel all Securities surrendered for transfer, exchange, payment (including redemption or repurchase), conversion or cancellation and shall dispose of cancelled Securities in accordance with its procedures for the disposition of cancelled Securities in effect as of the date of such disposition and thereupon deliver a certificate of cancellation to the Company. The Company may not issue new Securities to replace Securities it has paid or delivered to the Trustee for cancellation or which have been converted.

SECTION 2.12. CUSIP NUMBERS.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

## ARTICLE 3.

## REDEMPTION AND REPURCHASE

SECTION 3.1. OPTIONAL REDEMPTION BY THE COMPANY.

Beginning on January 19, 2010, the Company may redeem the Securities, in whole at any time, or in part from time to time, for cash at a price equal to 100% of the principal amount of the Securities plus accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) up to but not including the date of redemption payable in cash.

In addition, on or after January 19, 2008, the Company may redeem the Securities, in whole or in part, for cash at a price equal to 100% of the principal amount of the Securities plus



accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) up to but not including the date of redemption, in the event that the Closing Price of the Company's Common Stock for at least 20 Trading Days in the period of 30 consecutive Trading Days ending on the last trading day of the calendar month preceding the calendar month in which the notice of redemption is properly mailed to Holders is more than 125% of the Conversion Price on that 30th Trading Day.

SECTION 3.2. SELECTION TO REDEEM; NOTICE TO TRUSTEE.

If the Company elects to redeem Securities pursuant to Section 3.1, it shall notify the Trustee at least 30 days but not more than 60 days prior to the redemption date as fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee) of the redemption date and the principal amount of Securities to be redeemed. If fewer than all of the Securities are to be redeemed, the record date relating to such redemption shall be selected by the Company and given to the Trustee, which record date shall not be less than 10 days after the date of notice to the Trustee.

SECTION 3.3. SELECTION OF SECURITIES TO BE REDEEMED.

If less than all of the Securities are to be redeemed, the Trustee shall, not more than 60 days prior to the redemption date, select the Securities to be redeemed by lot, pro rata or by another method the Trustee considers fair and appropriate; provided that such method is not prohibited by any stock exchange or market on which the Securities are then listed. The Trustee shall make the selection from the Securities outstanding and not previously called for redemption. Securities in denominations of $1,000 may only be redeemed in whole. The Trustee may select for redemption portions (equal to $1,000 or any multiple thereof) of the principal of Securities that have denominations larger than $1,000. Provisions of this Indenture that apply to Securities called for redemption also apply to portions of Securities called for redemption. If a portion of a Holder's Securities is selected for redemption and that Holder converts a portion of its Securities, the converted portion will be deemed to be the portion first selected for redemption.

SECTION 3.4. NOTICE OF REDEMPTION.

Notice of redemption shall be given at least 30 days and no more than 60 days' prior to the Redemption Date in the case of an optional redemption pursuant to Section 3.1. In each case, the Company shall mail or cause to be mailed a notice of redemption by first-class mail to each Holder of Securities to be redeemed at such Holder's address as it appears on the Registrar's books.

The notice shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price;



(3) the then-current Conversion Price;

(4) the name and address of the Paying Agent and the Conversion Agent;

(5) that Securities called for redemption must be presented and surrendered to the Paying Agent to collect the redemption price therefor, together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any);

(6) that the Securities called for redemption may be converted at any time before the close of business on the Business Day immediately preceding the Redemption Date;

(7) that Holders who wish to convert Securities must satisfy the requirements in paragraph 8 of the Securities;

(8) that, unless the Company defaults in making the redemption payment, interest on Securities called for redemption ceases to accrue on and after the redemption date and the only remaining right of the Holder is to receive payment of the redemption price upon presentation and surrender to the Paying Agent of the Securities;

(9) if any Security is being redeemed in part, the portion of the principal amount of such Security to be redeemed and that, after the Redemption Date, upon presentation and surrender of such Security, a new Security or Securities in principal amount equal to the unredeemed portion thereof will be

issued; and

(10) subject to Section 2.12, the CUSIP number of the Securities called for redemption.

At the Company's written request delivered at least 5 days prior to the date of the mailing of the notice of redemption, the Trustee shall give the notice of redemption in the Company's name and at the Company's expense.

SECTION 3.5. DEPOSIT OF REDEMPTION PRICE.

On or prior to 10:00 a.m. (New York City time) on the Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as its own Paying Agent, segregate and hold in trust) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an interest Payment Date) accrued interest (including Contingent Interest and Liquidated Damages, if any) on, all the Securities which are to be redeemed on that date other than any Securities or portions of Securities called for redemption which on or prior thereto which have been delivered by the Company to the Trustee for cancellation or which have been converted.

If any Security called for redemption is converted, any money deposited with the Trustee or with any Paying Agent or segregated and held in trust for the redemption of such Security shall (subject to any right of the Holder of such Security or any predecessor Security to receive interest) be paid to the Company as soon as practicable or, if then held by the Company, shall be released from such trust.



SECTION 3.6. SECURITIES PAYABLE ON REDEMPTION DATE.

Once a notice of redemption has been given as aforesaid, the Securities called for redemption shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, except for Securities which are converted in accordance with this Indenture, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest, including Contingent Interest and Liquidated Damages, if any) such Securities shall cease to bear or accrue any interest (including Contingent Interest and Liquidated Damages, if any). Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest (including Contingent Interest and Liquidated Damages, if any) to (but not including) the Redemption Date; provided, however, that installments of interest whose stated maturity is on or prior to the Redemption Date shall be payable to the Holders of such Securities registered as such at the close of business on the relevant Record Dates according to their terms.

SECTION 3.7. SECURITIES REDEEMED IN PART.

Any Security which is to be redeemed only in part shall be surrendered at an office or agency of the Company designated for that purpose (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney-in-fact duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal amount of the Security surrendered.

SECTION 3.8. CONVERSION ARRANGEMENT ON CALL FOR REDEMPTION.

In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities by an agreement with one or more investment bankers or other purchasers (the "Purchase Party") to purchase such Securities by paying to the Trustee in trust for the Holders, on or before the Redemption Date, an amount not less than the applicable Redemption Price of such Securities, together with interest (including Contingent Interest and Liquidated Damages, if any) accrued to the Redemption Date. Notwithstanding anything to the contrary contained in this Article 3, the obligation of the Company to pay the Redemption Price of such Securities, together with interest accrued to, but excluding, the Redemption Date shall be deemed to be satisfied

and discharged to the extent such amount is so paid by such Purchase Party. If such an agreement is entered into, a copy of which shall be filed with the Trustee prior to or on the Redemption Date, any Securities not duly surrendered for conversion by the Holders thereof, may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such Holders and (notwithstanding anything to the contrary contained in Article 4) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the Business Day prior to the Redemption Date (and the right to convert any such Securities shall be deemed to have been extended through such time), subject to payment of the above amount as aforesaid. At the direction of the Company, the Trustee shall hold and dispose of any such amount paid to it in the same manner



as it would monies deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture. Nothing in the preceding sentence shall be deemed to limit the rights and protections afforded to the Trustee in Article 9, including, but not limited to, the right to the indemnification pursuant to Section 9.7.

SECTION 3.9. REPURCHASE OF SECURITIES AT OPTION OF THE HOLDER.

Securities shall be repurchased by the Company or by a Purchase Party, if applicable, at the option of the Holder thereof, in accordance with the provisions of paragraph 7 of the Securities on January 16, 2010, January 16, 2014 and January 16, 2019 (each, a "Repurchase Date") at a purchase price in cash per Security equal to 100% of the aggregate principal amount thereof (the "Repurchase Price"), together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any), up to but not including the Repurchase Date, subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 3.11(b).

Whenever in this Indenture there is a reference to the principal of any Security as of any time, such reference shall be deemed to include reference to the Repurchase Price payable in respect of such Security to the extent that such Repurchase Price is, was or would be so payable at such time, and express mention of the Repurchase Price in any provision of this Indenture shall not be construed as excluding the Repurchase Price in those provisions of this Indenture when such express mention is not made.

Any rights of Holders, contractual or otherwise, arising under or pursuant to any offer to repurchase Securities made by the Company under this Section 3.9 shall be subordinated in right of payment to all Senior Indebtedness to the same extent as the Securities are subordinated to Senior Indebtedness under the provisions of Article 5 and such offer to repurchase shall provide that, if at the time the Securities are required to be repurchased pursuant to such offer, payment of the Securities is not permitted pursuant to the provisions of Article 5, the Company shall use its best efforts to obtain all necessary waivers from, or to repay in full, the holders of Senior Indebtedness in order to permit such repurchase. Notwithstanding the foregoing, any failure by the Company to comply with this Section 3.9 to offer to repurchase, or to repurchase, the Securities shall be a default in the performance by the Company hereunder.

SECTION 3.10. REPURCHASE OF SECURITIES AT OPTION OF THE HOLDER UPON CHANGE OF CONTROL.

If at any time that Securities remain outstanding there shall have occurred a Change of Control (as hereinafter defined), Securities shall be repurchased by the Company or by a Purchase Party, if applicable, at the option of the Holder thereof, at a purchase price in cash

equal to 100% of the principal amount thereof (the "Change of Control Repurchase Price") plus accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any), up to and including the Change of Control Repurchase Date (as hereinafter defined), on the date (the "Change of Control Repurchase Date") fixed by the Company that is not less than 45 days nor more than 60 days after the date of the Company Notice (as hereinafter defined), subject to satisfaction by or on behalf of the Holder of the requirements set forth in Section 3.11(b); provided that if the Change in Control Purchase Date is on or after a record date with respect to any interest payments, but on or prior to the related interest payment date, Contingent Interest and Liquidated Damages, if any, will be payable to the Holders in whose names the Securities are registered at the close of business on the relevant record date.

Whenever in this Indenture there is a reference to the principal of any Security as of any time, such reference shall be deemed to include reference to the Change in Control Repurchase Price payable in respect of such Security to the extent that such Change of Control Repurchase Price is, was or would be so payable at such time, and express mention of the Change in Control Repurchase Price in any provision of this Indenture shall not be construed as excluding the Change in Control Repurchase Price in those provisions of this Indenture when such express mention is not made.

Any rights of Holders, contractual or otherwise, arising under or pursuant to any offer to repurchase Securities made by the Company under this Section 3.10 shall be subordinated in right of payment to all Senior Indebtedness to the same extent as the Securities are subordinated to Senior Indebtedness under the provisions of Article 5 and such offer to repurchase shall provide that, if at the time the Securities are required to be repurchased pursuant to such offer, payment of the Securities is not permitted pursuant to the provisions of Article 5, the Company shall use its best efforts to obtain all necessary waivers from, or to repay in full, the holders of Senior Indebtedness in order to permit such repurchase. Notwithstanding the foregoing, any failure by the Company to comply with this Section 3.10 to offer to repurchase, or to repurchase, the Securities shall be a default in the performance by the Company hereunder.

Notwithstanding the foregoing, the Company will not be required to make a Change of Control offer upon a Change of Control if a third party makes the Change of Control offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Section 3.10 applicable to a Change of Control offer made by the Company, including any requirements to repay in full all indebtedness under any Senior Indebtedness, or obtains the consents of the lenders under such Senior Indebtedness to such Change of Control offer as described in the next paragraph and purchases all Securities validly tendered and not withdrawn under such Change of Control offer.

Prior to the commencement of a Change of Control offer, but in any event within 30 days following any Change of Control, the Company will:

(1) (a) repay in full and terminate all commitments under the Credit Agreement and all other Senior Indebtedness the terms of which require repayment upon a Change of Control or (b) offer to repay in full and terminate all commitments under the Credit Agreement and all such other Senior Indebtedness and repay such indebtedness to each lender who has accepted such offer in full, or



(2) obtain the requisite consents under the Credit Agreement and all such other Senior Indebtedness to permit the repurchase of the Securities as required under this Section 3.10.

A "Change of Control" shall be deemed to have occurred at such time after the original issuance of the Securities as any of the following occur:

(1) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company and its Subsidiaries, taken as a whole, to any Person or group of related Persons, as defined in Section 13(d) of the Exchange Act (a "Group");

(2) the approval by the holders of capital stock of the Company of any plan or proposal for the liquidation or dissolution of the Company (whether or not otherwise in compliance with the provisions of this Indenture);

(3) any Person or Group shall become the owner, directly or indirectly, beneficially or of record, of shares representing more than 45% of the Voting Stock of the Company or any successor to all or substantially all of the Company's assets; or

(4) the first day on which a majority of the members of the Company's Board of Directors are not Continuing Directors.

SECTION 3.11. NOTICE; METHOD OF EXERCISING REPURCHASE OR CHANGE OF CONTROL REPURCHASE RIGHT.

(a) In connection with any repurchase of Securities pursuant to Section 3.9 or 3.10, the Company shall give written notice of the Repurchase Date or Change in Control Repurchase Date, as applicable, to the Holders (the "Company Notice"). The Company Notice shall be sent by first-class mail to the Trustee and to each Holder not less than 20 Business Days prior to any Repurchase Date (the "Company Notice Date") or not more than 30 days after the occurrence of a Change in Control, as the case may be. The notice shall include the form of a Repurchase Notice (as defined below) to be completed by the Holder and shall state:

(1) the date of such Change of Control and, briefly, the events causing such Change of Control;

(2) the date by which the Repurchase Notice pursuant to this Section 3.11 must be given;

(3) the Repurchase Date or Change in Control Repurchase Date, as the case may be;

(4) the Repurchase Price, Change in Control Repurchase Price or Conversion Price and, to the extent known at the time of such notice, the amount of Contingent Interest and Liquidated Damages, if any, that will be payable with respect to the Securities on the Repurchase Date; and

(5) the procedures that the Holder must follow to exercise rights under Section 3.9 or Section 3.10, as the case may be.



(b) A Holder may exercise its rights specified in Section 3.9 upon delivery of a written notice of the exercise of such rights (a "Repurchase Notice") to the Paying Agent at any time from the opening of business on the date that is 20 Business Days prior to the Repurchase Date until the close of business on the Repurchase Date, and a Holder may exercise its rights specified in Section 3.10 upon delivery of a written notice of the exercise of such rights (a "Change of Control Repurchase Notice") to the Paying Agent, which written notice the Paying Agent shall promptly forward to the Company, at any time prior to the close of business on the third Business Day prior to the Change of Control Repurchase Date. Any Repurchase Notice or Change of Control Repurchase Notice shall state:

(1) the certificate number of each Security that the Holder will deliver to be repurchased; and

(2) the portion of the principal amount of each Security that the Holder will deliver to be repurchased which portion must be $1,000 or an integral multiple thereof; and that such Security shall be repurchased pursuant to the terms and conditions specified in this Indenture. If the Security is held in book-entry form, in lieu of the procedure set forth above, the Holder must complete and deliver to the Depositary appropriate instructions pursuant to the Depositary's repurchase conversion programs.

In the case of a repurchase of a Security pursuant to Section 3.9 hereof, the delivery of such Security to the Paying Agent together with the Repurchase Notice at any time prior to or on the Repurchase Date (together with all necessary endorsements) at the office of the Paying Agent, shall be a condition to the receipt by the Holder of the Repurchase Price therefor, together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any); provided, however, that such Repurchase Price,

together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any), shall be so paid pursuant to Section 3.9 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof set forth in the related Repurchase Notice, as determined by the Company.

In the case of a repurchase of a Security pursuant to Section 3.10 hereof, the delivery of such Security to the Paying Agent together with the Change of Control Repurchase Notice at any time prior to the third Business Day prior to the Change of Control Repurchase Date (together with all necessary endorsements) at the office of the Paying Agent shall be a condition to the receipt by the Holder of the Repurchase Price therefor; provided, however, that such Repurchase Price shall be so paid pursuant to Section 3.10 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof set forth in the related Change of Control Repurchase Notice as determined by the Company.

The Company or the Purchase Party shall repurchase from the Holder thereof, pursuant to Section 3.9 or Section 3.10, a portion of a Security if the principal amount of such portion is $1,000 or an integral multiple of $1,000. Provisions of this Indenture that apply to the repurchase of all of a Security pursuant to Sections 3.9 through 3.16 also apply to the repurchase of such portion of such Security.



Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Repurchase Notice or Change in Control Repurchase Notice, shall have the right to withdraw such Repurchase Notice in whole or in a portion thereof that is $1,000 or an integral multiple thereof at any time prior to the close of business on the Business Day prior to the Repurchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 3.12.

The Paying Agent shall promptly notify the Company and any Purchase Party of the receipt by it of any Repurchase Notice or Change in Control Repurchase Notice, as the case may be, or written withdrawal thereof.

SECTION 3.12. EFFECT OF REPURCHASE NOTICE OR CHANGE IN CONTROL REPURCHASE NOTICE.

Upon receipt by the Paying Agent of the Repurchase Notice or Change in Control Purchase Notice specified in Section 3.11(b), the Holder of the Security in respect of which such Repurchase Notice or Change in Control Repurchase Notice was given shall (unless such Repurchase Notice or Change in Control Repurchase Notice is withdrawn as specified below) thereafter be entitled to receive solely the Repurchase Price or Change in Control Repurchase Price, together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) with respect to such Security. Such Repurchase Price or Change in Control Repurchase Price, as applicable, together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) thereon, to but not including the Repurchase Date or Change in Control Repurchase Date, as the case may be, shall be paid to such Holder promptly following the later of (i) the Repurchase Date or Change in Control Repurchase Date with respect to such Security (provided the conditions in Sections 3.11(b) have been satisfied) and (ii) the time of delivery of such Security to the Paying Agent by the Holder thereof in the manner required by Section 3.11(b). Securities in respect of which a Repurchase Notice or Change in Control Repurchase Notice, as the case may be, has been given by the Holder thereof may not be converted into shares of Common Stock on or after the date of the delivery of such Repurchase Notice or Change in Control Repurchase Notice, as the case may be, unless such Repurchase Notice or Change in Control Repurchase Notice, as the case may be, has first been validly withdrawn.

A Repurchase Notice or Change in Control Repurchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal delivered by the Holder, with such Holder's signature guaranteed in a manner satisfactory to the Paying Agent, to the office of the Paying Agent at any time prior to the close of business on the Business Day prior to the Repurchase Date or Change in Control Repurchase Date, as the case may be, to which it relates, specifying:

(1) the certificate number of each Security in respect of which such notice of withdrawal is being submitted;

(2) the principal amount of the Security or portion thereof with respect to which such notice of withdrawal is being submitted; and



(3) the principal amount, if any, of such Security that remains subject to the original Repurchase Notice or Change in Control Repurchase Notice and that has been or will be delivered for repurchase by the Company.

There shall be no purchase of any Securities pursuant to Section 3.9 or Section 3.10 or redemption pursuant to Section 3.1 if there has occurred prior to, on or after, as the case may be, the giving, by the Holders of such Securities, of the required Repurchase Notice (or Change in Control Repurchase Notice, as the case may be) and is continuing an Event of Default (other than a default in the payment of the Repurchase Price or Change in Control Repurchase Price, as the case may be). The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Repurchase Notice or Change in Control Repurchase Notice, as the case may be, has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Repurchase Price or Change in Control Repurchase Price, as the case may be) in which case, upon such return, the Repurchase Notice or Change in Control Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

SECTION 3.13. DEPOSIT OF REPURCHASE PRICE OR CHANGE IN CONTROL REPURCHASE PRICE.

If the Security is held in book-entry form, in lieu of the procedure set forth above, the Holder must complete and deliver to the Depositary appropriate instructions pursuant to the Depositary's repurchase conversion programs.

On or before the Repurchase Date or Change in Control Repurchase Date, as the case may be, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company or a Subsidiary or an Affiliate of either of them is acting as the Paying Agent, shall segregate and hold in trust as provided in Section 2.4) an amount of money sufficient to pay the aggregate Repurchase Price or Change in Control Repurchase Price, as the case may be, including accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) thereon to but not including the Repurchase Date or Change in Control Repurchase Date, as the case may be, of all the Securities or portions thereof that are to be repurchased as of such Repurchase Date or Change in Control Repurchase Date, as the case may be. The manner in which the deposit required by this Section 3.13 is made by the Company shall be at the option of the Company; provided that such deposit shall be made in a manner such that the Trustee or the Paying Agent shall have immediately available funds on the Repurchase Date or Change in Control Repurchase Date, as the case may be; provided further, that if such payment is made on the Repurchase Date or Change in Control Repurchase Date, as the case may be, it must be received by the Trustee or Paying Agent, as the case may be, by 10:00 a.m., New York City time, on such date.

If the Paying Agent holds, in accordance with the terms hereof, money sufficient to pay the Repurchase Price or Change in Control Repurchase Price of any Security tendered for repurchase on the Business Day prior to the Repurchase Date or Change in Control Repurchase Date, as the case may be, then, on and after the Repurchase Date or Change in Control Repurchase Date, as the case may be, such Security will cease to be outstanding and interest on such Security will cease to accrue and will be deemed paid, whether or not such Security is



delivered to the Paying Agent, and all other rights of the Holder in respect thereof shall terminate (other than the right to receive the Repurchase Price or Change in Control Repurchase Price, as the case may be, upon delivery of such Security).

SECTION 3.14. SECURITIES REPURCHASED IN PART.

Any Security that is to be repurchased only in part shall be surrendered at the office of the Paying Agent (with due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the

Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities, or such authorized denomination or denominations as may be requested by such Holder, in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered that is not repurchased.

SECTION 3.15. COMPLIANCE WITH SECURITIES LAWS UPON REPURCHASE OF SECURITIES.

In connection with any offer to repurchase or repurchase of Securities under Section 3.9 or Section 3.10 hereof (provided that such offer or repurchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) at the time of such offer or repurchase), the Company shall (i) comply with Rule 13e-4 and Rule 14e-1 under the Exchange Act, if applicable, (ii) file the related Schedule TO (or any successor schedule, form or report) under the Exchange Act, and (iii) otherwise comply with all federal and state securities laws so as to permit the rights of the Holders and obligations of the Company under Sections 3.9 through 3.15 to be exercised at the time and in the manner specified therein.

SECTION 3.16. REPAYMENT TO THE COMPANY.

Subject to the provisions of Section 5.7, to the extent that the aggregate amount of cash deposited by the Company pursuant to Section 3.13 exceeds the aggregate Repurchase Price or Change in Control Repurchase Price, as the case may be, of the Securities or portions thereof to be repurchased, then, promptly after the Business Day following the Repurchase Date or Change in Control Repurchase Date, as the case may be, the Trustee or the Paying Agent, as the case may be, shall return any such excess to the Company.

## ARTICLE 4.

## CONVERSION OF THE SECURITIES

SECTION 4.1. CONVERSION PRIVILEGE.

Subject to the provisions of this Article 4, a Holder of a Security may convert such Security into Common Stock, at the Conversion Price then in effect, if any of the following conditions is satisfied:

(a) during any calendar quarter (the "Quarter") commencing after the Issue Date, if the Closing Price per share of Common Stock for at least 20 Trading Days in the period of 30



consecutive Trading Days ending on the last Trading Day of the Quarter immediately preceding such Quarter (appropriately adjusted to take into account the occurrence, during such 20 Trading Day period, of any event requiring adjustment of the Conversion Price under this Indenture) is more than 120% of the Conversion Price on such 30th Trading Day;

(b) the Security has been called for redemption by the Company pursuant to Section 3.1 and the redemption has not yet occurred;

(c) during the five Trading Day period immediately after any period of five consecutive Trading Days in which the Trading Price for each Trading Day in such period was less than 95% of the product of the Closing Price per share of Common Stock on such Trading Day multiplied by the number of shares of Common Stock issuable (assuming satisfaction of conditions to conversion) upon conversion of $1,000 in principal amount of the Securities (the "Trading Price Condition"); provided, that if on the date of any conversion pursuant to the Trading Price Condition, the Closing Price is greater than the effective Conversion Price but less than 120% of the then effective Conversion Price, then such Holder shall receive, in lieu of shares of Common Stock based on the Conversion Rate, shares of Common Stock with a value equal to the principal amount of such Holder's Securities plus accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) as of the Conversion Date (a "Principal Value Conversion"). Shares of Common Stock delivered upon a Principal Value Conversion will be valued at the greater of the Effective Conversion Price on the Conversion Date and the applicable Closing Price as of the third day after the Conversion Date. The Company shall deliver such shares of Common Stock

no later than the third Business Day following the determination of the applicable Closing Price. The "Effective Conversion Price" is, as of any date of determination, a dollar amount (initially $15.43) derived by dividing $1,000 by the Conversion Rate then in effect (assuming a Conversion Date eight Trading Days prior to the date of determination);

(d) (i) an issuance of rights, warrants or options referred to in Section 4.6(b) occurs; or (ii) a distribution referred to in Section 4.6(c) occurs where the fair market value of such distribution per share of Common Stock (as determined by the Board of Directors of the Company, which determination shall be conclusive evidence of such fair market value) exceeds 10% of the Closing Price per share of Common Stock on the Trading Day immediately preceding the date of declaration of such distribution; or

(e) (i) the Company is party to a consolidation, merger, share exchange, sale of all or substantially all of its assets or other similar transaction pursuant to which the Common Stock is subject to conversion into shares of stock (other than Common Stock of the Company), other securities or property (including cash) subject to Section 4.12 and (ii) the conversion of such Security occurs at any time from and after the date that is 15 days prior to the date of the anticipated effective time of such transaction until and including the date that is 15 days after the actual effective date of such transaction; provided, however, that if such conversion occurs after the effective date of such transaction, the Holder will receive on conversion the consideration determined in accordance with Section 4.12.

In the case of the foregoing clause (c), the Trustee (or other Conversion Agent appointed by the Company) shall have no obligation to determine the Trading Price unless the Company



has requested such a determination; and the Company shall have no obligation to make such request unless a Holder provides it with reasonable evidence that the Trading Price per $1,000 principal amount of such series of Securities would be less than 95% of the product of the Closing Price per share of Common Stock on such Trading Date multiplied by the number of shares of Common Stock issuable (assuming satisfaction of conditions to conversion) upon conversion of $1,000 in principal amount of the Securities. If such evidence is provided, the Company shall instruct the Trustee (or other Conversion Agent) to determine the Trading Price of the Securities beginning on the next Trading Day and on each successive Trading Day until the Trading Price per $1,000 principal amount of such Securities is greater than or equal to 95% of the product of the Closing Price per share of Common Stock on such Trading Date multiplied by the number of shares of Common Stock issuable (assuming satisfaction of conditions to conversion) upon conversion of $1,000 in principal amount of the Securities; provided that the Trustee shall be under no duty or obligation to make the calculations described in the foregoing clause (c) or to determine whether the Securities are convertible pursuant to such section. The Company shall make the calculations described in the foregoing clause (c), using the Trading Price provided by the Trustee or a member of the New York Stock Exchange.

The Trustee shall be entitled at its sole discretion to consult with the Company and to request the assistance of and rely upon the Company in connection with the Trustee's duties and obligations pursuant to the foregoing clause (c) (including without limitation the calculation or determination of the Trading Price), and the Company agrees, if requested by the Trustee, to cooperate with, and provide assistance to, the Trustee in carrying out its duties under the foregoing clause (c); provided, however, that nothing herein shall be construed to relieve the Trustee of its duties pursuant to the foregoing clause (c).

In the case of the foregoing clauses (d)(i) and (ii), the Company shall cause a notice of such issuance or distribution to be filed with the Trustee and the Conversion Agent and to be mailed to each Holder of Securities at its address appearing on the list provided for in Section 2.5, at least 20 days prior to the Ex-Dividend Date for such issuance or distribution. Once the Company has given such notice, Holders may surrender their Securities for conversion at any time thereafter until the earlier of the close of business on the Business Day prior to the Ex-Dividend Date or the Company's announcement that such issuance or distribution will not take place. This provision shall not apply if the Holder of a Security is otherwise entitled to participate in the distribution without conversion.

The "Ex-Dividend Date" for any such issuance or distribution means the date immediately prior to the commencement of "ex-dividend" trading for such issuance or distribution on The New York Stock Exchange or such other national securities exchange or The Nasdaq Stock Market or similar system of automated dissemination of quotations of securities prices on which the Common Stock is then listed or quoted.

The number of shares of Common Stock issuable upon conversion of a Security shall be determined by dividing the principal amount of the Security or portion thereof surrendered for conversion by the Conversion Price in effect on the Conversion Date. The initial Conversion Price is set forth in paragraph 8 of the Securities and is subject to adjustment as provided in this Article 4.



A Holder may convert a portion of a Security equal to $1,000 or any integral multiple thereof. Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

If a Security is called for redemption pursuant to Article 3, the right to convert such Security shall terminate at the close of business on the third Business Day before the redemption date for such Security (unless the Company shall default in making the redemption payment then due, in which case the conversion right shall terminate on the date such Default is cured and such Security is redeemed). A Security in respect of which a Holder has delivered a Repurchase Notice or a Change in Control Repurchase Notice pursuant to Section 3.11 exercising the option of such Holder to require the Company to repurchase such Security may be converted only if such Repurchase Notice or Change in Control Repurchase Notice, as the case may be, is withdrawn by a written notice of withdrawal delivered to the Paying Agent prior to the close of business on the Repurchase Date or prior to the close of business on the Change in Control Repurchase Date, as the case may be, in accordance with Section 3.11.

A Holder of Securities is not entitled to any rights of a holder of Common Stock until such Holder has converted its Securities into Common Stock and, upon such conversion, only to the extent such Securities are deemed to have been converted into Common Stock pursuant to this Article 4.

SECTION 4.2. CONVERSION PROCEDURE.

To convert a Security, a Holder must (i) complete and manually sign the conversion notice on the back of the Security and deliver such notice to the Conversion Agent, (ii) surrender the Security to the Conversion Agent, (iii) furnish appropriate endorsements and transfer documents to the Registrar or the Conversion Agent, (iv) pay any transfer or other tax, if required by Section 4.4 and (v) if the Security is held in book-entry form, complete and deliver to the Depositary appropriate instructions pursuant to the Depositary's book-entry conversion programs. The date on which the Holder satisfies all of the foregoing requirements is the conversion date. As soon as practicable after the conversion date, the Company shall deliver to the Holder through the Conversion Agent a certificate for the number of whole shares of Common Stock issuable upon the conversion and cash in lieu of any fractional shares pursuant to Section 4.5.

The person in whose name the certificate is registered shall be deemed to be a stockholder of record on the conversion date; provided, however, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the person or persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; provided, further, that such conversion shall be at the Conversion Price in effect on the date that such Security shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such person shall no longer be a Holder of such Security.



No payment or adjustment will be made for accrued interest (including Contingent Interest and Liquidated Damages, if any) on converted Security or for

dividends or distributions on shares of Common Stock issued upon conversion of a Security, but if any Holder surrenders a Security for conversion between the record date for the payment of an installment of interest (including Contingent Interest and Liquidated Damages, if any) and the next interest Payment Date, then, notwithstanding such conversion, the interest (including Contingent Interest and Liquidated Damages, if any) payable on such interest Payment Date shall be paid to the Holder of such Security on such record date. In such event, such Security, when surrendered for conversion, must be accompanied by delivery of a check payable to the Conversion Agent in an amount equal to the interest (including Contingent Interest and Liquidated Damages, if any) payable on such interest Payment Date on the portion so converted. If such payment does not accompany such Security, the Security shall not be converted; provided, however, that no such check shall be required if such Security has been called for redemption on a redemption date within the period between and including such record date and such interest Payment Date. If the Company defaults in the payment of interest (including Contingent Interest and Liquidated Damages, if any) payable on the interest Payment Date, the Conversion Agent shall repay such funds to the Holder.

Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the Holder, a new Security equal in principal amount to the unconverted portion of the Security surrendered.

SECTION 4.3. ADJUSTMENTS BELOW PAR VALUE.

Before taking any action which would cause an adjustment decreasing the Conversion Price so that the shares of Common Stock issuable upon conversion of the Securities would be issued for less than the par value of such Common Stock, the Company will take all corporate action which may be necessary in order that the Company may validly and legally issue fully paid and nonassessable shares of such Common Stock at such adjusted Conversion Price.

SECTION 4.4. TAXES ON CONVERSION.

If a Holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon such conversion. However, the Holder shall pay any such tax which is due because the Holder requests the shares to be issued in a name other than the Holder's name. The Conversion Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due because the shares are to be issued in a name other than the Holder's name. Nothing herein shall preclude any tax withholding required by law or regulations.

SECTION 4.5. COMPANY TO PROVIDE STOCK.

The Company shall, prior to issuance of any Securities hereunder, and from time to time as may be necessary, reserve, out of its authorized but unissued Common Stock a sufficient number of shares of Common Stock to permit the conversion of all outstanding Securities for



shares of Common Stock. The shares of Common Stock or other securities issued upon conversion of the Securities shall bear any legend required in accordance with Section 2.6(d).

No fractional shares of Common Stock or scrip representing fractional shares shall be issued upon conversion of Securities. If more than one Security shall be surrendered for conversion at one time by the same holder, the number of full shares which shall be issuable upon conversion shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof to the extent permitted hereby) so surrendered. If any fractional share of Common Stock would be issuable upon the conversion of any Security or Securities, the Company shall make an adjustment thereof in cash at the current market value thereof. For these purposes, the current market value of a share of Common Stock shall be the Closing Price on the first day (which is not a Legal Holiday) immediately preceding the day on which the Securities (or specified portions thereof) are deemed to have been converted.

The Company covenants that all shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares or treasury shares,

shall be duly authorized, validly issued, fully paid and non-assessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company will endeavor promptly to comply with all federal and state securities laws regulating the offer and delivery of shares of Common Stock upon conversion of Securities, if any, and will list or cause to have quoted such shares of Common Stock on each national securities exchange or in the over-the-counter market or such other market on which the Common Stock is then listed or quoted.

SECTION 4.6. ADJUSTMENT OF CONVERSION PRICE.

The conversion price (the "Conversion Price") shall be that price set forth in paragraph 8 of the form of Security attached hereto as Exhibit A and shall be adjusted from time to time by the Company as follows:

(a) In case the Company shall (i) pay a dividend or other distribution in shares of Common Stock to holders of Common Stock, (ii) subdivide its outstanding Common Stock into a greater number of shares, (iii) combine its outstanding Common Stock into a smaller number of shares or (iv) reclassify its outstanding Common Stock, the Conversion Price in effect immediately prior thereto shall be adjusted so that the Holder of any Security thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock which it would have owned or have been entitled to receive had such Security been converted immediately prior to the happening of such event. An adjustment made pursuant to this subsection (a) shall become effective immediately after the record date in the case of a dividend or distribution and shall become effective immediately after the effective date in the case of subdivision, combination or reclassification.

(b) In case the Company shall issue to all holders of its Common Stock, rights, warrants or options entitling such holders (for a period commencing no earlier than the record date described below and expiring not more than 60 days after such record date) to subscribe for or purchase shares of Common Stock (or securities convertible into Common Stock) at a price per share less than the current market price



per share of Common Stock (as determined in accordance with subsection (g) below) at the record date for the determination of stockholders entitled to receive such rights, warrants or options, the Conversion Price in effect immediately prior thereto shall be adjusted so that the Conversion Price shall equal the price determined by multiplying the Conversion Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such record date, plus the number of shares which the aggregate subscription or purchase price for the total number of shares of Common Stock offered by the rights, warrants or options so issued (or the aggregate conversion price of the convertible securities offered by such rights, warrants or options) would purchase at such current market price, and the denominator of which shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock offered by such rights, warrants or options (or into which the convertible securities so offered by such rights, warrants or options are convertible). Such adjustment shall be made successively whenever any such rights, warrants or options are issued, and shall become effective immediately after such record date. If at the end of the period during which such rights, warrants or options are exercisable not all rights, warrants or options shall have been exercised, the adjusted Conversion Price shall be immediately readjusted to what it would have been upon application of the foregoing adjustment substituting the number of additional shares of Common Stock actually issued (or the number of shares of Common Stock issuable upon conversion of convertible securities actually issued) for the total number of shares of Common Stock offered (or the convertible securities offered).

(c) In case the Company shall distribute to all holders of its Common Stock any shares of capital stock of the Company (other than Common Stock) or evidences of its indebtedness, cash, other securities or other assets, or shall distribute to all holders of its Common Stock, rights, warrants or options to subscribe for or purchase any of its securities (excluding: (i) rights, options, warrants and other securities referred to in subsections (b) above or (d), (e) or (h) below; and (ii) those dividends, distributions, subdivisions and

combinations referred to in subsection (a) above); then in each such case the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the date of such distribution or purchase by a fraction, the numerator of which shall be the current market price per share (as defined in subsection (g) below) of the Common Stock on the record date mentioned below less the fair market value on such record date (as determined by the Board of Directors of the Company, whose determination shall be conclusive evidence of such fair market value) of the portion of the capital stock or evidences of indebtedness, securities or assets so distributed or of such rights, warrants or options, in each case as applicable to one share of Common Stock, and the denominator of which shall be the current market price per share (as defined in subsection (g) below) of the Common Stock on such record date. Such adjustment shall become effective immediately after the record date for the determination of stockholders entitled to receive such distribution.

(d) In the event the Company pays a dividend or makes a distribution to all holders of its Common Stock consisting of publicly-traded capital stock of any class or series, or similar equity interests, of or relating to a Subsidiary or other business unit of the Company, the Conversion Price shall be adjusted, if at all, in accordance with the formula:

$$CP' = \frac{CP}{\left(1+\frac{F}{M}\right)}$$

where:

CP' = the adjusted Conversion Price

CP = the current Conversion Price

M = the average of the Closing Prices of the Common Stock for the 10 trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such dividend or distribution on The New York Stock Exchange or such other national or regional exchange or market which such securities are then listed or quoted.

F = the average of the Closing Prices of the securities distributed in respect of each share of Common Stock for which this Section 4.6(e) applies for the 10 trading days commencing on and including the fifth trading day after the date on which "ex-dividend trading" commences for such dividend or distribution on The New York Stock Exchange or such other national or regional exchange or market which such securities are then listed or quoted.

(e) In case the Company shall declare a cash dividend or distribution greater than $0.03 per quarter to all the holders of Common Stock, the Conversion Price shall be decreased so that the Conversion Price shall equal the price determined by multiplying the Conversion Price in effect immediately prior to the record date for such dividend or distribution by a fraction,

(i) the numerator of which shall be the average Closing Price of the Company's Common Stock for the three consecutive Trading Days ending on the date immediately preceding the record date for such dividend or distribution (the "Pre-Dividend Sale Price"), minus the aggregate of the full amount of such cash dividend or distribution applicable to one share of Common Stock less $0.03 per fiscal quarter, and

(ii) the denominator of which shall be the Pre-Dividend Sale Price;

such adjustment to become effective immediately after the record date for such dividend or distribution; provided that no adjustment to the Conversion Price or the ability of a Holder of a Security to convert will be made pursuant to this Section 4.6(e) if the Company provides that Holders of Securities will participate in such cash dividend or distribution on an as-converted basis without conversion.

(f) In case the Company or any of its Subsidiaries shall repurchase (including by way of tender or exchange offer, other than an odd lot tender offer) shares of Common Stock, and the fair market value of the sum of (i) the

aggregate consideration paid for such Common Stock, (ii) the aggregate fair market value of cash dividends and distributions paid within the twelve (12) months preceding the date of purchase of such shares of Common Stock in respect of which no adjustment pursuant to this Section 4.6 previously has been made, and (iii) the aggregate fair market value of any amounts previously paid for the repurchase of Common Stock of a type described in this paragraph (f) within the twelve (12) months preceding the date of purchase of such shares of Common Stock in respect of which no adjustment pursuant to this Section 4.6 previously has been made, exceeds 10% of aggregate Market Capitalization on the date of, and after giving effect to, such repurchase, then the Conversion Price shall be adjusted so that the same shall equal the price determined by multiplying the Conversion Price in effect immediately



prior to the date of such distribution or purchase by a fraction, the numerator of which shall be the current market price per share (as defined in subsection (g) below) of the Common Stock on the date of such repurchase, less the quotient obtained by dividing the Aggregate Market Premium involved in such repurchase (as defined hereinafter) by the difference between the number of shares of Common Stock outstanding before such repurchase and the number of shares of Common Stock the subject of such repurchase, and the denominator of which shall be the current market price per share (as defined in subsection (g) below) of the Common Stock on the date of such repurchase. Such adjustment shall become effective immediately after the date of such repurchase. For purposes of this subsection (f), the "Aggregate Market Premium" is the excess, if any, of the aggregate repurchase price paid for all such Common Stock over the aggregate current market value per share (as defined in subsection (g) below) of all such repurchased stock, determined with respect to each share involved in each such repurchase as of the date of repurchase with respect to such share.

(g) For the purpose of any computation under subsections (b), (c) and (f) above, the current market price per share of Common Stock on any date shall be deemed to be the average of the Closing Prices for 20 consecutive Trading Days commencing 30 Trading Days before the record date with respect to any distribution, issuance or other event requiring such computation. As used herein, the term "Trading Days" with respect to Common Stock means (i) if the Common Stock is listed or admitted for trading on any national securities exchange, days on which such national securities exchange is open for business or (ii) if the Common Stock is quoted on a system of automated dissemination of quotations of securities prices, days on which trades may be made on such system.

(h) If the Company has implemented or implements a Stockholder Rights Plan (as defined below), the Company agrees that such Stockholder Rights Plan will provide that upon any conversion of the Securities by any Holder prior to a Trigger Event (as defined below), the Holders shall receive the rights, warrants or options issued under such plan. Rights, warrants or options distributed by the Company to all holders of Common Stock entitling the holders thereof to subscribe for or purchase shares of the Company's capital stock (either initially or under certain circumstances), which rights, warrants or options, until the occurrence of a specified event or events (a "Trigger Event"):

(i) are deemed to be transferred with such shares of Common Stock,

(ii) are not exercisable, and

(iii) are also issued in respect of future issuances of Common Stock,

(a "Stockholder Rights Plan") shall not be deemed distributed for purposes of this Section 4.6 and no adjustment to the Conversion Price shall be required to be made until the occurrence of the earliest Trigger Event. In addition, in the event of any Trigger Event with respect thereto, that shall have resulted in an adjustment to the Conversion Price under this Section 4.6, (1) in the case of any such rights, warrants or options which shall all have been redeemed or repurchased without exercise by any holders thereof, the Conversion Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were a cash distribution, equal to the per share redemption or repurchase price

received by a holder of Common Stock with respect to such rights, warrants or options (assuming such holder had retained such rights, warrants or options), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of any such rights, warrants or options all of which shall have expired without exercise by any holder thereof, the Conversion Price shall be readjusted as if such issuance had not occurred.

In any case in which this Section 4.6 shall require that an adjustment be made immediately following a record date established for purposes of this Section 4.6, the Company may elect to defer (but only until five Business Days following the filing by the Company with the Trustee of the certificate described in Section 4.10) issuing to the holder of any Security converted after such record date the shares of Common Stock and other capital stock of the Company issuable upon such conversion over and above the shares of Common Stock and other capital stock of the Company issuable upon such conversion only on the basis of the Conversion Price prior to adjustment; and, in lieu of the shares the issuance of which is so deferred, the Company shall issue or cause its transfer agents to issue due bills or other appropriate evidence of the right to receive such shares.

SECTION 4.7. NO ADJUSTMENT.

No adjustment in the Conversion Price shall be required unless the adjustment would require an increase or decrease of at least 1% in the Conversion Price as last adjusted; provided, however, that any adjustments which by reason of this Section 4.7 are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Article 4 shall be made to the nearest cent or to the nearest one-hundredth of a share, as the case may be.

No adjustment need be made for rights to purchase Common Stock or issuances of Common Stock pursuant to a Company plan for reinvestment of dividends or interest.

No adjustment need be made for a change in the par value or a change to no par value of the Common Stock.

To the extent that the Securities become convertible into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

SECTION 4.8. EQUIVALENT ADJUSTMENTS.

In the event that, as a result of an adjustment made pursuant to Section 4.6 above, the holder of any Security thereafter surrendered for conversion shall become entitled to receive any shares of capital stock of the Company other than shares of its Common Stock, thereafter the Conversion Price of such other shares so receivable upon conversion of any Securities shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in this Article 4.

SECTION 4.9. ADJUSTMENT FOR TAX PURPOSES.

The Company shall be entitled to make such reductions in the Conversion Price, in addition to those required by Section 4.6, as it in its discretion shall determine to be advisable in



order that any stock dividends, subdivision of shares, distribution of rights to purchase stock or securities, or a distribution or securities convertible into or exchangeable for stock hereafter made by the Company to its stockholders shall not be taxable.

SECTION 4.10. NOTICE OF ADJUSTMENT.

Whenever the Conversion Price is adjusted, or Securityholders become entitled to other securities or due bills, the Company shall promptly mail to Securityholders a notice of the adjustment and file with the Trustee an

Officers' Certificate briefly stating the facts requiring the adjustment and the manner of computing it. The certificate shall be conclusive evidence of the correctness of such adjustment and the Trustee may conclusively assume that, unless and until such certificate is received by it, no such adjustment is required.

SECTION 4.11. NOTICE OF CERTAIN TRANSACTIONS.

In case:

(a) the Company shall declare a dividend (or any other distribution) on its Common Stock (other than in cash out of retained earnings); or

(b) the Company shall authorize the granting to the holders of its Common Stock of rights, warrants or options to subscribe for or purchase any share of any class or any other rights, warrants or options; or

(c) of any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, or a change in par value, or from par value to no par value, or from no par value to par value), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or

(d) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company,

the Company shall cause to be filed with the Trustee and to be mailed to each holder of Securities at its address appearing on the list provided for in Section 2.5, as promptly as possible but in any event at least ten days prior to the applicable date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution or rights, warrants or options, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective or occur, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such dividend, distribution, reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up.



SECTION 4.12. EFFECT OF RECLASSIFICATION, CONSOLIDATION, MERGER OR SALE ON CONVERSION PRIVILEGE.

If any of the following shall occur, namely: (i) any reclassification or change of outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination); (ii) any consolidation, combination or merger to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than a change in name, or par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in, outstanding shares of Common Stock; or (iii) any sale or conveyance of all or substantially all of the assets of the Company, then the Company, or such successor or purchasing corporation, as the case may be, shall, as a condition precedent to such reclassification, change, consolidation, merger, sale or conveyance, execute and deliver to the Trustee a supplemental indenture providing that the Holder of each Security then outstanding shall have the right to convert such Security into the kind and amount of shares of stock and other securities and property (including cash) receivable upon such reclassification, change, consolidation, merger, sale or conveyance by a holder of the number of shares of Common Stock deliverable upon conversion of such Security immediately prior to such reclassification, change, consolidation, merger, sale or conveyance. Such supplemental indenture shall provide for adjustments of the Conversion Price which shall be as nearly equivalent as maybe practicable to the adjustments of the Conversion Price provided for in this Article 4. If, in the case of any such consolidation, merger, sale or conveyance, the stock or other securities and property

(including cash) receivable thereupon by a holder of Common Stock includes shares of stock or other securities and property of a corporation other than the successor or purchasing corporation, as the case may be, in such consolidation, merger, sale or conveyance, then such supplemental indenture shall also be executed by such other corporation and shall contain such additional provisions to protect the interests of the Holders of the Securities as the Board of Directors of the Company shall reasonably consider necessary by reason of the foregoing. The provision of this Section 4.12 shall similarly apply to successive consolidations, mergers, sales or conveyances. Notwithstanding the foregoing, a distribution by the Company to all or substantially all holders of its Common Stock for which an adjustment to the Conversion Price or provision for conversion of the Securities may be made pursuant to Section 4.6 shall not be deemed to be a sale or conveyance of all or substantially all of the assets of the Company for purposes of this Section 4.12.

In the event the Company shall execute a supplemental indenture pursuant to this Section 4.12, the Company shall promptly file with the Trustee an Opinion of Counsel stating that such supplemental indenture is authorized or permitted by this Indenture and an Officers' Certificate briefly stating the reasons therefor, the kind or amount of shares of stock or securities or property (including cash) receivable by Holders of the Securities upon the conversion of their Securities after any such reclassification, change, consolidation, merger, sale or conveyance, any adjustment to be made with respect thereto and that all conditions precedent have been complied with.



SECTION 4.13. TRUSTEE'S DISCLAIMER.

The Trustee has no duty to determine when an adjustment under this Article 4 should be made, how it should be made or what such adjustment should be, but may accept as conclusive evidence of the correctness of any such adjustment, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.10. The Trustee shall not be accountable for and makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities, and the Trustee shall not be responsible for the Company's failure to comply with any provisions of this Article 4. Each Conversion Agent (other than the Company or an Affiliate of the Company) shall have the same protection under this Section 4.13 as the Trustee.

The Trustee shall not be under any responsibility to determine the correctness of any provisions contained in any supplemental indenture executed pursuant to Section 4.12, but may accept as conclusive evidence of the correctness thereof, and shall be protected in relying upon, the Officers' Certificate with respect thereto which the Company is obligated to file with the Trustee pursuant to Section 4.12.

SECTION 4.14. VOLUNTARY REDUCTION.

The Company from time to time may reduce the Conversion Price by any amount for any period of time if the period is at least 20 Trading Days or such longer period as may be required by law and if the reduction is irrevocable during the period; provided that the Board of Directors of the Company determines that such reduction is in the best interests of the Company; and provided further, that in no event may the Conversion Price be less than the par value of a share of Common Stock.

## ARTICLE 5.

## SUBORDINATION

SECTION 5.1. SECURITIES SUBORDINATED TO SENIOR INDEBTEDNESS.

The Company covenants and agrees, and each Holder of Securities by his acceptance thereof likewise covenants and agrees, that all Securities are subject to the provisions of this Article 5; and each Person holding any Security, whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions and acknowledges that such provisions are for the benefit of, and shall be enforceable directly by, the holders of Senior Indebtedness.

Each Holder of Securities authorizes and directs the Trustee on such Holder's behalf to take such action as may be necessary or appropriate, in the

sole discretion of the Trustee, to acknowledge or effectuate the subordination between the Holders of Securities and the holders of Senior Indebtedness as provided in this Article and appoints the Trustee as such Holder's attorney-in-fact for any and all such purposes.

The payment of the principal of, premium, if any, and interest (including Contingent Interest and Liquidated Damages, if any) on and any other payment due pursuant to this



Indenture or any Securities issued hereunder (including, without limitation, the payment or deposit of the Redemption Price or Repurchase Price pursuant to Article 3 and any deposit pursuant to Section 6.3) shall, to the extent and in the manner hereinafter set forth, be subordinated and subject in right of payment to the prior payment in full of all Senior Indebtedness, whether outstanding at the date of this Indenture or thereafter created, incurred, assumed or guaranteed.

Each Holder by accepting a Security acknowledges and agrees that the subordination provision set forth in this Article 5 are, and are intended to be, an inducement and consideration to each holder of any Senior Indebtedness of the Company, whether such Senior Indebtedness was created before or after the issuance of the Securities, to acquire and continue to hold, or to continue to hold, such Senior Indebtedness, and such holder of Senior Indebtedness shall be deemed conclusively to have relied upon such subordination provisions in acquiring and continuing to hold, or in continuing to hold, such Senior Indebtedness, and such holder is made an obligee hereunder and may enforce directly such subordination provisions.

SECTION 5.2. SECURITIES SUBORDINATED TO PRIOR PAYMENT OF ALL SENIOR INDEBTEDNESS ON DISSOLUTION, LIQUIDATION, REORGANIZATION, ETC., OF THE COMPANY.

Upon any payment or distribution of the assets of the Company of any kind or character, whether in cash, property or securities (including any collateral at any time securing the Securities), to creditors upon any dissolution, winding-up, total or partial liquidation, or reorganization of the Company (whether voluntary or involuntary, or in bankruptcy, insolvency, reorganization, liquidation, or receivership proceedings, or upon an assignment for the benefit of creditors, or any marshalling of the assets of the Company, or upon any similar proceedings), then in such event:

(a) all Senior Indebtedness (including principal thereof and interest thereon) shall first be paid in full before any Payment of the Securities (as defined in Section 5.5) is made;

(b) any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities (including any collateral at any time securing the Securities), to which the Holders or the Trustee on behalf of the Holders would be entitled except for the provisions of this Article 5, including any such payment or distribution which may be payable or deliverable by reason of the payment of another debt of the Company being subordinated to the payment of the Securities, shall be paid or delivered by any debtor, Custodian or other person making such payment or distribution, directly to the holders of the Senior Indebtedness or their Representative or Representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the principal of and interest on the Senior Indebtedness held or represented by each, for application to payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full after giving effect to any concurrent payment or distribution, or provision therefor, to the holders of such Senior Indebtedness; and



(c) in the event that, notwithstanding the foregoing provisions of this Section 5.2, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, shall be received by the Trustee or the Holders before all Senior Indebtedness is paid in full, such payment or distribution (subject to the provisions of Sections 5.6 and 5.7) shall be held in trust for the benefit of, and shall be immediately paid or

delivered by the Trustee or such Holders, as the case may be, to the holders of Senior Indebtedness remaining unpaid, or their Representative or Representatives, ratably according to the aggregate amounts remaining unpaid on account of the principal of and interest on the Senior Indebtedness held or represented by each, for application to the payment of all Senior Indebtedness remaining unpaid, to the extent necessary to pay all Senior Indebtedness in full after giving effect to any concurrent payment or distribution, or provision therefor, to or for the holders of such Senior Indebtedness.

The Company shall give prompt notice to the Trustee of any dissolution, winding-up, liquidation or reorganization of the Company.

Upon any prepayment, payment or distribution of assets of the Company referred to in this Article 5, the Trustee, subject to the provisions of Sections 9.1 and 9.2, and the Holders shall be entitled to conclusively rely upon any order or decree by any court of competent jurisdiction in which such dissolution, winding-up, liquidation or reorganization proceeding is pending, or a certificate of the liquidating trustee or agent or other person making any distribution to the Trustee or to the Holders, for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 5; provided that the foregoing shall apply only if such court, trustee, liquidating trustee or other person has been fully apprised of the provisions of this Article.

SECTION 5.3. SECURITYHOLDERS TO BE SUBROGATED TO RIGHT OF HOLDERS OF SENIOR INDEBTEDNESS.

Subject to the prior payment in full of all Senior Indebtedness, the Holders shall be subrogated (equally and ratably with the holders of all indebtedness of the Company which by its express terms is subordinated to indebtedness of the Company to substantially the same extent as the Securities are subordinated and is entitled to like rights of subrogation including but not limited to holders of the Existing Convertible Notes) to the rights of the holders of Senior Indebtedness to receive payments or distributions of assets of the Company applicable to the Senior Indebtedness until the principal of and interest on the Securities shall be paid in full, and for purposes of such subrogation, no payments or distributions to the holders of Senior Indebtedness of assets, whether in cash, property or securities, distributable to the holders of Senior Indebtedness under the provisions hereof to which the Holders would be entitled except for the provisions of this Article 5, and no payment pursuant to the provisions of this Article 5 to the holders of Senior Indebtedness by the Holders shall, as among the Company, its creditors other than the holders of Senior Indebtedness, and the Holders, be deemed to be a payment by the Company to or on account of Senior Indebtedness, it being understood that the provisions of this Article 5 are, and are intended, solely for the purpose of defining the relative rights of the Holders, on the one hand, and the holders of Senior Indebtedness, on the other hand.



SECTION 5.4. OBLIGATIONS OF THE COMPANY UNCONDITIONAL.

Nothing contained in this Article 5 or elsewhere in this Indenture or in any Security is intended to or shall impair the obligation of the Company, which is absolute and unconditional, to pay to the Holders the principal of and interest on the Securities, as and when the same shall become due and payable in accordance with the terms of the Securities, or to affect the relative rights of the Holders and other creditors of the Company other than the holders of Senior Indebtedness, nor shall anything herein or therein prevent the Trustee or any Holder from exercising all remedies otherwise permitted by applicable law upon the happening of an Event of Default under this Indenture, subject to the provisions of Article 8, and the rights, if any, under this Article 5 of the holders of Senior Indebtedness in respect of assets, whether in cash, property or securities, of the Company received upon the exercise of any such remedy.

SECTION 5.5. COMPANY NOT TO MAKE PAYMENT WITH RESPECT TO SECURITIES IN CERTAIN CIRCUMSTANCES.

Upon the occurrence of a Payment Default, unless and until the amount of Senior Indebtedness affected by such Payment Default then due shall have been paid in full, or such default shall have been cured or waived or shall have ceased to exist, the Company shall not pay principal of, premium, if any, or

interest on the Securities or any other amount due pursuant to this Indenture or any Securities or make any deposit pursuant to Article 3 or Section 6.3 or 10.1 and shall not repurchase, redeem or otherwise retire any Securities (collectively, "Payment of the Securities").

Unless Section 5.2 shall be applicable, upon (1) the occurrence of a default on Designated Senior Indebtedness (other than a Payment Default) that occurs and is continuing that permits the holders of such Designated Senior Indebtedness (or their Representative or Representatives) to accelerate its maturity and (2) receipt by the Company and the Trustee from the Senior Agent of written notice of such occurrence and the imposition of a Payment Blockage Period hereunder, then the Company shall not make any Payment of the Securities for a period (the "Payment Blockage Period") commencing on the earlier of the date of receipt by the Company or the Trustee of such notice from the Senior Agent and ending on the earlier of (subject to any blockage of payments that may then be in effect under this Section 5.5) (x) the date 179 days after such date, (y) the date such default shall have been cured or waived in writing or shall have ceased to exist or such Senior Indebtedness shall have been discharged, or (z) the date such Payment Blockage Period shall have been terminated by written notice to the Company or the Trustee from the Senior Agent, after which, in case of clause (x), (y) or (z), as the case may be, the Company shall resume making any and all required payments. Notwithstanding any other provision of this Indenture, only one Payment Blockage Period may be commenced within any consecutive 365-day period, and no event of default with respect to any Designated Senior Indebtedness which existed or was continuing on the date of the commencement of any Payment Blockage Period with respect to such Designated Senior Indebtedness shall be, or can be made, the basis for the commencement of a second Payment Blockage Period whether or not within a period of 365 consecutive days unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days. In no event will a Payment Blockage Period extend beyond 179 days.



In the event that, notwithstanding the foregoing provisions of this Section 5.5, any Payment of the Securities shall be made by or on behalf of the Company and received by the Trustee, any Holder or any Paying Agent (or, if the Company is acting as its own Paying Agent, money for any such payment shall be segregated and held in trust), which payment was prohibited by this Section 5.5, then, unless and until the amount of Senior Indebtedness then due, as to which a default shall have occurred, shall have been paid in full, or such default shall have been cured or waived, such payment (subject, in each case, to the provisions of Sections 5.6 and 5.7) shall be held in trust for the benefit of, and shall be immediately paid over to, the holders of Senior Indebtedness or their Representative or Representatives, ratably according to the aggregate amounts remaining unpaid on account of the principal of and interest on the Senior Indebtedness held or represented by each, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all Senior Indebtedness in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the benefit of the holders of Senior Indebtedness. The Company shall give prompt written notice to the Trustee of any default under any Senior Indebtedness or under any agreement pursuant to which Senior Indebtedness may have been issued.

SECTION 5.6. NOTICE TO TRUSTEE.

The Company shall give prompt written notice to the Trustee of any fact known to the Company which would prohibit the making of any payment to or by the Trustee in respect of the Securities, but failure to give such notice shall not affect the subordination provided in this Article 5 of the Securities to Senior Indebtedness. Notwithstanding the provisions of this Article 5 or any other provision of this Indenture, the Trustee shall not at any time be charged with knowledge of the existence of any facts which would prohibit the making of any payment to or by the Trustee, unless and until the Trustee shall have received written notice thereof from the Company or from the holder or holders of Senior Indebtedness or from their Representative or Representatives; and, prior to the receipt of any such notice, the Trustee, subject to the provisions of Sections 9.1 and 9.2, shall be entitled to assume conclusively that no such facts exist.

The Trustee shall be entitled to conclusively rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness (or a Representative of such holder) to establish that such notice has been given by a holder of Senior Indebtedness or a Representative of any such holder. In the event that the Trustee determines in good faith that further

evidence is required with respect to the right of any Person as a holder of Senior Indebtedness to participate in any payment or distribution pursuant to this Article 5, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of each Person under this Article 5, and if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

SECTION 5.7. APPLICATION BY TRUSTEE OF MONIES DEPOSITED WITH IT.

Money or U.S. Government Obligations deposited in trust with the Trustee pursuant to Sections 6.3 and 10.1 and not in violation of this Article 5 shall be for the sole benefit of



Securityholders and shall thereafter not be subject to the subordination provisions of this Article 5. Otherwise, any deposit of monies by the Company with the Trustee or any Paying Agent (whether or not in trust) for the payment of the principal of or interest on any Securities shall be subject to the provisions of Sections 5.1, 5.2, 5.3 and 5.5; except that, if at least three Business Days prior to the date on which by the terms of this Indenture any such monies may become payable for any purpose (including, without limitation, the payment of either the principal of or interest on any Security), a Trust Officer of the Trustee shall not have received with respect to such monies the notice provided for in Section 5.6, then the Trustee or any Paying Agent shall have full power and authority to receive such monies and to apply such monies to the purpose for which they were received, and shall not be affected by any notice to the contrary which may be received by it within three Business Days prior to or after such date. This Section 5.7 shall be construed solely for the benefit of the Trustee and the Paying Agent and shall not otherwise affect the rights that holders of Senior Indebtedness may have to recover any such payments from the Holders in accordance with the provisions of this Article 5.

SECTION 5.8. SUBORDINATION RIGHTS NOT IMPAIRED BY ACTS OR OMISSIONS OF THE COMPANY OR HOLDERS OF SENIOR INDEBTEDNESS.

No right of any present or future holders of any Senior Indebtedness to enforce subordination, as herein provided, shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or be otherwise charged with. The holders of any Senior Indebtedness may extend, renew, modify or amend the terms of such Senior Indebtedness or any security therefor and release, sell or exchange such security and otherwise deal freely with the Company, all without affecting the liabilities and obligations of the parties to this Indenture or the Holders. No amendment of this Article 5 or any defined terms used herein or any other Sections referred to in this Article 5 which adversely affects the rights hereunder of holders of Senior Indebtedness, shall be effective unless the holders of such Senior Indebtedness (required pursuant to the terms of such Senior Indebtedness to give such consent) have consented thereto.

SECTION 5.9. TRUSTEE TO EFFECTUATE SUBORDINATION.

Each Holder of a Security by his acceptance thereof authorizes and directs the Trustee on his behalf to take such action as may be necessary or appropriate to acknowledge and effectuate the subordination provided in this Article 5 and appoints the Trustee his attorney-in-fact for any and all such purposes.

SECTION 5.10. RIGHT OF TRUSTEE TO HOLD SENIOR INDEBTEDNESS.

The Trustee, in its individual capacity, shall be entitled to all of the rights set forth in this Article 5 in respect of any Senior Indebtedness at any time held by it to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall be construed to deprive the Trustee of any of its rights as such holder. Nothing in this Article 5 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 9.7.

SECTION 5.11. ARTICLE 5 NOT TO PREVENT EVENTS OF DEFAULT.

The failure to make a Payment of the Securities by reason of any provision in this Article 5 shall not be construed as preventing the occurrence of an Event of Default under Section 8.1.

SECTION 5.12. NO FIDUCIARY DUTY CREATED TO HOLDERS OF SENIOR INDEBTEDNESS.

Notwithstanding any other provision in this Article 5, the Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness by virtue of the provisions of this Article 5 or otherwise. With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants or obligations as are specifically set forth in this Article 5 and no implied covenants or obligations with respect to holders of Senior Indebtedness shall be read into this Indenture against the Trustee.

SECTION 5.13. ARTICLE APPLICABLE TO PAYING AGENTS.

In case at any time any Paying Agent other than the Trustee shall have been appointed by the Company and be then acting hereunder, the term "Trustee" as used in this Article 5 shall in such case (unless the context shall otherwise require) be construed as extending to and including such Paying Agent within its meaning as fully for all intents and purposes as if such Paying Agent were named in this Article 5 in addition to or in place of the Trustee; provided, however, that Sections 5.6, 5.10 and 5.12 shall not apply to the Company if it acts as Paying Agent.

SECTION 5.14. CERTAIN CONVERSION DEEMED PAYMENT.

For the purposes of this Article 5 only, (1) the issuance and delivery of junior securities upon conversion of Securities in accordance with Article 4 shall not be deemed to constitute a payment or distribution on account of the principal of or premium or interest on Securities or on account of the purchase or other acquisition of Securities, and (2) the payment, issuance or delivery of cash, property or securities (other than junior securities) upon conversion of a Security shall be deemed to constitute payment on account of principal of such Security. For the purposes of this Section, the term "junior securities" means (a) shares of any stock of any class of the Company and (b) securities of the Company which are subordinated in right of payment to all Senior Indebtedness which may be outstanding at the time of issuance or delivery of such securities to substantially the same extent as, or to a greater extent than, the Securities are so subordinated as provided in this Article. Nothing contained in this Article or elsewhere in this Indenture or in the Securities is intended to or shall impair, as among the Company, its creditors other than holders of Senior Indebtedness and the Holders of the Securities, the right, which is absolute and unconditional, of the Holder of any Security to convert such Security in accordance with Article 4.

SECTION 5.15. CONTRACTUAL SUBORDINATION.

This Article 5 represents a bona fide agreement of contractual subordination pursuant to Section 510(b) of the Title 11, U.S. Code.



## ARTICLE 6.

## COVENANTS

SECTION 6.1. PAYMENT OF SECURITIES.

The Company covenants and agrees that it will duly and punctually pay or cause to be paid the principal amount at maturity, Redemption Price, Repurchase Price, Change in Control Repurchase Price, and interest (including Contingent Interest and Liquidated Damages, if any), in respect of each of the Securities at the places, at the respective times and in the manner provided herein and in the Securities. Each installment of interest on the Securities may be paid by mailing checks for the interest payable to or upon the written order of the Holders of Securities entitled thereto as they shall appear on the

registry books of the Company; provided that with respect to any Holder of Securities with an aggregate principal amount equal to or in excess of $5 million, at the request of such Holder in writing the Company shall pay interest on such Holder's Securities by wire transfer in immediately available funds to an account in the continental United States.

SECTION 6.2. SEC REPORTS; 144A INFORMATION.

The Company shall file all reports and other information and documents which it is required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act, and within 15 days after it files them with the SEC, the Company shall file copies of all such reports, information and other documents with the Trustee. The Company will cause any quarterly and annual reports which it mails to its stockholders to be mailed to the Holders of the Securities.

In the event the Company is at any time no longer subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company will prepare, for the first three quarters of each fiscal year, quarterly financial statements substantially equivalent to the financial statements required to be included in a report on Form 10-Q under the Exchange Act and the Company will also prepare, on an annual basis, complete audited consolidated financial statements including, but not limited to, a balance sheet, a statement of income and retained earnings, a statement of cash flows and all appropriate notes. All such financial statements will be prepared in accordance with generally accepted accounting principles consistently applied, except for changes with which the Company's independent accountants concur, and except that quarterly statements may be subject to year-end adjustments. The Company will cause a copy of such financial statements to be filed with the Trustee and mailed to the Holders of the Securities within 60 days after the close for each of the first three quarters of each fiscal year and within 105 days after the close of each fiscal year. The Company will also comply with the other provisions of TIA 314(a).

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).



At any time when the Company is not subject to Section 13 or 15(d) of the Exchange Act, nor exempt from reporting pursuant to 12g3-2(b) under the Exchange Act, upon the request of a Holder or beneficial owner of a Security, the Company will promptly furnish or cause to be furnished Rule 144A Information (as defined below) to such Holder, to such beneficial owner or to prospective purchaser designated by such Securityholder or beneficial owner, as the case may be, in order to permit compliance by such Securityholder or beneficial owner with Rule 144A under the Securities Act in connection with the resale of such Security by such Securityholder or beneficial owner; provided, however, the Company shall not be required to furnish such information in connection with any request made on or after the date which is two years from the later of (i) the date such Security (or any predecessor Security) was acquired from the Company or (ii) the date such Security (or any predecessor Security) was last acquired from an "affiliate" of the Company within the meaning of Rule 144 under the Securities Act. "Rule 144A Information" shall be such information as is specified pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

SECTION 6.3. LIQUIDATION.

Subject to the provisions of Article 5, insofar as they may be applicable hereto, the Board of Directors or the stockholders of the Company may not adopt a plan of liquidation which plan provides for, contemplates, or the effectuation of which is preceded by (a) the sale, lease, conveyance or other disposition of all or substantially all of the assets of the Company otherwise than substantially as an entirety (Article 7 being the Article which governs any such sale, lease, conveyance or other disposition substantially as an entirety), and (b) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition and of the remaining assets of the Company to the holders of the capital stock of the Company, unless the Company shall in connection with the adoption of such plan make provision for, or agree that prior to making any liquidating distributions to the holders of capital

stock of the Company it will make provision for, the satisfaction of the Company's obligations hereunder and under the Securities as to the payment of principal and interest. The Company shall be deemed to have made provision for such payments only if (1) the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations maturing as to principal and interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay the principal of and interest on the Securities then outstanding to maturity and to pay all other sums payable by it hereunder, or (2) there is an express assumption of the due and punctual payment of the Company's obligations hereunder and under the Securities and the performance and observance of all covenants and conditions to be performed by the Company hereunder, by the execution and delivery of a supplemental indenture in form reasonably satisfactory to the Trustee by a person who acquires, or will acquire (otherwise than pursuant to a lease) a portion of the assets of the Company, and which person will have Consolidated Net Worth (immediately after the acquisition) equal to not less than the Consolidated Net Worth of the Company (immediately preceding such acquisition), and which is a corporation organized under the laws of the United States, any State thereof or the District of Columbia; provided, however, that the Company shall not make any liquidating distribution to the holders of capital stock of the Company described in the first sentence of this Section 6.3 until after the Company shall have certified to the Trustee with an Officers' Certificate at least five days prior to the making of any liquidating distribution that it has complied with the provisions of this Section 6.3.



SECTION 6.4. COMPLIANCE CERTIFICATES.

The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company, an Officers' Certificate as to the signer's knowledge of the Company's compliance with all conditions and covenants on its part contained in this Indenture and stating whether or not the signer knows of any default or Event of Default. If such signer knows of such a default or Event of Default, the Certificate shall describe the default or Event of Default and the efforts to remedy the same. For the purposes of this Section 6.4, compliance shall be determined without regard to any grace period or requirement of notice provided pursuant to the terms of this Indenture. The Certificate need not comply with Section 12.4.

SECTION 6.5. NOTICE OF DEFAULTS.

The Company will give notice to the Trustee, promptly, and in any event within five days, upon becoming aware thereof, of the existence of any Event of Default or an event which, with notice or the lapse of time or both would constitute an Event of Default hereunder.

SECTION 6.6. PAYMENT OF TAXES AND OTHER CLAIMS.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all material taxes, assessments and governmental charges levied or imposed upon the Company, directly or by reason of its ownership of any Subsidiary or upon the income, profits or property of the Company; and (2) all material lawful claims for labor, materials and supplies, which, if unpaid, might by law become a lien upon the property of the Company; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate provision has been made.

SECTION 6.7. CORPORATE EXISTENCE.

Subject to Section 6.3 and Article 7, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Company shall not be required to preserve any right if the Company shall determine that the preservation is no longer desirable in the conduct of the Company's business and that the loss thereof is not, and will not be, adverse in any material respect to the Holders.

SECTION 6.8. MAINTENANCE OF PROPERTIES.

Subject to Section 6.3, the Company will cause all material properties owned, leased or licensed in the conduct of its business to be maintained and kept in good condition, repair and working order and supplied with all necessary

equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof and thereto, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times while any Securities are outstanding; provided, however, that nothing in this Section 6.8 shall prevent the Company from



doing otherwise if, in the judgment of the Company, the same is desirable in the conduct of the Company's business and is not, and will not be, adverse in any material respect to the Holders.

SECTION 6.9. FURTHER INSTRUMENTS AND ACTS.

Upon request of the Trustee, the Company will execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

SECTION 6.10. MAINTENANCE OF OFFICE OR AGENCY.

The Company will maintain in The City of New York an office or agency where Securities may be presented or surrendered for payment or repurchase, where Securities may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities and this Indenture may be served. The office of the agent of the Trustee in The City of New York shall be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company will give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may from time to time designate one or more other offices or agencies where the Securities may be presented or surrendered for any or all such purposes and may from time to time rescind such designation; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in The City of New York for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such office or agency.

SECTION 6.11. RESALE OF CERTAIN SECURITIES; REPORTING ISSUER.

During the period beginning on the last date of original issuance of the Securities and ending on the date that is two years from such date, the Company will not, and will use all reasonable efforts not to permit any of its "affiliates" (as defined under Rule 144 under the Securities Act or any successor provision thereto) to, resell (x) any Securities which constitute "restricted securities" under Rule 144 or (y) any securities into which the Securities have been converted under this Indenture which constitute "restricted securities" under Rule 144, that in either case have been reacquired by any of them, except pursuant to an effective registration statement under the Securities Act. The Trustee shall have no responsibility in respect of the Company's performance of its agreement in the preceding sentence.

SECTION 6.12. REGISTRATION RIGHTS.

(a) The Company agrees that the Holders (and any Person that has beneficial interest of a Security) from time to time of Registrable Securities (as such term is defined in the



Registration Rights Agreement) are entitled to the benefits of the Registration Rights Agreement. Pursuant to the Registration Rights Agreement, the Company has agreed for the benefit of the Holders from time to time of Registrable Securities, at the Company's expense, (i) to file within 90 days after the last

date of original issuance of the Securities, a registration statement (the "Registration Statement") with the Commission with respect to resales of the Restricted Securities, (ii) to use all reasonable best efforts to cause such Registration Statement to be declared effective by the Commission not later than 180 days after the last date of original issuance of the Securities, and (iii) to use all reasonable best efforts to maintain such Registration Statement continuously effective under the Securities Act subject to and in accordance with the terms of the Registration Rights Agreement.

Liquidated Damages (the "Liquidated Damages") with respect to the Securities shall be assessed if a Registration Default (as defined in the Registration Rights Agreement) occurs. Liquidated Damages shall accrue on the Securities over and above the interest set forth in the title of the Securities from and including the date on which any such Registration Default shall occur, to but excluding the date on which such Registration Default has been cured (in the manner described in the Registration Rights Agreement), at a rate of 0.50% per annum.

(b) Any amounts of Liquidated Damages due pursuant to clause (a) of this Section 6.12 shall be payable in cash on the regular interest Payment Dates. The amount of Liquidated Damages shall be determined by multiplying the applicable Liquidated Damages rate by the principal amount of the Securities, multiplied by a fraction, the numerator of such period (determined on the basis of a 360-day year comprised of twelve 30-day months), and the denominator of which is 360.

Whenever in this Indenture there is mentioned, in any context, the payment of the principal of, premium, if any, or interest on, or in respect of, any Security, such mention shall be deemed to include mention of the payment of Liquidated Damages provided for in this Section to the extent that, in such context, Liquidated Damages are, were or would be payable in respect thereof pursuant to the provisions of this Section 6.12 and express mention of the payment of Liquidated Damages (if applicable) in any provisions hereof shall not be construed as excluding Liquidated Damages in those provisions hereof where such express mention is not made. A default by the Company under the Registration Rights Agreement, other than a default in the payment of Liquidated Damages, shall not be treated as a Default under this Indenture.

SECTION 6.13. LIQUIDATED DAMAGES.

If Liquidated Damages is payable pursuant to the Registration Rights Agreement, the Company shall deliver to the Trustee a certificate to that effect stating (i) the amount of such Liquidated Damages that is payable and (ii) the date on which such Liquidated Damages is payable. Unless and until a Trust Officer receives at the Corporate Trust Office such a certificate, the Trustee may assume without inquiry that no such Liquidated Damages is payable. If the Company has paid Liquidated Damages directly to the Persons entitled to it, the Company shall deliver to the Trustee a certificate setting forth the particulars of such payment.



SECTION 6.14. STAY, EXTENSION AND USURY LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 6.15. TAX TREATMENT OF SECURITIES

The Company and the Holders, by purchasing the Securities, agree that (i) the Securities are contingent payment debt instruments as defined in Treasury Regulations Section 1.1275-4(b), (ii) each Holder shall be bound by the Company's application of the Treasury Regulations to the Securities, including the Company's determination that the rate at which interest will be deemed to accrue on the Securities for United States federal income tax purposes will be 9.12% per annum compounded semi-annually, which is the rate comparable to the

rate at which the Company would borrow on a noncontingent, nonconvertible basis with terms and conditions otherwise comparable to the Securities, (iii) each Holder shall use the projected payment schedule with respect to the Securities determined by the Company, as required by Treasury Regulations Section 1.1275-4(b)(4)(iv), to determine its interest accruals and adjustments as provided in Treasury Regulations Section 1.1275-4(b), and (iv) the Company and each Holder will not take any position on a tax return inconsistent with (i), (ii), or (iii), unless required by applicable law.

ARTICLE 7.

SUCCESSOR CORPORATION

SECTION 7.1. WHEN COMPANY MAY MERGE, ETC.

The Company shall not consolidate with or merge into any other Person, or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and shall not permit any Person (other than a Subsidiary wholly-owned by the Company) to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

(a) in case the Company shall consolidate with or merge into another Person or convey, or transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the



principal of (and premium, if any) and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed and shall have provided for conversion rights in accordance with Section 4.12;

(b) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have occurred and be continuing; and

(c) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 7.2. SUCCESSOR CORPORATION SUBSTITUTED.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 7.1, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE 8.

DEFAULT AND REMEDIES

SECTION 8.1. EVENTS OF DEFAULT.

An "Event of Default" occurs if:

(1) the Company defaults in the payment of any interest (including Contingent Interest and Liquidated Damages, if any) upon any of the Securities when due and payable and the default continues for a period of 30 days whether or not such payment is prevented by Article 5;

(2) the Company defaults in the payment of the principal of and premium, if any, on any of the Securities when due, including on a redemption date, whether or not such payment is prevented by Article 5;

(3) the Company fails to pay when due the principal of or interest on indebtedness for money borrowed by the Company or its Subsidiaries in excess of $10 million, beyond the grace period, if any, provided in the instrument or agreement under which the indebtedness was created, or the acceleration of that indebtedness that is not withdrawn within 30 days after the date of written notice to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the outstanding Securities;



(4) the Company fails to deliver shares of Common Stock within 15 days after such Common Stock is required to be delivered upon conversion of a Security as provided in this Indenture;

(5) a default by the Company in the performance, or breach, of any of the Company's other covenants in this Indenture which are not remedied by the end of a period of 60 days after written notice to the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the outstanding Securities;

(6) the Company or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law:

A. commences a voluntary case or proceeding;

B. consents to the entry of an order for relief against it in an involuntary case or proceeding;

C. consents to the appointment of a Custodian of it or for all or substantially all of its assets;

D. makes a general assignment for the benefit of its creditors; or

(7) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that:

A. is for relief against the Company or any Significant Subsidiary in an involuntary case or proceeding;

B. appoints a Custodian of the Company or any Significant Subsidiary or for all or substantially all of the assets of any of them; or

C. orders the liquidation of the Company or any Significant Subsidiary;

and in each case the order or decree remains unstated and in effect for 60 days.

The term "Bankruptcy Law" means Title 11, U.S. Code or any similar foreign, Federal or state law for the relief of debtors. For purposes of this Section 8.1, the term "Custodian" means any receiver, trustee, assignee, liquidator, sequestrator or similar official under any Bankruptcy Law.

A default under clause (5) is not an Event of Default until the Trustee notifies the Company or the Holders of at least 25% in principal amount of the Securities then outstanding notify the Company and the Trustee, of the default, and the Company does not cure the default within 30 days after receipt of such notice. The notice given pursuant to this Section 8.1 must specify the default, demand that it be remedied and state that the notice is a "Notice of Default." When a default is cured, it ceases.

Subject to the provisions of Sections 9.1 and 9.2, the Trustee shall not be charged with knowledge of any Event of Default unless written notice thereof shall have been given to a Trust Officer at the Corporate Trust Office of the Trustee by the Company, the Paying Agent, any Holder or an agent of any Holder. Within 90 days after a default, the Trustee must give to the registered Holders of Securities notice of all uncured defaults known to it.

SECTION 8.2. ACCELERATION.

If an Event of Default (other than an Event of Default specified in Section 8.1(6) or (7)) occurs and is continuing, the Trustee may, by notice to the Company, or the Holders of at least 25% in principal amount of the Securities then outstanding may, by notice to the Company and the Trustee, and the Trustee shall, upon the request of such Holders, declare all unpaid principal of and accrued interest (including Contingent Interest and Liquidated Damages, if any) to the date of acceleration on the Securities then outstanding (if not then due and payable) to be due and payable upon any such declaration, and the same shall become and be immediately due and payable. If an Event of Default specified in Section 8.1(6) or (7) occurs, all unpaid principal of and accrued interest (including Contingent Interest and Liquidated Damages, if any) on the Securities then outstanding shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Securityholder.

The Holders of a majority in aggregate principal amount of the Securities then outstanding by notice to the Trustee may, on behalf of all Holders, rescind an acceleration and its consequences if (i) all existing Events of Default, other than the nonpayment of the principal of and accrued interest (including Contingent Interest and Liquidated Damages, if any) on the Securities which has become due solely by such declaration of acceleration, have been cured or waived; (ii) the Company has paid or deposited with the Trustee a sum sufficient to pay (a) all overdue interest on the Securities, (b) the principal of any Security which has become due otherwise then by such declaration of acceleration, and (c) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration; (iii) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction; and (iv) all payments due to the Trustee and any predecessor Trustee under Section 9.7 have been made. No such rescission shall affect any subsequent default or impair any right consequent thereon. Anything herein contained to the contrary notwithstanding, in the event of any acceleration pursuant to this Section 8.2, the Company shall not be obligated to pay any premium which it would have had to pay if it had then elected to redeem the Securities pursuant to paragraph 5 of the Securities, except in the case of any Event of Default occurring by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the premium which it would have had to pay if it had then elected to redeem the Securities pursuant to paragraph 5 of the form of Security attached hereto as Exhibit A, in which case an equivalent premium shall also become and be immediately due and payable to the extent permitted by law.

SECTION 8.3. OTHER REMEDIES.

In case of an Event of Default hereunder, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial



proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

The Trustee may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the

extent permitted by law.

SECTION 8.4. WAIVER OF DEFAULTS AND EVENTS OF DEFAULT.

Subject to Section 8.7, the Holders of a majority in aggregate principal amount of the Securities then outstanding by notice to the Trustee may, on behalf of all Holders, waive an existing default or Event of Default and its consequences, except a default in the payment of the principal of (or premium, if any) or interest (including Contingent Interest and Liquidated Damages, if any) on any Security as specified in clauses (1) and (2) of Section 8.1, or a default in respect of a covenant or provision hereof which cannot be modified or amended pursuant to Section 11.2 without the consent of the Holder of each Security affected thereby. When a default or Event of Default is waived, it is cured and ceases.

SECTION 8.5. CONTROL BY MAJORITY.

The Holders of a majority in principal amount of the Securities then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture; provided that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 8.6. LIMITATION ON SUITS.

A Securityholder may not pursue any remedy with respect to this Indenture or the Securities (except actions for payment of overdue principal or interest (including Contingent Interest and Liquidated Damages, if any) or for the conversion of the Securities pursuant to Article 4) unless:

(1) the Holder gives to the Trustee written notice of a continuing Event of Default;

(2) the Holders of at least 25% in aggregate principal amount of the then outstanding Securities make a written request to the Trustee to pursue the remedy;

(3) such Holder or Holders offer to the Trustee indemnity reasonably satisfactory to the Trustee against any loss, liability or expense;



(4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60 day period by the Holders of a majority in principal amount of the Securities then outstanding.

A Securityholder may not use any provision of this Indenture to prejudice the rights of another Securityholder or to obtain a preference or priority over such other Securityholder, or to enforce any rights under this Indenture other than in the manner herein provided and for the equal and ratable benefit of all the Securityholders.

SECTION 8.7. RIGHTS OF HOLDERS TO RECEIVE PAYMENT.

Notwithstanding any other provision of this Indenture (but subject to Article 5), the right of any Holder of a Security to receive payment of principal of (and premium, if any) and interest on the Security, on or after the respective dates on which such payments are due as expressed in the Security, or to convert the Security, or to bring suit for the enforcement of any such payment on or after such respective dates, is absolute and unconditional and shall not be impaired or affected without the consent of the Holder.

SECTION 8.8. COLLECTION SUIT BY TRUSTEE.

If an Event of Default in the payment of principal or interest specified in Section 8.1(1) or (2) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the

Company or another obligor on the Securities for the whole amount of principal and accrued interest remaining unpaid, together with interest on overdue principal and, to the extent that payment of such interest is lawful, interest on overdue installments of interest, in each case at the rate per annum borne by the Securities and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

SECTION 8.9. TRUSTEE MAY FILE PROOFS OF CLAIM.

The Trustee may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Securityholders allowed in any judicial proceedings relative to the Company (or any other obligor on the Securities), its creditors or its property and shall be entitled and empowered to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same, and any Custodian in any such judicial proceeding is hereby authorized by each Securityholder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 9.7, and to the extent that such payment of the reasonable compensation, expenses, disbursements and advances in any such proceedings shall be denied



for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property which the Securityholders may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or the Trustee to authorize or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 8.10. PRIORITIES.

Subject to Article 5, if the Trustee collects any money pursuant to this Article 8, it shall pay out the money in the following order:

First, to the Trustee for amounts due under Section 9.7;

Second, to Securityholders for amounts due and unpaid on the Securities for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities for principal and interest, respectively; and

Third, to the Company.

The Trustee may fix a record date and payment date for any payment to Securityholders pursuant to this Section 8.10. At least 15 days before such record date, the Trustee shall mail to each Securityholder and the Company a notice that states the Record Date, the Payment Date and the amount to be paid.

SECTION 8.11. UNDERTAKING FOR COSTS.

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 8.11 does not apply to a suit made by the Trustee, a suit by a Holder pursuant to Section 8.7, or a suit by any Holder, or group of Holders, of more than 10% in principal amount of the Securities then outstanding. This Section 8.11 shall be in lieu of Section 315(c) of the TIA and such Section 315(c) is hereby expressly excluded from this Indenture as permitted by the TIA.

SECTION 8.12. RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Securityholder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Securityholder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Securityholders shall be restored severally and respectively to their former positions



hereunder and thereafter all rights and remedies of the Trustee and the Securityholders shall continue as though no such proceeding had been instituted.

SECTION 8.13. RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 2.7, no right or remedy herein conferred upon or reserved to the Trustee or to the Securityholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 8.14. DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Securityholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Securityholders, as the case may be.

## ARTICLE 9.

## TRUSTEE

SECTION 9.1. DUTIES OF TRUSTEE.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Trustee need perform only those duties as are specifically set forth in this Indenture and no others and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. The Trustee, however, shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).



(c) The Trustee may not be relieved, and no provision of this Indenture shall be construed to relieve the Trustee, from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this

Section 9.1;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 8.5; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) The Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity reasonably satisfactory to it against any loss, liability, expense or fee.

(e) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (d) of this Section 9.1.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

SECTION 9.2. RIGHTS OF TRUSTEE.

Subject to Section 9.1:

(a) The Trustee may conclusively rely on any document believed by it to be genuine and to have been signed or presented by the proper person. The Trustee need not investigate any fact or matter stated in the document.

(b) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, it may require an Officers' Certificate or an Opinion of Counsel, which shall conform to Section 12.4 (b). The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Certificate or Opinion.

(c) The Trustee may act through its agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee may consult with counsel of its selection and the advice or opinion of such counsel as to matters of law shall be full and complete authorization and protection in



respect of any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(e) Any request or direction of the Company mentioned herein shall be sufficiently evidenced by a written Company request or Officers' Certificate and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(g) The Trustee shall not be liable for any action taken, suffered, or

omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

(h) The Trustee shall not be deemed to have notice of any Default or Event of Default unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Securities and this Indenture.

(i) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

(j) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of Officers of the Company authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

SECTION 9.3. INDIVIDUAL RIGHTS OF TRUSTEE.

The Trustee in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or an Affiliate of the Company with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights. However, the Trustee is subject to Sections 9.10 and 9.11.

SECTION 9.4. TRUSTEE'S DISCLAIMER.

The Trustee makes no representation as to the validity or adequacy of this Indenture or the Securities, it shall not be accountable for the Company's use of the proceeds from the



Securities, and it shall not be responsible for the recitals contained herein or any statement in the Securities other than its certificate of authentication.

SECTION 9.5. NOTICE OF DEFAULT OR EVENTS OF DEFAULT.

If a default or an Event of Default occurs and is continuing and if it is actually known to the Trustee, the Trustee shall mail to each Securityholder notice of the default or Event of Default within 90 days after it occurs. Except in the case of a default or an Event of Default in payment of the principal of or interest (including Contingent Interest and Liquidated Damages, if any) on any Security, the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interest of Securityholders.

SECTION 9.6. REPORTS BY TRUSTEE TO HOLDERS.

If such report is required by TIA 313, within 60 days after each May 15, beginning with the May 15 following the date of this Indenture, the Trustee shall mail to each Securityholder a brief report dated as of such May 15 that complies with TIA 313(a). The Trustee also shall comply with TIA 313(b)(2) and (c).

A copy of each report at the time of its mailing to Securityholders shall be mailed to the Company and filed with the SEC and each stock exchange, if any, on which the Securities are listed. The Company shall notify the Trustee whenever the Securities become listed on or delisted from any stock exchange and any changes in the stock exchanges on which the Securities are listed.

SECTION 9.7. COMPENSATION AND INDEMNITY.

The Company shall pay to the Trustee from time to time such compensation for its services hereunder as the Company and the Trustee shall from time to time agree in writing (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express

trust). The Company shall reimburse the Trustee upon request for all reasonable disbursements, expenses and advances incurred or made by it. Such expenses may include the reasonable compensation, disbursements and expenses of Trustee's agents and counsel.

The Company shall indemnify the Trustee or any predecessor Trustee and their agents for, and hold them harmless against, any loss, liability or expense incurred by it in connection with its duties under this Indenture or any action or failure to act as authorized or within the discretion or rights or powers conferred upon the Trustee hereunder, including the costs and expenses of defending itself against any claim (whether asserted by the Company, or any Holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder. The Trustee shall notify the Company promptly of any claim asserted against the Trustee for which it may seek indemnity. The Trustee shall have the option of undertaking the defense of such claims at the Company's expense and may have separate counsel. The reasonable fees and expenses of such counsel shall be paid by the Company. The Company need not pay for any settlement without its written consent, which consent shall not be unreasonably withheld or delayed.



The Company need not reimburse the Trustee for any expense or indemnify it against any loss or liability incurred by it through its own negligent action, negligent failure to act or willful misconduct.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 8.1(6) or (7) occurs, such expenses and the compensation for such services are intended to constitute expenses of administration under any Bankruptcy Law.

The Trustee shall have a lien prior to the Securities as to all property and funds held by it hereunder for any amount owing it or any predecessor Trustee pursuant to this Section 9.7, except with respect to funds held in trust for the benefit of the Holders of particular Securities.

The provisions of this Section 9.7 shall survive the termination of this Indenture.

SECTION 9.8. REPLACEMENT OF TRUSTEE.

The Trustee may resign by so notifying the Company; provided, however, no such resignation shall be effective until a successor Trustee has accepted its appointment pursuant to this Section 9.8. The Holders of a majority in principal amount of the Securities then outstanding may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee with the Company's written consent. The Company may remove the Trustee if:

(1) the Trustee fails to comply with Section 9.10;

(2) the Trustee is adjudged a bankrupt or an insolvent;

(3) a receiver or other public officer takes charge of the Trustee or its property; or

(4) the Trustee becomes incapable of acting as trustee.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee.

If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee (at the Company's expense), the Company or the Holders of 10% in principal amount of the Securities then outstanding may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee fails to comply with Section 9.10, any Securityholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Immediately after that, the retiring Trustee shall transfer all property held by it as Trustee to the

successor Trustee and be released from its obligations (exclusive of any liabilities Trustee may have incurred while acting as Trustee) hereunder, the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee



shall have all the rights, powers and duties of the Trustee under this Indenture. A successor Trustee shall mail notice of its succession to each Securityholder.

Notwithstanding replacement of the Trustee pursuant to this Section 9.8, the Company's obligations under Section 9.7 shall continue for the benefit of the retiring Trustee.

SECTION 9.9. SUCCESSOR TRUSTEE BY MERGER, ETC.

If the Trustee consolidates with, merges or converts into, or transfers all or substantially all of its corporate trust assets (including the administration of this Indenture) to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee; provided such transferee corporation shall qualify and be eligible under Section 9.10.

SECTION 9.10. ELIGIBILITY; DISQUALIFICATION.

There shall at all times be a Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust process, having (together with any Person directly or indirectly controlling the Trustee) a combined capital and surplus of at least $25,000,000, subject to supervision or examination by federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 9.10, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 9.10, it shall resign immediately in the manner and with the effect specified above in this Article 9.

SECTION 9.11. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

The Trustee shall comply with TIA 311(a), excluding any creditor relationship listed in TIA 311(b). A trustee who has resigned or been removed shall be subject to TIA 311(a) to the Government Obligations in accordance with Section 10.1; provided, however, that if the Company has made any payment of the principal of or premium, if any, or interest on any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money or U.S. Government Obligations held by the Trustee or the Paying Agent.

## ARTICLE 10.

## SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 10.1. TERMINATION OF COMPANY'S OBLIGATIONS.

The Company may terminate all of its obligations under the Securities and this Indenture (except those obligations referred to in the immediately succeeding paragraph) if all Securities previously authenticated and delivered (other than destroyed, lost or stolen Securities which have been replaced or paid or Securities for whose payment money has theretofore been held in trust



and thereafter repaid to the Company, as provided in Section 10.3) have been delivered to the Trustee for cancellation and the Company has paid all sums payable by it hereunder, or if the Company irrevocably deposits in trust with the Trustee money or U.S. Government Obligations maturing as to principal and

interest in such amounts and at such times as are sufficient, without consideration of any reinvestment of such interest, to pay the principal of and premium, if any, and interest on the Securities then outstanding to maturity or to the date fixed for redemption and to pay all other sums payable by it hereunder. The Company may make an irrevocable deposit pursuant to this Section 10.1 only if at such time it is not prohibited from doing so under the provisions of Article 5 and the Company shall have delivered to the Trustee and any such Paying Agent an Officers' Certificate and Opinion of Counsel to that effect and that all other conditions to such deposit have been complied with.

The Company's obligations in paragraphs 8 and 12 of the Securities, in Sections 6.1, 6.2, 9.7, 9.8 and 10.4, and in Articles 2 and 4 shall survive until the Securities are no longer outstanding. Thereafter, the Company's obligations in such paragraph 12 and in Section 9.7 shall survive.

After such irrevocable deposit, the Trustee upon request shall acknowledge in writing the discharge of the Company's obligations under the Securities and this Indenture, except for those surviving obligations specified above.

"U.S. Government Obligations" means direct non-callable obligations of, or non-callable obligations guaranteed by, the United States of America for the payment of which guarantee or obligation the full faith and credit of the United States is pledged.

SECTION 10.2. APPLICATION OF TRUST MONEY.

The Trustee or the Paying Agent shall hold in trust, for the benefit of the Holders, money or U.S. Government Obligations deposited with it pursuant to Section 10.1, and shall apply the deposited money and the money from U.S. Government Obligations in accordance with this Indenture to the payment of the principal of, premium, if any, and interest on the Securities. Money and U.S. Government Obligations so held in trust and deposited in compliance with Section 10.1 and Article 5 shall not be subject to the subordination provisions of Article 5.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 10.1 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of outstanding Securities.

SECTION 10.3. REPAYMENT TO COMPANY.

Subject to Section 10.1, the Trustee and the Paying Agent shall promptly pay to the Company upon request any excess money or U.S. Government Obligations held by them at any time.

The Trustee and the Paying Agent shall pay, subject to applicable escheatment laws, to the Company upon request any money held by them for the payment of principal, premium, if any, or interest that remains unclaimed for two years after a right to such money has matured.



After that, Holders entitled to money must look to the Company for payment unless an abandoned property law designates another person.

SECTION 10.4. REINSTATEMENT.

If the Trustee or the Paying Agent is unable to apply any money or U.S. Government Obligations in accordance with Section 10.1 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Securities shall be revived and reinstated as though no deposit had occurred pursuant to Section 10.1 until such time as the Trustee or Paying Agent is permitted to apply all such money or U.S. Government Obligations in accordance with Section 10.1; provided, however, that if the Company has made any payment of the principal of or premium or interest on any Securities because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Securities to receive any such payment from the money or U.S. Government Obligations held by the Trustee or the Paying Agent.

ARTICLE 11.

AMENDMENTS, SUPPLEMENTS AND WAIVERS

SECTION 11.1. WITHOUT CONSENT OF HOLDERS.

The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to or consent of any Securityholder:

(a) to comply with Sections 4.12, 6.3 and 7.1;

(b) to cure any ambiguity, omission, defect or inconsistency, or to make any other change that does not adversely affect the rights of any Securityholder or would provide additional rights or benefits to the holders of the Securities;

(c) to make provisions with respect to the conversion right of the Holders pursuant to Section 4.6;

(d) to evidence and provide for the acceptance of appointment hereunder by a successor to the Company with respect to the Securities;

(e) to comply with any requirement of the SEC arising solely as a result of the qualification of this Indenture under the TIA; or

(f) to provide for uncertificated Securities in addition to or in place of certificated Securities.

SECTION 11.2. WITH CONSENT OF HOLDERS.

The Company and the Trustee may amend or supplement this Indenture or the Securities without notice to any Securityholder but with the written consent of the Holders of a majority in



aggregate principal amount of the Securities then outstanding. The Holders of a majority in aggregate principal amount of the Securities then outstanding may waive: (i) compliance by the Company with restrictive provisions of this Indenture or amend, modify or supplement this Indenture, other than as set forth in this Section 11.2 below; and (ii) any past default under this Indenture and its consequences, except a default in the payment of the principal of or any premium or interest (including Contingent Interest, if any) on any Security or in respect of a provision which under this Indenture cannot be modified or amended without the consent of the Holder of each outstanding Security affected.

Subject to Section 11.4, without the written consent of each Securityholder affected, however, an amendment, supplement or waiver, including a waiver pursuant to Section 8.4, may not:

(a) change the stated maturity date of the principal of, or any installment of interest (including Contingent Interest and Liquidated Damages, if any) on, any Security;

(b) reduce the principal amount of, or the rate of interest (including Contingent Interest and Liquidated Damages, if any) or any premium payable on, any Security, whether upon acceleration, redemption or otherwise;

(c) change the currency for payment of principal of, or premium or interest (including Contingent Interest and Liquidated Damages, if any) on any Security;

(d) impair the right to institute suit for the enforcement of any payment of principal of, or premium or interest on any Security when due;

(e) adversely affect the conversion rights provided in Article 4;

(f) change the number of shares of Common Stock issuable upon conversion of a Security in a manner adverse to the Holders of Securities other than as expressly provided in Article 4;

(g) change the redemption provisions of this Indenture in a manner

adverse to the Holders of Securities;

(h) modify the provisions of Article 5 with respect to the subordination of the Securities in a manner adverse to the Holders of the Securities;

(i) modify the provisions of this Indenture requiring the Company to make an offer to repurchase Securities upon a Change of Control or on January 16, 2010, January 16, 2014, or January 16, 2019 in a manner adverse to the Holders of the Securities;

(j) reduce the percentage of principal amount of the outstanding Securities necessary to modify or amend this Indenture or to consent to any waiver provided for in this Indenture; or

(k) waive a default in the payment of the principal of or premium or interest (including Contingent Interest or Liquidated Damages, if any) on any Security.



It shall not be necessary for the consent of the Holders under this Section 11.2 to approve the particular form of any proposed amendment, supplement or waiver, but it shall be sufficient if such consent approves the substance thereof.

An amendment under this Section 11.2 may not make any change that adversely affects the rights under Article 5 of any holder of an issue of Senior Indebtedness unless the holders of that issue, pursuant to its terms, consent to the change.

SECTION 11.3. COMPLIANCE WITH TRUST INDENTURE ACT.

Every amendment to or supplement of this Indenture or the Securities shall comply with TIA as in effect at the date of such amendment or supplement.

SECTION 11.4. REVOCATION AND EFFECT OF CONSENTS.

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder is a continuing consent by the Holder and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent is not made on any Security. However, any such Holder or subsequent Holder may revoke the consent as to his Security or portion of a Security if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective.

After an amendment, supplement or waiver becomes effective, it shall bind every Securityholder, unless it makes a change described in any of clauses (a) through (k) of Section 11.2. In that case the amendment, supplement or waiver shall bind each Holder of a Security who has consented to it and every subsequent Holder of a Security or portion of a Security that evidences the same debt as the consenting Holder's Security.

SECTION 11.5. NOTATION ON OR EXCHANGE OF SECURITIES.

If an amendment, supplement or waiver changes the terms of a Security, the Trustee may require the Holder of the Security to deliver it to the Trustee. The Trustee may place an appropriate notation on the Security about the changed terms and return it to the Holder. Alternatively, if the Company or the Trustees determines, the Company in exchange for the Security shall issue and the Trustee shall authenticate a new Security that reflects the changed terms.

SECTION 11.6. TRUSTEE TO SIGN AMENDMENTS, ETC.; NOTICES.

The Trustee shall sign any amendment or supplement authorized pursuant to this Article 11 if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing or refusing to sign such amendment or supplement, the Trustee shall be entitled to receive and, subject to Section 9.1, shall be fully protected in relying upon, an Opinion of Counsel stating that such amendment or supplement is authorized or permitted by this Indenture. The Company may not sign an amendment or supplement until the Board of Directors approves it.

After an amendment, supplement or waiver under this Article 11 becomes effective, the Company shall mail to the Holders affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in anyway impair or affect the validity of any such amendment, supplement or waiver.

## ARTICLE 12.

## MISCELLANEOUS

SECTION 12.1. TRUST INDENTURE ACT CONTROLS.

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by any of Sections 310 to 317, inclusive, of the TIA through operation of Section 318(c) thereof, upon qualification of this Indenture hereunder such imposed duties shall control.

SECTION 12.2. NOTICES.

Any notice or communication shall be given in writing and delivered by facsimile (with original to follow), in person, by overnight delivery or mailed by first class mail, postage prepaid, addressed as follows:

If to the Company:

GenCorp Inc.
P.O. Box 537012
Sacramento, California 95853-7012
Attention: Terry L. Hall
Facsimile: 916-351-8668

with a copy to:

Jones Day
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114
Attention: Christopher Kelly
Facsimile: 216-579-0212

If to the Trustee:

The Bank of New York
101 Barclay Street, 8W
New York, New York 10286
Attention: Corporate Trust Administration
Facsimile: 212-815-5704



Such notices or communications shall be effective when received.

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notice or communications.

Any notice or communication mailed to a Securityholder shall be mailed by first class mail to such Securityholder at its address shown on the register kept by the Registrar.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication to a Securityholder is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

SECTION 12.3. COMMUNICATIONS BY HOLDERS WITH OTHER HOLDERS.

Securityholders may communicate pursuant to TIA 312(b) with other

Securityholders with respect to their rights under this Indenture or the Securities. The Company, the Trustee, the Registrar and any other person shall have the protection of TIA 312(c).

SECTION 12.4. CERTIFICATE AND OPINION AS TO CONDITIONS PRECEDENT.

(a) Upon any request or application by the Company to the Trustee to take any action under this Indenture (except in connection with the original issuance of the Securities), the Company shall furnish to the Trustee at the request of the Trustee:

(1) an Officers' Certificate stating that, in the opinion of the signers, all conditions precedent (including any covenants compliance with which constitutes a condition precedent), if any, provided for in this Indenture relating to the proposed action have been complied with; and

(2) an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent (including any covenants compliance with which constitutes a condition precedent) have been complied with.

(b) Each Officers' Certificate and Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture (other than annual certificates provided pursuant to Section 6.4) shall include:

(1) a statement that the person making such certificate or opinion has read such covenant or condition;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express uninformed opinion as to whether or not such covenant or condition has been complied with; and



(4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with; provided, however, that with respect to matters of fact an Opinion of Counsel may rely on Officers' Certificates or certificates of public officials.

SECTION 12.5. RECORD DATE FOR VOTE OR CONSENT OF SECURITYHOLDERS.

The Company (or, in the event deposits have been made pursuant to Section 6.3 or 10.1, the Trustee) may set a record date for purposes of determining the identity of Securityholders entitled to vote or consent to any action by vote or consent authorized or permitted under this Indenture, which record date shall be the later of 10 days prior to the first solicitation of such vote or consent or the date of the most recent list of Securityholders furnished to the Trustee pursuant to Section 2.5 prior to such solicitation. If a record date is fixed, those persons who were Holders of Securities at such record date (or their duly designated proxies), and only those persons, shall be entitled to take such action by vote or consent or to revoke any vote or consent previously given, whether or not such persons continue to be Holders after such record date.

SECTION 12.6. RULES BY TRUSTEE, PAYING AGENT, REGISTRAR.

The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or the Paying Agent may make reasonable rules for its functions.

SECTION 12.7. LEGAL HOLIDAYS.

A "Legal Holiday" is a Saturday, or a Sunday or a day on which state or federally chartered banking institutions in New York (or, if the Trustee is not located in New York, the state where the Trust Office of the Trustee is located) are not required to be open. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period.

SECTION 12.8. GOVERNING LAW.

The laws of the State of New York shall govern this Indenture and the Securities without regard to principles of conflicts of law.

SECTION 12.9. NO ADVERSE INTERPRETATION OF OTHER AGREEMENTS.

This Indenture may not be used to interpret another indenture, loan or debt agreement of the Company or a Subsidiary. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

SECTION 12.10. NO RECOURSE AGAINST OTHERS.

All liability described in paragraph 17 of the Securities of any director, officer, employee or stockholder, as such, of the Company is waived and released.



SECTION 12.11. SUCCESSORS.

All agreements of the Company in this Indenture and the Securities shall bind its successor. All agreements of the Trustee in this Indenture shall bind its successor.

SECTION 12.12. MULTIPLE COUNTERPARTS.

The parties may sign multiple counterparts of this Indenture. Each signed counterpart shall be deemed an original, but all of them together represent the same agreement.

SECTION 12.13. SEPARABILITY.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 12.14. TABLE OF CONTENTS, HEADINGS, ETC.

The table of contents, cross-reference sheet and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.



IN WITNESS WHEREOF, the parties hereto have hereunto set their hands as of the 16th day of January, 2004.

GENCORP INC.

By: /s/ YASMIN R. SEYAL
---
Name: Yasmin R. Seyal
Title: Senior Vice President and Chief Financial Officer

THE BANK OF NEW YORK
as Trustee

By: /s/ MICHAEL PITFICK
---
Name: Michael Pitfick
Title: Assistant Vice President

FORM OF SECURITY

GLOBAL NOTE LEGEND:

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO GENCORP INC. (THE "COMPANY") OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFER IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.



[RESTRICTED SECURITIES LEGEND:

THIS SECURITY (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT"), AND THIS SECURITY MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS SECURITY AGREES FOR THE BENEFIT OF THE COMPANY THAT (A) THIS SECURITY MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) TO GENCORP INC., ITS SUBSIDIARIES, ITS AFFILIATES OR THE AFFILIATES OF ITS SUBSIDIARIES, (II) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (III) PURSUANT TO RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (IV) PURSUANT TO ANOTHER APPLICABLE EXEMPTION FROM REGISTRATION OR (V) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE. PRIOR TO A TRANSFER OF THIS SECURITY PURSUANT TO CLAUSE (III) OR (IV) ABOVE, THE HOLDER OF THIS SECURITY MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE COMPANY AND THE TRUSTEE OR THE TRANSFER AGENT, AS APPLICABLE, SUCH CERTIFICATES AND OTHER INFORMATION, INCLUDING A LEGAL OPINION, AS THEY MAY REASONABLY REQUIRE TO CONFIRM THAT ANY TRANSFER BY IT OF THIS SECURITY COMPLIES WITH THE FOREGOING RESTRICTIONS. THE HOLDER HEREOF, BY PURCHASING THIS SECURITY, REPRESENTS AND AGREES FOR THE BENEFIT OF THE COMPANY THAT IT WILL NOT, DIRECTLY OR INDIRECTLY, ENGAGE IN ANY HEDGING TRANSACTION WITH REGARD TO THIS SECURITY EXCEPT AS PERMITTED BY THE SECURITIES ACT.]

[THE FOREGOING LEGEND MAY BE REMOVED FROM THE SECURITY ON SATISFACTION OF THE CONDITIONS SPECIFIED IN THE INDENTURE.]



[FORM OF FACE OF SECURITY]

GENCORP INC.

Number [1] CUSIP No. 368682 AG5

4% Contingent Convertible Subordinated Note Due 2024

GenCorp Inc., an Ohio corporation (the "Company"), promises to pay to Cede & Co. or registered assigns, the principal sum of _____($_____) on January 16, 2024 and to pay interest on the principal amount of this Note beginning on the most recent date to which interest has been paid or, if no interest has been paid, beginning on July 16, 2004 at the rate of 4% per annum.

Interest Payment Dates: January 16 and July 16
Record Dates: January 1 and July 1

This Note is convertible at such times and as specified on the other side of this Note. Additional provisions of this Note are set forth on the other side of this Note.



IN WITNESS WHEREOF, the Company has caused this 4% Contingent Convertible Subordinated Note due 2024 to be signed by its duly authorized officers.

Dated: _____

GENCORP INC.

By: _____
Name:
Title:

By: _____
Name:
Title:

Trustee's Certificate of
Authentication:

Dated: _____

This is one of the Securities
referred to in the within mentioned
Indenture.

THE BANK OF NEW YORK,
as Trustee

By: _____
Authorized Signatory



[FORM OF REVERSE SIDE OF SECURITY]

GENCORP INC.

4% Contingent Convertible Subordinated Note Due 2024

1. Interest.

GenCorp Inc., an Ohio corporation (the "Company"), promises to pay interest on the principal amount of this Note at the rate per annum shown above. The Company shall pay interest semi-annually on January 16 and July 16 of each year, commencing July 16, 2004. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from January 16, 2004. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The Company shall pay additional interest ("Contingent Interest") to the Holders during any six-month period (a "Contingent Interest Period") from January 16 to, but excluding, July 16 and from July 16 to, but excluding, January 16, with the initial six-month period commencing January 16, 2008, if the average of the Trading Price for the five Trading Days ending on the third Trading Day immediately preceding the first day of the applicable Contingent Interest Period (the "Contingent Interest Average Trading Price") equals $1,200 or more. The amount of Contingent Interest payable per $1,000 principal amount of Notes in respect of any Contingent Interest Period shall equal 0.50% per

annum of the Contingent Interest Average Trading Price. The Company will pay Contingent Interest, if any, in the same manner as it will pay interest as described above.

Upon determination that Holders will be entitled to receive Contingent Interest for a Contingent Interest Period, on or prior to the first day of such Contingent Interest Period, the Company shall issue a press release and notify the Trustee.

The Holder of this Note is entitled to the benefits of the Registration Rights Agreement, dated as of January 16, 2004, among the Company, Deutsche Bank Securities Inc. ("DBSI"), Wachovia Capital Markets, LLC, Scotia Capital (USA) Inc., BNY Capital Markets, Inc., NatCity Investments, Inc., and Wells Fargo Securities, LLC.

2. Method of Payment.

The Company will pay interest on this Note (except defaulted interest) to the person who is the registered Holder of this Note at the close of business on January 1 and July 1 immediately preceding the interest payment date, or if such day is not a Business Day, on the next succeeding Business Day. The Holder must surrender this Note to the Paying Agent to collect payment of principal. The Company will pay principal and interest in money of the United States that at the time of payment is legal tender for payment of public and private debts. The Company, however, may pay principal and interest by its check payable in such money. It may mail an interest check to the Holder's registered address.



3. Paying Agent, Registrar and Conversion Agent.

Initially, The Bank of New York (the "Trustee") will act as Paying Agent, Registrar and Conversion Agent. The Company may change any Paying Agent, Registrar or Conversion Agent without notice to the holder. The Company or any of its Subsidiaries may act as Paying Agent, Registrar or Conversion Agent.

4. Indenture; Limitations.

This Note is one of a duly authorized issue of Notes of the Company designated as its 4% Contingent Convertible Subordinated Notes Due 2024 (the "Notes"), issued under an Indenture dated as of January 16, 2004 (the "Indenture"), between the Company and the Trustee. The terms of this Note include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. Sections 77aaa-77bbbb), as amended by the Trust Indenture Reform Act of 1990, as in effect on the date hereof or, from and after the date that the Indenture shall be qualified thereunder, as in effect on such date. This Note is subject to all such terms, and the holder of this Note is referred to the Indenture and said Act for a statement of them.

The Notes are subordinated unsecured obligations of the Company limited to up to $100,000,000 aggregate principal amount plus an additional principal amount not exceeding $25,000,000 in the aggregate as may be issued upon the exercise by DBSI, in whole or in part, of the Purchase Option.

5. Optional Redemption

Beginning on January 19, 2010, the Company may redeem the Notes, in whole at any time, or in part from time to time, for cash at a price equal to 100% of the principal amount of the Notes plus accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) up to but not including the date of redemption payable in cash.

In addition, on or after January 19, 2008, the Company may redeem the Notes, in whole or in part, for cash at a price equal to 100% of the principal amount of the Notes plus accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) up to but not including the date of redemption, in the event that the Closing Price of the Company's Common Stock for at least 20 Trading Days in the period of 30 consecutive Trading Days ending on the last trading day of the calendar month preceding the calendar month in which the notice of redemption is properly mailed to Holders is more than 125% of the Conversion Price on that 30th Trading Day.

6. Notice of Redemption.

Notice of redemption will be mailed by first class mail at least 30 days but no more than 60 days prior to the redemption date in the case of a Optional Redemption, and at least 20 days but not more than 60 days before the redemption date in the case of an Optional Redemption, to each Holder of Notes to be redeemed at his registered address. Notes in denominations larger than $1,000 may be redeemed in part, but only in whole multiples of $1,000. On and after



the redemption date, subject to the deposit with the Paying Agent of funds sufficient to pay the redemption price, interest ceases to accrue on Notes or portions of them called for redemption.

7. Repurchase by the Company at the Option of the Holder; Repurchase at the Option of the Holder Upon a Change in Control.

Subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase, at the option of the Holder, all or any portion of the Notes held by such Holder, in any integral multiple of $1,000, on January 16, 2010, January 16, 2014 and January 16, 2019 (each, a "Repurchase Date") at a purchase price per Security equal to 100% of the aggregate principal amount of the Security (the "Repurchase Price"), together with accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) thereon, up to but not including the Repurchase Date upon delivery of a Repurchase Notice containing the information set forth in the Indenture, together with the Notes subject thereto, at any time from the opening of business on the date that is 20 Business Days prior to such Repurchase Date until the close of business on such Repurchase Date, and upon delivery of the Notes to the Paying Agent by the Holder as set forth in the Indenture.

At the option of the Holder and subject to the terms and conditions of the Indenture, the Company shall become obligated to purchase the Notes held by such Holder after the occurrence of a Change in Control of the Company for a Change in Control Repurchase Price equal to 100% of the principal amount thereof plus accrued but unpaid interest (including Contingent Interest and Liquidated Damages, if any) thereon, up to but not including the Change in Control Repurchase Date which Change in Control Repurchase Price shall be paid in cash (provided that, if the Change in Control Repurchase Date is on or after an interest record date but on or prior to the related interest payment date, accrued but unpaid interest will be payable to the Holders in whose names the Notes are registered at the close of business on the relevant record date).

Holders have the right to withdraw any Repurchase Notice or Change in Control Repurchase Notice, as the case may be, by delivering to the Paying Agent a written notice of withdrawal in accordance with the provisions of the Indenture.

Subject to the terms and conditions of the Indenture, the Company will make payments in respect of the Redemption Price, Repurchase Price, Change in Control Repurchase Price and the principal amount of the Notes, as the case may be, to the Holder who surrenders a Note to a Paying Agent to collect such payments in respect of the Note. The Company will pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts. However, the Company may pay interest (including Contingent Interest and Liquidated Damages, if any), the Redemption Price, Repurchase Price, Change in Control Repurchase Price and the principal amount, as the case may be, by check or wire payable in such money; provided, however, that a Holder holding Notes with an aggregate principal amount in excess of $5,000,000 may request payment by wire transfer in immediately available funds to an account in North America at the election of such Holder. The Company may mail an interest check to the Holder's registered address. Notwithstanding the foregoing, so long as this Note is registered in the name of a Depositary or its nominee, all payments hereon shall be made by wire transfer of immediately available funds to the account of the Depositary or its nominee.



8. Conversion.

Subject to the provisions of Article 4 of the Indenture, a Holder of a

Note may convert such Note into shares of Common Stock of the Company if any of the conditions specified in paragraphs (a) through (e) of Section 4.1 of the Indenture is satisfied; provided, however, that if such Note is called for redemption, the conversion right will terminate at the close of business on the third Business Day immediately preceding the Redemption Date of such Note (unless the Company shall default in making the redemption payment when due, in which case the conversion right shall terminate at the close of business on the date such Default is cured and such Note is redeemed). The initial conversion price is $15.43 per share, subject to adjustment under certain circumstances as described in the Indenture (the "Conversion Price"). The number of shares issuable upon conversion of a Note is determined by dividing the principal amount of Notes converted by the Conversion Price in effect on the Conversion Date. Upon conversion, no adjustment for interest (including Contingent Interest and Liquidated Damages, if any) or dividends will be made. No fractional shares will be issued upon conversion; in lieu thereof, an amount will be paid in cash based upon the Closing Price of the Common Stock on the last Trading Day prior to the date of conversion.

To convert a Note, a Holder must (a) complete and sign the conversion notice set forth below and deliver such notice to the Conversion Agent, (b) surrender the Note to the Conversion Agent, (c) furnish appropriate endorsements and transfer documents if required by the Registrar or the Conversion Agent, (d) pay any transfer or similar tax, if required and (e) if the Note is held in book-entry form, complete and deliver to the Depositary appropriate instructions pursuant to the Depositary's book-entry conversion programs. If a Holder surrenders a Note for conversion between the record date for the payment of an installment of interest and the related interest payment date, the Note must be accompanied by payment of an amount equal to the interest (including Contingent Interest and Liquidated Damages, if any) payable on such interest payment date on the principal amount of the Note or portion thereof then converted; provided, however, that no such payment shall be required if such Note has been called for redemption on a Redemption Date within the period between and including such record date and such interest payment date, or if such Note is surrendered for conversion on the interest payment date. A Holder may convert a portion of a Note equal to $1,000 or any integral multiple thereof.

A Note in respect of which a Holder has delivered a Repurchase Notice or a Change of Control Repurchase Notice exercising the option of such Holder to require the Company to repurchase such Note as provided in Section 3.9 or Section 3.10, respectively, of the Indenture may be converted only if such notice of exercise is withdrawn in accordance with the terms of the Indenture.

9. Subordination.

The indebtedness evidenced by the Notes is, to the extent and in the manner provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness of the Company, as defined in the Indenture. Any Holder by accepting this Note agrees to and shall be bound by such subordination provisions and authorizes the Trustee to give them effect.



In addition to all other rights of Senior Indebtedness described in the Indenture, the Senior Indebtedness shall continue to be Senior Indebtedness and entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any terms of any instrument relating to the Senior Indebtedness or any extension or renewal of the Senior Indebtedness.

10. Denominations, Transfer, Exchange.

The Notes are in registered form without coupons in denominations of $1,000 and integral multiples thereof. A Holder may register the transfer of or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and to pay any taxes or other governmental charges that may be imposed by law or permitted by the Indenture.

The aggregate principal amount of the Note in global form represented hereby may from time to time be reduced to reflect conversions or redemptions of a part of this Note in global form or cancellations of apart of this Note in global form, in each case, and in any such case, by means of notations on the Global Note Transfer Schedule on the last page hereof. Notwithstanding any provision of this Note to the contrary, conversions or redemptions of a part of this Note in global form and cancellations of a part of this Note in global

form, may be effected without the surrendering of this Note in global form, provided that appropriate notations on the Schedule of Exchanges, Conversions, Redemptions, Cancellations and Transfers are made by the Trustee, or the Custodian at the direction of the Trustee, to reflect the appropriate reduction or increase, as the case may be, in the aggregate principal amount of this Note in a global form resulting therefrom or as a consequence thereof.

11. Persons Deemed Owners.

The registered holder of a Note may be treated as the owner of it for all purposes.

12. Unclaimed Money.

If money for the payment of principal, premium, if any, or interest remains unclaimed for two years, the Trustee or Paying Agent will pay, subject to applicable escheatment laws, the money back to the Company at its request. After that, Holders entitled to money must look to the Company for payment unless an abandoned property law designates another person.

13. Amendment, Supplement, Waiver.

Subject to certain exceptions, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding and any past default or compliance with any provision may be waived in a particular instance with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding. Without the consent of or notice to any Holder, the Company and the Trustee may amend or supplement the Indenture or the Notes to, among other things, cure any ambiguity, omission, defect or inconsistency or make any other change that does not adversely affect the rights of any Holder.



14. Successor Corporation.

When a successor corporation assumes all the obligations of its predecessor under the Notes and the Indenture, the predecessor corporation will be released from those obligations.

15. Defaults and Remedies.

An Event of Default is: default for 30 days in payment of interest (including Contingent Interest and Liquidated Damages, if any) on the Notes; default in payment of principal on the Notes when due; failure by the Company for 60 days after appropriate notice to it to comply with any of its other agreements contained in the Indenture or the Notes; default by the Company or any Subsidiary with respect to its obligation to pay principal of or interest on indebtedness for borrowed money aggregating more than $10 million, beyond the grace period, if any, provided in the instrument or agreement under which the indebtedness was created, or the acceleration of such indebtedness if not withdrawn within 30 days from the date of such acceleration; failure by the Company to deliver shares of Common Stock within 15 days after such Common Stock is required to be delivered upon conversion of a Note; and certain events of bankruptcy, insolvency or reorganization of the Company or any of its Significant Subsidiaries. If an Event of Default (other than as a result of certain events of bankruptcy, insolvency or reorganization) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding may declare all unpaid principal of and accrued interest (including Contingent Interest and Liquidated Damages, if any) to the date of acceleration on the Notes then outstanding to be immediately due and payable, all as and to the extent provided in the Indenture. If an Event of Default occurs as a result of certain events of bankruptcy, insolvency or reorganization, all unpaid principal of and accrued interest (including Contingent Interest and Liquidated Damages, if any) on the Notes then outstanding shall become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder, all as and to the extent provided in the Indenture. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may require indemnity satisfactory to it before it enforces the Indenture or the Notes. Subject to certain limitations, Holders of a majority in principal amount of the Notes then outstanding may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing default (except a default in payment of principal or interest) if it determines that withholding

notice is in their interests. The Company is required to file periodic reports with the Trustee as to the absence of default.

16. Trustee Dealings with the Company.

The Bank of New York, the Trustee under the Indenture, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or an Affiliate of the Company, and may otherwise deal with the Company or an Affiliate of the Company, as if it were not the Trustee.

17. No Recourse Against Others.

A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim



based on, in respect or by reason of, such obligations or their creation. The Holder of this Note by accepting this Note waives and releases all such liability. The waiver and release are part of the consideration for the issue of this Note.

18. Discharge Prior to Maturity.

If the Company deposits with the Trustee or the Paying Agent money or U.S. Government Obligations sufficient to pay the principal of and interest on the Notes to maturity as provided in the Indenture, the Company will be discharged from the Indenture except for certain Sections thereof.

19. Authentication.

This Note shall not be valid until the Trustee or an authenticating agent signs the certificate of authentication on the other side of this Note.

20. Abbreviations and Definitions.

Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian) and U/G/M/A (= Uniform Gifts to Minors Act ).

All capitalized terms used in this Note and not specifically defined herein are defined in the Indenture and are used herein as so defined.

21. Indenture to Control.

In the case of any conflict between the provisions of this Note and the Indenture, the provisions of the Indenture shall control.

The Company will furnish to any Holder, upon written request and without charge, a copy of the Indenture. Requests may be made to: GenCorp Inc., P.O. Box 537012, Sacramento, California 95853-7012.



TRANSFER NOTICE

This Transfer Notice relates to $_____ principal amount of the 4% Contingent Convertible Subordinated Notes Due 2024 of GenCorp Inc., an Ohio corporation, held by _____ (the "Transferor").

(I) or (we) assign and transfer this Contingent Convertible Subordinated Note to

_____

(Print or type assignee's name, address and zip code)

_____
(Insert assignee's social security or tax I.D. no.)

and irrevocably appoint _____ agent to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Your Signature: _____
(Sign exactly as your name appears on the other side of this convertible Note)

Date: _____

Signature Guarantee(1) _____

In connection with any transfer of any of the Notes evidenced by this certificate occurring prior to the date that is three years after the later of the date of original issuance of such Notes and the last date, if any, on which such Notes were owned by the Company or any Affiliate of the Company, the undersigned confirms that such Notes are being transferred:

CHECK ONE BOX BELOW

(1) [ ] to GenCorp Inc.; or

(2) [ ] pursuant to and in compliance with Rule 144A under the Securities Act of 1933, as amended; or

(3) [ ] pursuant to and in compliance with Regulation S under the Securities Act of 1933, as amended; or

(4) [ ] pursuant to another available exemption from the registration requirements of the Securities Act of 1933, as amended; or

_____



(5) [ ] pursuant to an effective registration statement under the Securities Act of 1933.

Unless one of the boxes is checked, the Trustee will refuse to register any of the Notes evidenced by this certificate in the name of any person other than the registered holder thereof; provided, however, that if box (2), (3) or (4) is checked, the Trustee may require, prior to registering any such transfer of the Notes such legal opinions, certifications and other information as the Company has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, as amended, such as the exemption provided by Rule 144 under such Act.

Unless the box below is checked, the undersigned confirms that such Note is not being transferred to an "affiliate" of the Company as defined in Rule 144 under the Securities Act of 1933, as amended (an "Affiliate"):

[ ] The transferee is an Affiliate of the Company.

_____
Signature

_____
Date

_____
Signature Guarantee(1)

TO BE COMPLETED BY PURCHASER IF (2) ABOVE IS CHECKED.

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(1) The Holder's signature must be guaranteed by an "eligible guarantor institution" meeting the requirement of the Registrar which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to or in substitution for, STAMP, all in accordance with the Exchange Act.



The undersigned represents and warrants that it is purchasing this Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933, as amended, and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated:

_____

[Signature of executive officer of purchaser]

Name:_____

Title:_____



CONVERSION NOTICE

To GenCorp Inc.:

The undersigned owner of this Note hereby irrevocably exercises the option to convert this Note, or the portion below designated, into Common Stock of GenCorp Inc. in accordance with the terms of the Indenture referred to in this Note, and directs that the shares issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Any holder of Notes, upon exercise of its conversion rights in accordance with the terms of the Indenture and the Security, agrees to be bound by the terms of the Registration Rights Agreement relating to the Common Stock issuable upon conversion of the Notes.

[ ] Convert whole [ ] Convert in part

Amount of Note to be converted ($1,000 or integral multiples thereof):

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_____

Signature (sign exactly as name appears on the other side of this Note)2

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(2) The Holder's signature must be guaranteed by an "eligible guarantor institution" meeting the requirement of the Registrar which requirements include

membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to or in substitution for, STAMP, all in accordance with the Exchange Act.



If you want the stock certificate made out in another person's name, complete the following for such person:

_____
Name

_____
Social Security or Taxpayer Identification Number

_____
Street Address

_____
City, State and Zip Code



OPTION OF HOLDER TO ELECT REPURCHASE

If you want to elect to have this Note repurchased by the Company pursuant to Section 3.9 or Section 3.10 of the Indenture, check the box:

[ ]

If you want to elect to have only part of this Note repurchased by the Company pursuant to Section 3.9 or Section 3.10 of the Indenture, state the principal amount (which shall be $1,000 or a multiple thereof) to be repurchased:

$_____

Dated:_____ _____
Signature (sign exactly as name appears on the other side of this Note)

_____
Signature Guarantee:(3)

SCHEDULE A TO EXHIBIT A

GLOBAL NOTE TRANSFER SCHEDULE

Changes to Principal Amount of Global Security

| Date | Principal Amount of Securities by which this Global Security Is to Be Reduced and Reasons for Reduction | Remaining Principal Amount of this Global Security (following decrease) | Authorized Signature of officer or Trustee or Custodian |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
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(3) The Holder's signature must be guaranteed by an "eligible guarantor institution" meeting the requirement of the Registrar which requirements include membership or participation in the Security Transfer Agent Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to or in substitution for, STAMP, all in accordance with the Exchange Act.



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Schedule to be maintained by Depositary in cooperation with Trustee.



GENCORP INDENTURE

CROSS-REFERENCE TABLE*

| TRUST INDENTURE ACT SECTION | INDENTURE SECTION |
|---|---|
| 310(a)(1) | 9.10 |
| (a)(2) | N.A. |
| (a)(3) | N.A. |
| (a)(4) | N.A. |
| (a)(5) | N.A. |
| (b) | 9.10 |
| (c) | N.A. |
| 311(a) | 9.11 |
| (b) | 9.11 |
| (c) | N.A. |
| 312(a) | N.A. |
| (b) | 12.3 |
| (c) | 12.3 |
| 313(a) | 9.6 |
| (b) | 9.6 |
| (c) | N.A. |
| (d) | N.A. |
| 314(a) | 6.2, 6.4 |

* This Cross-Reference Table is not part of the Indenture.

Exhibit 4.12

REGISTRATION RIGHTS AGREEMENT

Dated as of January 16, 2004

By and Between

GENCORP INC.,

as Issuer,

and

DEUTSCHE BANK SECURITIES INC.
Wachovia CAPITAL MARKETS, LLC
scotia capital (usa) iNC.
BNY CAPITAL MARKETS, INC.
NATCITY INVESTMENTS, INC.
Wells Fargo SECURITIES, LLC

as Initial Purchasers

4% Contingent Convertible Subordinated Notes Due 2024

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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is dated as of January 16, 2004, by and among GENCORP INC., an Ohio corporation (the "Company"), Deutsche Bank Securities Inc. ("DBSI"), Wachovia Capital Markets, LLC ("Wachovia"), Scotia Capital (USA) Inc. ("Scotia Capital"), BNY Capital Markets, LLC ("BNY"), NatCity Investments, Inc. ("NatCity"), and Wells Fargo Securities, LLC ("Wells Fargo") (DBSI, Wachovia, Scotia Capital, BNY, NatCity and Wells Fargo, individually, an "Initial Purchaser" and together, the "Initial Purchasers").

This Agreement is entered into in connection with the Purchase Agreement, dated as of January 12, 2004 (the "Purchase Agreement"), by and between the Company and DBSI, as Representative of the Initial Purchasers (in such capacity, the "Representative"), which provides for the sale by the Company to the Initial Purchasers of $100,000,000 aggregate principal amount of the Company's 4% Contingent Convertible Subordinated Notes Due 2024 (the "Firm Notes"), which are convertible into Common Stock of the Company, par value $0.10 per share (the "Underlying Shares"), plus up to an additional $25,000,000 aggregate principal amount of the same which DBSI may subsequently elect to purchase pursuant to the terms of the Purchase Agreement (the "Additional Notes" and, together with the Firm Notes, the "Convertible Notes"). The Convertible Notes are being issued pursuant to an Indenture dated as of January 16, 2004 (the "Indenture"), between the Company and The Bank of New York, as trustee (as amended or supplemented from time to time, the "Indenture").

In order to induce the Representative, on behalf of the Initial Purchasers, to enter into the Purchase Agreement, the Company has agreed to provide the registration rights set forth in this Agreement for the benefit of the Initial Purchasers and any subsequent holder or holders of the Convertible Notes or Underlying Shares as provided herein. The execution and delivery of this Agreement is a condition to the obligation of the Initial Purchasers to purchase the Firm Notes under the Purchase Agreement. Terms not otherwise defined herein shall have the meanings set forth in the Purchase Agreement.

The parties hereby agree as follows:

1. Definitions. As used in this Agreement, the following terms shall have the following meanings:

ADDITIONAL NOTES: See the second introductory paragraph hereto.

AGREEMENT: See the first introductory paragraph hereto.

AMOUNT OF REGISTRABLE SECURITIES: (a) With respect to Convertible Notes constituting Registrable Securities, the aggregate principal amount of all such Convertible Notes outstanding, (b) with respect to Underlying Shares constituting Registrable Securities, the aggregate number of such Underlying Shares outstanding multiplied by the Conversion Price (as defined in the Indenture relating to the Convertible Notes upon the conversion of which such Underlying Shares were issued) in effect at the time of computing the Amount of Registrable Securities or, if



no such Convertible Notes are then outstanding, the last Conversion Price that was in effect under such Indenture when any such Convertible Notes were last outstanding, and (c) with respect to combinations thereof, the sum of (a) and (b) for the relevant Registrable Securities.

BUSINESS DAY: Any day that is not a Saturday, Sunday or a day on which banking institutions in New York or California are authorized or required by law to be closed.

CLOSING DATE: January 16, 2004.

COMPANY: See the first introductory paragraph hereto.

CONVERTIBLE NOTES: See the second introductory paragraph hereto.

DAMAGES PAYMENT DATE: See Section 3(c) hereof.

DEPOSITARY: The Depository Trust Company until a successor is appointed by the Company.

EFFECTIVENESS DATE: The 180th day after the later of the Closing Date and the last Option Closing Date, if any.

EFFECTIVENESS PERIOD: See Section 2(a) hereof.

EXCHANGE ACT: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

FILING DATE: The 90th day after the later of the Closing Date and the

last Option Closing Date, if any.

FIRM NOTES: See the second introductory paragraph hereto.

HOLDER: Any holder of Registrable Securities.

INDEMNIFIED HOLDER: See Section 6 hereof.

INDEMNIFIED PERSON: See Section 6 hereof.

INDEMNIFYING PERSON: See Section 6 hereof.

INDENTURE: See the second introductory paragraph hereto.

INITIAL PURCHASER: See the first introductory paragraph hereto.

INITIAL SHELF REGISTRATION: See Section 2(a) hereof.

INSPECTORS: See Section 4(m) hereof.

LIQUIDATED DAMAGES: See Section 3(a) hereof.



NOTICE AND QUESTIONNAIRE: See Section 2(a) hereof.

NOTICE HOLDER: See Section 2(a) hereof.

PERSON: An individual, partnership, corporation, limited liability company, unincorporated association, trust, joint venture or similar entity, or a governmental agency or political subdivision thereof.

PROSPECTUS: The prospectus included in any Registration Statement (including, without limitation, any prospectus subject to completion and a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act and any term sheet filed pursuant to Rule 434 under the Securities Act), as amended or supplemented by any prospectus supplement, and all other amendments and supplements to such prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

PURCHASE AGREEMENT: See the second introductory paragraph hereto.

RECORDS: See Section 4(m) hereof.

REGISTRABLE SECURITIES: All Convertible Notes and all Underlying Shares upon original issuance thereof and at all times subsequent thereto until the earliest to occur of (i) a Registration Statement covering such Convertible Notes and Underlying Shares having been declared effective by the SEC and such Convertible Notes and Underlying Shares having been disposed of in accordance with such effective Registration Statement, (ii) such Convertible Notes and Underlying Shares having been sold in compliance with Rule 144 or being eligible for resale (except with respect to affiliates of the Company within the meaning of the Securities Act) in compliance with Rule 144(k), or (iii) such Convertible Notes and any Underlying Shares ceasing to be outstanding.

REGISTRATION DEFAULT: See Section 3(a) hereof.

REGISTRATION STATEMENT: Any registration statement of the Company filed with the SEC pursuant to the provisions of this Agreement, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

RULE 144: Rule 144 promulgated under the Securities Act, as such Rule may be amended from time to time, or any similar rule (other than Rule 144A) or regulation hereafter adopted by the SEC providing for offers and sales of securities made in compliance therewith resulting in offers and sales by subsequent holders that are not affiliates of an issuer of such securities being free of the registration and prospectus delivery requirements of the Securities

Act.

RULE 144A: Rule 144A promulgated under the Securities Act, as such Rule may be amended from time to time, or any similar rule (other than Rule 144) or regulation hereafter adopted by the SEC.



RULE 415: Rule 415 promulgated under the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the SEC.

SEC: The Securities and Exchange Commission.

SECURITIES ACT: The Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

SHELF REGISTRATION: See Section 2(c) hereof.

SHELF REGISTRATION STATEMENT: See Section 2(c) hereof.

SUBSEQUENT SHELF REGISTRATION: Any "Shelf" Registration Statement covering all of the Registrable Securities filed pursuant to Rule 415 after the Initial Shelf Registration.

TIA: The Trust Indenture Act of 1939, as amended, and the rules and regulations of the SEC promulgated thereunder.

TRUSTEE: The Trustee under the Indenture.

UNDERLYING SHARES: See the second introductory paragraph hereto.

2. Shelf Registration.

(a) Shelf Registration. The Company shall use its reasonable best efforts to file with the SEC, to the extent not prohibited by any applicable law or applicable interpretation of the staff of the SEC, a Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 covering all of the Registrable Securities (the "Initial Shelf Registration") on or prior to the Filing Date.

The Initial Shelf Registration shall be on Form S-3 or another appropriate form permitting registration of such Registrable Securities for resale by Holders in the manner or manners set forth in such Registration Statement and in Rule 415. The Company shall not permit any securities other than the Registrable Securities to be included in the Initial Shelf Registration or any Subsequent Shelf Registration (as defined below).

The Company shall use its reasonable best efforts to cause the Initial Shelf Registration to be declared effective under the Securities Act on or prior to the Effectiveness Date and to keep such Initial Shelf Registration continuously effective under the Securities Act until the date that is two years from the later of the Closing Date and the last Option Closing Date (as it may be shortened pursuant to clause (i), (ii) or (iii) immediately following, the "Effectiveness Period"), or such shorter period ending when (i) all the Registrable Securities covered by the Initial Shelf Registration have been sold in the manner set forth and as contemplated in the Initial Shelf Registration, (ii) the date on which all the Registrable Securities (x) held by Persons who are not affiliates of the Company may be resold pursuant to Rule 144(k) under the Securities Act or (y) cease to be outstanding, or (iii) a Subsequent Shelf Registration covering all of the Registrable Securities has been declared effective under the Securities Act.



Each Holder wishing to include its Registrable Securities in the Initial Shelf Registration Statement prior to the time it is declared effective agrees to deliver a written notice, substantially in the form of Annex A to the Final Memorandum dated January 12, 2004 used in connection with the offer of the Convertible Notes (a "Notice and Questionnaire"), to the Company not later than

15 days after the last date of original issuance of the Convertible Notes or, if later, five Business Days prior to the effective date of the Shelf Registration Statement (each Holder delivering a Notice and Questionnaire, a "Notice Holder"). From and after the date the Shelf Registration Statement is declared effective, the Company shall, as promptly as reasonably practicable after the date of receipt of a Notice and Questionnaire (and, in any event, within 15 Business Days), (i) if required by applicable law, file with the SEC a post-effective amendment to the Shelf Registration Statement or prepare and, if required by applicable law, file a supplement to the related Prospectus or a supplement or amendment to any document incorporated therein by reference or file any other document required under the Securities Act so that the Holder delivering such Notice and Questionnaire is named as a selling securityholder in the Shelf Registration Statement and the related Prospectus in such a manner as to permit such Holder to deliver such Prospectus to purchasers of the Registrable Securities in accordance with applicable law and, if the Company shall file a post-effective amendment to the Shelf Registration Statement, use reasonable best efforts to cause such post-effective amendment to be declared effective under the Securities Act as promptly as is practicable, but in any event not later than 60 Business Days after the date such post-effective amendment is required by this clause to be filed; (ii) provide such Holder copies of any documents filed pursuant to subheading (i) of this paragraph; and (iii) notify such Holder as promptly as practicable after the effectiveness under the Securities Act of any post-effective amendment filed pursuant to subheading (i) of this paragraph; provided that if such Notice and Questionnaire is delivered during a period pursuant to Section 3(b), the Company shall so inform the Holder delivering such Notice and Questionnaire and shall take the actions set forth in clauses (i), (ii) and (iii) above upon expiration of any period referenced in Section 3(b) of this Agreement. Any Holder who, subsequent to the date the Registration Statement is declared effective, provides a Notice and Questionnaire required by this paragraph pursuant to the provisions of this Section (whether or not such Holder has supplied the Notice and Questionnaire at the time the Shelf Registration Statement was declared effective) shall be named as a selling securityholder in the Shelf Registration Statement and related Prospectus in accordance with the requirements of this paragraph.

No Holder of Registrable Securities may include any of its Registrable Securities in any Shelf Registration pursuant to this Agreement unless and until such Holder furnishes to the Company a completed and executed Notice and Questionnaire. Each Holder of Registrable Securities as to which any Shelf Registration Statement is being effected agrees to furnish, in accordance with the previous paragraph, to the Company all information required to be disclosed so that the information previously furnished to the Company by such Holder is not materially misleading and does not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading in the light of the circumstances under which they were made and, if such Holder fails to do so, the Company shall be under no obligation to include such Holder's Registrable Securities in any Shelf Registration Statement.

(b) Withdrawal of Stop Orders. If the Initial Shelf Registration or any Subsequent Shelf Registration ceases to be effective for any reason at any time during the



Effectiveness Period (other than because of the sale of all of the securities registered thereunder), the Company shall use its reasonable best efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within 30 days of such cessation of effectiveness amend the Initial Shelf Registration or Subsequent Shelf Registration, as the case may be, in a manner to obtain the withdrawal of the order suspending the effectiveness thereof.

(c) Supplements and Amendments. The Company shall promptly supplement and amend the Shelf Registration (as defined below) if required by the rules, regulations, or instructions applicable to the registration form used for such Shelf Registration or if required by the Securities Act and will use its reasonable best efforts to reflect in such supplement or amendment such comments as Holders of the majority in Amount of Registrable Securities covered by such Registration Statement or any underwriter of such Registrable Securities may reasonably propose with respect to the information included therein that relates to one or more of such Holders or underwriters. As used herein, the term "Shelf Registration" means the Initial Shelf Registration and any Subsequent Shelf Registration and the term "Shelf Registration Statement" means any Registration

Statement filed in connection with a Shelf Registration.

3. Liquidated Damages.

(a) The Company and the Initial Purchasers agree that the Holders of Registrable Securities will suffer damages if the Company fails to fulfill its obligations under Section 2 hereof and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, the Company agrees to pay liquidated damages on the Registrable Securities ("Liquidated Damages") under the circumstances and to the extent set forth below, each of which shall be given independent effect (each a "Registration Default"):

(i) if the Initial Shelf Registration is not filed with the SEC on or prior to the Filing Date, then commencing on the day after the Filing Date, Liquidated Damages shall accrue on the Registrable Securities at a rate of 0.50% per annum on the Amount of Registrable Securities;

(ii) if the Initial Shelf Registration or a Subsequent Shelf Registration is not declared effective by the SEC on or prior to the Effectiveness Date, then commencing one day after the Effectiveness Date, Liquidated Damages shall accrue on the Registrable Securities at a rate of 0.50% per annum on the Amount of Registrable Securities;

(iii) if a Shelf Registration has been declared effective and such Shelf Registration ceases to be effective or the Prospectus therein fails to be available for use at any time during the Effectiveness Period (other than as permitted under Section 3(b)), then Liquidated Damages shall accrue on the Registrable Securities at a rate of 0.50% per annum on the Amount of Registrable Securities; and

(iv) if the Company fails with respect to a Notice Holder to amend or supplement the Shelf Registration Statement in a timely manner in accordance with Section 2 in order to name such Notice Holder as a selling securityholder, then Liquidated Damages shall accrue on the Registrable Securities held by such Notice Holder at a rate of 0.50% per annum on the Amount of Registrable Securities held by such Notice Holder;



provided, however, that Liquidated Damages on Registrable Securities held by any Holder may not accrue under more than one of the foregoing clauses (i), (ii), (iii) or (iv) at any one time; provided, further, however, that (1) upon the filing of the Shelf Registration as required hereunder (in the case of clause (a)(i) of this Section 3), (2) upon the effectiveness of the Shelf Registration as required hereunder (in the case of clause (a)(ii) of this Section 3), (3) upon the effectiveness or availability of a Shelf Registration or Prospectus which had ceased to remain effective or available (in the case of clause (a)(iii) of this Section 3) or (4) upon inclusion of such Notice Holder in a Shelf Registration Statement (in the case of clause (a)(iv) of this Section 3), Liquidated Damages on the Registrable Securities as a result of such clause (or the relevant subclause thereof) shall cease to accrue. It is understood and agreed that, notwithstanding any provision to the contrary, so long as any Registrable Security is then covered by an effective Shelf Registration Statement containing a usable Prospectus, no Liquidated Damages shall accrue on such Registrable Security.

(b) Notwithstanding paragraph (a) of this Section 3, if the Board of Directors of the Company determines that it is in the best interest of the Company not to disclose the existence of or facts surrounding any proposed or pending material corporate transaction or development involving the Company or its subsidiaries, the Company may suspend the filing or effectiveness of a Shelf Registration or the use of any related Prospectus for up to 30 consecutive days in any 90-day period for a total of not more than 90 days in any calendar year, without paying Liquidated Damages, and, upon notice thereof to each Holder, such Holder shall suspend the use of the Shelf Registration Statement and the related Prospectus until such time as the Company shall have notified such Holder that the Shelf Registration Statement and the related Prospectus are again available for use.

(c) So long as Convertible Notes remain outstanding, the Company shall notify the Trustee within three Business Days after each and every date on which an event occurs in respect of which Liquidated Damages is required to be paid. Any amounts of Liquidated Damages due pursuant to clause (a)(i), (a)(ii),

(a)(iii) or (a)(iv) of this Section 3 will be payable in cash semi-annually on each January 16 and July 16 (each a "Damages Payment Date"), commencing with the first such date occurring after any such Liquidated Damages commences to accrue, to Holders to whom regular interest is payable on such Damages Payment Date with respect to Convertible Notes that are Registrable Securities and to Persons that are registered Holders 15 days prior to such Damages Payment Date with respect to Underlying Shares that are Registrable Securities. The amount of Liquidated Damages for Registrable Securities will be determined by multiplying the applicable rate of Liquidated Damages by the Amount of Registrable Securities outstanding on the Damages Payment Date following such Registration Default in the case of the first such payment of Liquidated Damages with respect to a Registration Default (and thereafter at the next succeeding Damages Payment Date until the cure of such Registration Default), multiplied by a fraction, the numerator of which is the number of days such Liquidated Damages rate was applicable during such period (determined on the basis of a 360-day year comprised of twelve 30-day months and, in the case of a partial month, the actual number of days elapsed), and the denominator of which is 360. No Liquidated Damages shall accrue with respect to securities that are not Registrable Securities.

4. Registration Procedures.In connection with the filing of any Registration Statement pursuant to Section 2 hereof, the Company shall effect such registrations to permit the sale of the



securities covered thereby in accordance with the intended method or methods of disposition thereof, and pursuant thereto and in connection with any Registration Statement filed by the Company hereunder the Company shall:

(a) Use its reasonable best efforts to prepare and file with the SEC on or prior to the Filing Date, a Registration Statement or Registration Statements as prescribed by Section 2 hereof, and use its reasonable best efforts to cause each such Registration Statement to become effective and remain effective as provided herein; provided, however, that before filing any Registration Statement or Prospectus or any amendments or supplements thereto, the Company shall furnish to and afford the Holders of the Registrable Securities covered by such Registration Statement and their counsel if requested by the Holders and the managing underwriters, if any, upon their request, a reasonable opportunity to review copies of all such documents proposed to be filed, other than documents filed with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act that are deemed incorporated by reference in such Registration Statement or Prospectus (in each case, where possible, at least three Business Days prior to such filing, or such later date as is reasonable under the circumstances). The Company shall not file any Registration Statement or Prospectus or any amendments or supplements thereto if the Holders of a majority in Amount of Registrable Securities covered by such Registration Statement shall reasonably object on a timely basis.

(b) Use its reasonable best efforts to prepare and file with the SEC such amendments and post-effective amendments to each Shelf Registration as may be necessary to keep such Registration Statement continuously effective for the Effectiveness Period; cause the related Prospectus to be supplemented by any Prospectus supplement required by applicable law, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) promulgated under the Securities Act; and comply in all material respects with the provisions of the Securities Act and the Exchange Act applicable to it with respect to the disposition of all securities covered by such Registration Statement as so amended or in such Prospectus as so supplemented. Subject to Section 3(b), the Company shall be deemed not to have used its reasonable best efforts to keep a Registration Statement effective during the Effectiveness Period if it voluntarily takes any action that would result in selling Holders of the Registrable Securities covered thereby not being able to sell such Registrable Securities during that period unless such action is required by applicable law or unless the Company complies with this Agreement, including without limitation the provisions of Section 4(k) hereof.

(c) Use its reasonable best efforts to notify the selling Holders of Registrable Securities, their counsel and the managing underwriters, if any, promptly (but in any event within five Business Days) (i) when a Prospectus or any prospectus supplement or post-effective amendment has been filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective under the Securities Act (including in such notice a

written statement that any Holder may, upon written request, obtain, at the sole expense of the Company, one conformed copy of such Registration Statement or post-effective amendment including financial statements and schedules, documents incorporated or deemed to be incorporated by reference and exhibits), (ii) of the issuance by the SEC of any stop order suspending the effectiveness of a Registration Statement or of any order preventing or suspending the use of any Prospectus or the initiation of any proceedings for that purpose, (iii) of the happening of any event, the existence of any condition or any information becoming known



that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any material changes in or amendments or supplements to such Registration Statement, Prospectus or documents so that, in each case, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and (iv) of the Company's determination that a post-effective amendment to a Registration Statement would be appropriate.

(d) Use its reasonable best efforts to prevent the issuance of any order suspending the effectiveness of a Registration Statement or of any order preventing or suspending the use of a Prospectus and, if any such order is issued, to use its reasonable best efforts to obtain the withdrawal of any such order at the earliest possible moment.

(e) If requested by the managing underwriter or underwriters (if any) or the Holders of the majority in Amount of Registrable Securities being sold in connection with an underwritten offering, (i) as promptly as practicable incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter or underwriters (if any) or such Holders reasonably determine is necessary to be included therein, (ii) make all required filings of such prospectus supplement or such post-effective amendment as soon as reasonably practicable after the Company has received notification of the matters to be incorporated in such prospectus supplement or post-effective amendment and (iii) supplement or make amendments to such Registration Statement, provided, however, that the Company shall not be required to take any action pursuant to this Section 4(e) that would, in the good faith judgment of the Company, violate applicable law.

(f) Use its reasonable best efforts to furnish to each selling Holder of Registrable Securities and a single counsel to all such Holders (chosen in accordance with Section 5(b)) and each managing underwriter, if any, at the sole expense of the Company, one conformed copy of the Registration Statement or Registration Statements and, if requested, each post-effective amendment thereto, including financial statements and schedules, and all documents incorporated or deemed to be incorporated therein by reference and all exhibits.

(g) Use its reasonable best efforts to furnish to each selling Holder of Registrable Securities and a single counsel to all such Holders (chosen in accordance with Section 5(b)) and the underwriters, if any, at the sole expense of the Company, as many copies of the Prospectus (including each form of preliminary prospectus) and each amendment or supplement thereto and any documents incorporated by reference therein as such Persons may reasonably request in writing; and, subject to the last paragraph of this Section 4, the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders of Registrable Securities and the underwriters or agents, if any, and dealers (if any), in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto in the manner contemplated by such Prospectus.

(h) Prior to any public offering of Registrable Securities, to use its reasonable best efforts to register or qualify, to the extent required by applicable law, and to cooperate with

the selling Holders of Registrable Securities and the managing underwriter or underwriters, if any, in connection with the registration or qualification (or exemption from such registration or qualification) of, such Registrable Securities or offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any selling Holder, or the managing underwriter or underwriters, if any, reasonably requests in writing; and use its reasonable best efforts to keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by the applicable Registration Statement; provided, however, that the Company shall not be required to (A) qualify generally to do business in any jurisdiction where it is not then so qualified, (B) take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or (C) subject itself to taxation in any such jurisdiction where it is not then so subject.

(i) Cooperate with the selling Holders of Registrable Securities and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold, which certificates shall not bear any restrictive legends and shall be in a form eligible for deposit with Depositary; and enable such shares of Registrable Securities to be in such denominations subject to applicable requirements contained in the Indenture and registered in such names as the Holders may reasonably request.

(j) Use its reasonable best efforts to cause the Registrable Securities covered by any Shelf Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be reasonably necessary to enable the seller or sellers thereof or the underwriter or underwriters, if any, to consummate the disposition of such Registrable Securities, except as may be required solely as a consequence of the nature of such selling Holder's business, in which case the Company will cooperate in all reasonable respects with the filing of such Registration Statement and the granting of such approvals.

(k) Upon the occurrence of any event contemplated by paragraph 4(c)(ii), 4(c)(iii) or 4(c)(iv) hereof, subject to Section 3(b), to use its reasonable best efforts to prepare and (subject to Section 4(a) hereof) file with the SEC, at the sole expense of the Company, a supplement or post-effective amendment to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, or file any other required document, so that, as thereafter delivered to the purchasers of the Registrable Securities being sold thereunder, any such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(l) In connection with any underwritten offering of Registrable Securities pursuant to a Shelf Registration, enter into an underwriting agreement on customary terms and conditions for underwritten offerings of securities similar to the Registrable Securities and take all such other actions as are reasonably requested by the managing underwriter in order to expedite or facilitate the registration or the disposition of such Registrable Securities and, in such connection, (i) make such representations and warranties to, and covenants with, the underwriters with respect to the business of the Company and its subsidiaries (including any



acquired business, properties or entity, if applicable) and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, as are customarily made by issuers to underwriters in underwritten offerings of securities similar to the Registrable Securities and confirm the same in writing if and when requested; (ii) upon the request of the managing underwriter, use all reasonable efforts to obtain the written opinion of counsel to the Company and written updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters, addressed to the underwriters covering the matters customarily covered in opinions requested in underwritten offerings of securities similar to the Registrable Securities and such other matters as may be reasonably requested

by the managing underwriter or underwriters; (iii) upon the request of the managing underwriter, use all reasonable efforts to obtain "cold comfort" letters and updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data are, or are required to be, included or incorporated by reference in the Registration Statement), addressed to each of the underwriters, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with underwritten offerings of securities similar to the Registrable Securities and such other matters as are reasonably requested by the managing underwriter or underwriters as permitted by the Statement on Auditing Standards No. 72, provided that each such Holder and underwriter makes such reasonable representations as may be customarily required for such independent certified public accountants in similar transactions to deliver such letters; and (iv) if an underwriting agreement is entered into, cause the same to contain indemnification provisions and procedures no less favorable to the sellers and underwriters, if any, than those set forth in Section 7 hereof (or such other provisions and procedures reasonably acceptable to Holders of a majority in Amount of Registrable Securities covered by such Registration Statement and the managing underwriter or underwriters or agents, if any) with respect to all parties to be indemnified pursuant to said Section. The above shall be done as and to the extent required by such underwriting agreement.

(m) Use its reasonable best efforts to make available for inspection by any selling Holder of Registrable Securities being sold, any underwriter participating in any such disposition of Registrable Securities, if any, and any attorney, accountant or other agent retained by any such selling Holder, or underwriter (collectively, the "Inspectors"), upon written request, at the offices where normally kept, during reasonable business hours without interfering in the orderly business of the Company at such time or times as shall be mutually convenient for the Company and the Inspectors as a group, all pertinent financial and other records, pertinent corporate documents and instruments of the Company and its subsidiaries (collectively, the "Records") as shall be reasonably necessary to enable the Inspectors to exercise any applicable due diligence responsibilities, and cause the officers, directors and employees of the Company and its subsidiaries to supply all information that has been reasonably requested by any such Inspector in connection with such due diligence responsibilities; provided, however, that the foregoing inspection and information gathering shall be coordinated on behalf of such Holders by one firm of counsel, which firm shall be Winston & Strawn LLP until another firm shall be designated pursuant to Section 5(b). Any such access granted to the Inspectors under this Section 4(m) shall be subject to the prior receipt by the Company of written undertakings, in form and substance reasonably satisfactory to the Company and its counsel, to preserve the



confidentiality of any Records deemed by the Company to be confidential. Records that the Company determines, in good faith, to be confidential and any Records that it notifies the Inspectors are confidential shall not be disclosed by any Inspector unless (i) the release of such Records is ordered pursuant to a subpoena or other order from a court of competent jurisdiction, (ii) after giving reasonable prior notice to the Company, disclosure of such information is, in the opinion of counsel for any Inspector, necessary in connection with any action, claim, suit or proceeding, directly involving or potentially involving such Inspector and arising out of, based upon, relating to, or involving this Agreement or any transactions contemplated hereby or arising hereunder or (iii) the information in such Records has been made generally available to the public other than through the acts of such Inspector or an "affiliate" (as defined in Rule 405) of any Inspector; provided, however, that prior notice shall be provided as soon as practicable to the Company of the potential disclosure of any information by such Inspector pursuant to clauses (i) or (ii) of this sentence to permit the Company to undertake appropriate action to prevent the disclosure of such Records (or waive the provisions of this paragraph (m)). Each selling Holder of such Registrable Securities will be required to agree that information obtained by it as a result of such inspections shall be deemed confidential and shall not be used by it as the basis for any market transactions in the securities of the Company, unless and

until such information in such Records has been made generally available to the public other than as the result of a breach of this Agreement. Each Inspector shall take such actions as are reasonably necessary to protect the confidentiality of such information to the extent such actions are otherwise not inconsistent with, an impairment of or in derogation of the rights and interests of the Holder or any Inspector, unless and until such information in such Records has been made generally available to the public other than as a result of a breach of this Agreement.

(n) Provide (i) the Holders of the Registrable Securities to be included in such Registration Statement and not more than one counsel for all the Holders of such Registrable Securities chosen in accordance with Section 5(b), (ii) the underwriters (which term, for purposes of this Agreement, shall include a Person deemed to be an underwriter within the meaning of Section 2(11) of the Securities Act), if any, thereof, (iii) the sales or placement agent, if any, thereof, and (iv) one counsel for such underwriters or agents, reasonable opportunity to participate in the preparation of such Registration Statement, each Prospectus included therein or filed with the SEC, and each amendment or supplement thereto.

(o) Comply in all material respects with all applicable rules and regulations of the SEC and make generally available to its securityholders earnings statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Securities are sold to underwriters in a firm commitment or best efforts underwritten offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of a Registration Statement, which statements shall cover said 12-month periods.

(p) Use its reasonable best efforts to cooperate with each seller of Registrable Securities covered by any Registration Statement and each underwriter, if any, participating in the disposition of such Registrable Securities and their respective counsel in connection with any filings required to be made with the National Association of Securities Dealers, Inc. (the



"NASD"), including, if the Conduct Rules of the NASD or any successor thereto as amended from time to time so require, engaging, at the underwriters' (or Holders') expense, a "qualified independent underwriter" ("QIU") as contemplated therein and making Records available to such QIU as though it were a participating underwriter for the purposes of Section 4(m) and otherwise applying the provisions of this Agreement to such QIU (including indemnification) as though it were a participating underwriter.

(q) Cause the Indenture to be qualified under the TIA not later than the effective date of the first Registration Statement relating to the Registrable Securities; and in connection therewith, cooperate with the Trustee and the Holders of the Registrable Securities to effect such changes to the Indenture as may be required for the Indenture to be so qualified in accordance with the terms of the TIA; and execute, and use its reasonable best efforts to cause the Trustee to execute, all documents as may be required to effect such changes and all other forms and documents required to be filed with the SEC to enable the Indenture to be so qualified in a timely manner.

(r) Use its reasonable best efforts to take all other steps reasonably necessary or advisable to effect the registration of the Registrable Securities covered by a Registration Statement contemplated hereby.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish to the Company the Notice and Questionnaire attached to the Final Memorandum dated January 12, 2004 used in connection with the offer of the Convertible Notes and such other information regarding such seller and the distribution of such Registrable Securities as the Company may, from time to time, reasonably request to the extent necessary or advisable to comply with the Securities Act. The Company may exclude from such registration for the Registrable Securities any Seller who unreasonably fails to furnish such information within a reasonable time after receiving such request

and, in such event, shall have no further obligation under this Agreement (including, without limitation, under Section 3 hereof) with respect to such Seller or any subsequent Holder of Registrable Securities. Each seller as to which any Shelf Registration is being effected agrees to furnish promptly to the Company all information required to be disclosed so that the information previously furnished to the Company by such seller is not materially misleading and does not omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances under which they were made.

Each Holder of Registrable Securities agrees by acquisition of such Registrable Securities that, upon actual receipt of any notice from the Company of the happening of any event of the kind described in Section 4(c)(ii), 4(c)(iii) or 4(c)(iv) hereof, or upon the suspension of the availability of the Registration Statement or any Prospectus pursuant to Section 3(b), such Holder will forthwith discontinue disposition of such Registrable Securities covered by such Registration Statement or Prospectus until such Holder's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 4(k) hereof, or until it is advised in writing by the Company that the use of the applicable Prospectus may be resumed and has received copies of any amendments or supplements thereto.

5. Registration Expenses.



(a) All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall be borne by the Company, including, without limitation, (i) all registration and filing fees (including, without limitation, (A) fees with respect to filings required to be made with the NASD in connection with any underwritten offering and (B) fees and expenses of compliance with state securities or Blue Sky laws (including, without limitation, reasonable fees and disbursements of counsel in connection with Blue Sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as provided in Section 4(h) hereof), (ii) printing expenses, including, without limitation, expenses of printing certificates for Registrable Securities in a form eligible for deposit with Depositary and of printing Prospectuses if the printing of prospectuses is reasonably requested by the managing underwriter or underwriters, if any, or Holders of a majority in Amount of Registrable Securities included in any Registration Statement, (iii) fees and disbursements of counsel for the Company and reasonable fees and disbursements of one special counsel for the sellers of Registrable Securities (subject to the provisions of Section 5(b) hereof), (iv) fees and disbursements of all independent certified public accountants referred to in Section 4(l)(iii) hereof (including, without limitation, the expenses of any special audit and "cold comfort" letters required by or incident to such performance), (v) Securities Act liability insurance, if the Company desires such insurance, (vi) fees and expenses of all other Persons retained by the Company, (vii) internal expenses of the Company (including, without limitation, all salaries and expenses of officers and employees of the Company performing legal or accounting duties), (viii) the expense of any annual audit, (ix) the fees and expenses incurred in connection with the listing of the securities to be registered on any securities exchange, if applicable, and (x) the expenses relating to printing, word processing and distributing all Registration Statements, underwriting agreements, securities sales agreements and any other documents necessary in order to comply with this Agreement. Notwithstanding anything in this Agreement to the contrary, each Holder shall pay all underwriting discounts and brokerage commissions with respect to any Registrable Securities sold by it, the fees of counsel retained by or on behalf of the underwriters and transfer taxes, if any, related to the sale or disposition of such Holder's securities.

(b) The Company shall reimburse the Holders of the Registrable Securities being registered in a Shelf Registration for the reasonable fees and disbursements of not more than one counsel chosen by the Holders of a majority in Amount of Registrable Securities to be included in such Registration Statement, which counsel shall be Winston & Strawn LLP until another firm shall be designated pursuant to this Section 5(b).

6. Indemnification. The Company agrees to indemnify and hold harmless (i) each Initial Purchaser, (ii) each Holder, (iii) each Person, if any, who controls (within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act) any of the foregoing or their respective affiliates (any of

the Persons referred to in this clause (iii) being hereinafter referred to as a "controlling person"), and (iv) the respective officers and directors of the Initial Purchasers, the Holders (including predecessor Holders) or their respective affiliates or any controlling person (any person referred to in clause (i), (ii), (iii) or (iv) may hereinafter be referred to as an "Indemnified Holder"), from and against any and all losses, claims, damages, liabilities and judgments (including, without limitation, reasonable legal fees and other expenses reasonably incurred in connection with any suit, action or proceeding or any claim asserted) caused by, arising out of or based upon any untrue statement or alleged untrue statement of a material fact



contained in any Registration Statement pursuant to which the offering of such Registrable Securities is registered (or any amendment thereto) or any related Prospectus or any amendment or supplement thereto or any related preliminary Prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made not misleading, except insofar as such losses, claims, damages or liabilities are caused by any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with information relating to any Holder furnished to the Company in writing by or on behalf of such Holder expressly for use in therein; provided, however, that the Company shall not be liable to any Indemnified Holder under the indemnity agreement of this paragraph with respect to any preliminary Prospectus to the extent that any such loss, claim, damage, liability, judgment or expense of such Indemnified Holder results from the fact that such Indemnified Holder sold Registrable Securities under a Registration Statement to a Person as to whom it shall be established that there was not sent or given, at or prior to the written confirmation of such sale, a copy of the Prospectus (or of the preliminary Prospectus as then amended or supplemented if the Company shall have furnished such Indemnified Holder with such amendment or supplement thereto on a timely basis), and the loss, claim, damage, liability or expense of such Indemnified Holder results from an untrue statement or omission of a material fact contained in the preliminary Prospectus which was corrected in the Prospectus (or in the preliminary Prospectus as then amended or supplemented if the Company shall have furnished such Indemnified Holder with such amendment or supplement thereto, as the case may be, on a timely basis).

Each Holder agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, officers and each Person who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to each Holder, but only (i) with reference to information relating to a Holder furnished to the Company in writing by or on behalf of such Holder expressly for use in any Registration Statement or Prospectus, any amendment or supplement thereto or any related preliminary Prospectus or (ii) with respect to any untrue statement or representation made by such Holder in writing to the Company.

If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any Person in respect of which indemnity may be sought pursuant to either of the two preceding paragraphs, such Person (the "Indemnified Person") shall promptly notify the Person or Persons against whom such indemnity may be sought (each an "Indemnifying Person") in writing of the commencement thereof. However, the failure so to notify the Indemnifying Person (i) will not relieve it from liability hereunder unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the Indemnifying Person of substantial rights and defenses and (ii) will not, in any event, relieve the Indemnifying Person from any obligations to any Indemnified Person other than the indemnification obligation provided hereunder. The Indemnifying Person shall be entitled to participate in such action and, to the extent that it shall wish, jointly with any other Indemnifying Person similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to the Indemnified Person (in which case the Indemnifying Person shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the Indemnified Person or Persons except as set forth below).

Notwithstanding the Indemnifying Person's election to assume the defense and employ counsel in an action, an Indemnified Person shall have the right to employ separate counsel (including local counsel) and the Indemnifying Person shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the Indemnifying Person to represent the Indemnified Person would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the Indemnified Person and the Indemnifying Person and the Indemnified Person shall have reasonably concluded that there may be legal defenses available to it and/or other Indemnified Persons which are different from or additional to those available to the Indemnifying Person, (iii) the Indemnifying Person shall have failed to assume the defense and employ counsel reasonably satisfactory to the Indemnified Person within a reasonable time after notice of the institution of such action or (iv) the Indemnifying Person shall authorize the Indemnified Person to employ separate counsel at the expense of the Indemnifying Person. The Indemnifying Person shall not be liable for any settlement of any proceeding effected without its prior written consent, but if settled with such consent or if there be a final judgment for the plaintiff for which the Indemnified Person is entitled to indemnification pursuant to this Agreement, such Indemnifying Person agrees to indemnify and hold harmless any Indemnified Person from and against any loss or liability by reason of such settlement or judgment. No Indemnifying Person shall, without the prior written consent of the Indemnified Person, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Person is or could have been a party and indemnity could have been sought hereunder by such Indemnified Person, unless such settlement (A) includes an unconditional written release of such Indemnified Person from all liability on claims that are the subject matter of such proceeding and (B) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any Indemnified Person.

If the indemnification provided for in the first and second paragraphs of this Section 6 is unavailable to an Indemnified Person or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each Indemnifying Person under such paragraph, in lieu of indemnifying such Indemnified Person thereunder, shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Indemnifying Person on the one hand and the Indemnified Person on the other hand pursuant to the Purchase Agreement or from the offering of Convertible Notes or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Indemnifying Person on the one hand and the Indemnified Person on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and any Indemnified Holder on the other shall be deemed to be in the same proportion as the total net proceeds from the initial offering and sale of Convertible Notes (before deducting expenses) received by the Company bear to the total net proceeds received by such Indemnified Holder from sales of Registrable Securities giving rise to such obligations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or such Indemnified Holder and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.



Each of the Company and the Initial Purchasers agrees that it would not be just and equitable if contribution pursuant to this Section 6 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. The amount paid or payable by an Indemnified Person as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any reasonable legal or other expenses actually incurred by such Indemnified Person in connection with investigating or

defending any such action or claim. Notwithstanding the provisions of this Section 6, in no event shall any Holder be required to contribute any amount in excess of the amount by which proceeds received by such Holder from the sale of the Registrable Securities pursuant to a Shelf Registration Statement exceeds the amount of damages which such Holder would have otherwise been required to pay or has paid by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

The remedies provided for in this Section 6 are not exclusive and shall not limit any rights or remedies that may otherwise be available to any indemnified party at law or in equity.

The indemnity and contribution agreements contained in this Section 6 shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Holder or any Person controlling any Holder or by or on behalf of the Company, its officers or directors or any other Person controlling any of the Company and (iii) acceptance of and payment for any of the Registrable Securities.

7. Rules 144 and 144A. The Company covenants that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder in a timely manner in accordance with the requirements of the Securities Act and the Exchange Act and, for so long as any Registrable Securities remain outstanding, if at any time the Company is not required to file such reports, it will, upon the request of any Holder or beneficial owner of Registrable Securities, make available such information necessary to permit sales pursuant to Rule 144A under the Securities Act. The Company further covenants that, for so long as any Registrable Securities remain outstanding, it will use its reasonable best efforts to take such further action as any Holder of Registrable Securities may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Securities without registration under the Securities Act within the limitation of the exemptions provided by (a) Rule 144(k) and Rule 144A under the Securities Act, as such rules may be amended from time to time, or (b) any similar rule or regulation hereafter adopted by the SEC. Notwithstanding the foregoing, nothing in this Section 7 shall be deemed to require the Company to register any of its securities pursuant to the Exchange Act.

8. Underwritten Registrations.

If any of the Registrable Securities covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will manage the offering will be selected by the Holders of the majority in Amount of



Registrable Securities to be included in such offering and be reasonably acceptable to the Company.

No Holder of Registrable Securities may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements.

9. Miscellaneous.

(a) No Inconsistent Agreements. The Company has not, as of the date hereof, and the Company shall not, after the date of this Agreement, enter into any agreement with respect to any of its securities that is inconsistent with the rights granted to the Holders of Registrable Securities in this Agreement or otherwise conflicts with the provisions hereof. The rights granted to the Holders hereunder do not in any way conflict with and are not inconsistent with the rights granted to the holders of the Company's other issued and outstanding securities under any such agreements. The Company has not entered and will not enter into any agreement with respect to any of its securities that will grant

to any Person piggy-back registration rights with respect to a Registration Statement.

(b) Adjustments Affecting Registrable Securities. Except in compliance with Section 9(c), the Company shall not knowingly, directly or indirectly, take any action with respect to the Registrable Securities as a class that would adversely affect the ability of the Holders of Registrable Securities to include such Registrable Securities in a Shelf Registration undertaken pursuant to this Agreement.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, otherwise than with the prior written consent of the Company and the Holders of not less than a majority in Amount of Registrable Securities. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Securities whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect, impair, limit or compromise the rights of other Holders of Registrable Securities may be given by Holders of at least a majority in Amount of Registrable Securities being sold by such Holders pursuant to such Registration Statement. Each Holder of Registrable Securities outstanding at the time of any such amendment, modification, supplement, waiver or consent or thereafter shall be bound by any such amendment, modification, supplement, waiver or consent effected pursuant to this Section 9(c), whether or not any notice, writing or marking indicating such amendment, modification, supplement, waiver or consent appears on the Registrable Securities or is delivered to such Holder. Each Holder may waive compliance with respect to any obligation of the Company under this Agreement as it may apply or be enforced by such particular Holder.



(d) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, next-day air courier or facsimile:

(1) if to a Holder of the Registrable Securities, at the most current address of such Holder set forth on the records of the security registrar under the Indenture, in the case of Holders of Convertible Notes, and in the stock ledger of the Company, in the case of Holders of common stock of the Company.

(2) if to the Initial Purchasers:

Deutsche Bank Securities Inc.
60 Wall Street
New York, New York 10005
Facsimile No.: 212-797-4564
Attention: General Counsel

with copies to:

Winston & Strawn LLP
200 Park Avenue
New York, New York 10166
Facsimile No.: (212) 294-4700
Attention: Robert W. Ericson, Esq.

(3) if to the Company, at the addresses as follows:

GenCorp Inc.
P.O. Box 537012
Sacramento, California 95853-7012
Attention: Terry L. Hall
Facsimile No.: 916-351-8668

with copies to:

Jones Day
North Point
901 Lakeside Avenue
Cleveland, Ohio 44114

Attention: Christopher Kelly
Facsimile: 216-579-0212

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; one Business Day after being timely delivered to a next-day air courier; and when the addressor receives facsimile confirmation, if sent by facsimile.



(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, including the Holders; provided, however, that this Agreement shall not inure to the benefit of or be binding upon a successor or assign of a Holder unless and except to the extent such successor or assign holds Registrable Securities.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS. EACH OF THE PARTIES HERETO AGREES TO SUBMIT TO THE JURISDICTION OF THE FEDERAL AND NEW YORK STATE COURTS SITTING IN MANHATTAN, NEW YORK CITY, THE STATE OF NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) Securities Held by the Company or Its Affiliates. Whenever the consent or approval of Holders of a specified percentage in Amount of Registrable Securities is required hereunder, Registrable Securities held by the Company or its affiliates (as such term is defined in Rule 405 under the Securities Act) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(k) Third-Party Beneficiaries. Holders of Registrable Securities are intended third party beneficiaries of this Agreement and this Agreement may be enforced by such Persons.

(l) Entire Agreement. This Agreement, together with the Purchase Agreement and the Indenture, is intended by the parties as a final and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein and any and all prior oral or written agreements, representations, or warranties, contracts, understandings, correspondence, conversations and memoranda between the Initial Purchasers on the one hand and the Company on the other, or between or among any



agents, representatives, parents, subsidiaries, affiliates, predecessors in interest or successors in interest with respect to the subject matter hereof and thereof are merged herein and replaced hereby.

[SIGNATURE PAGE IMMEDIATELY FOLLOWS]



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

GENCORP INC.

By: /s/ YASMIN R. SEYAL
---
Name: Yasmin R. Seyal
Title: Senior Vice President and Chief Financial Officer

DEUTSCHE BANK SECURITIES INC.
WACHOVIA CAPITAL MARKETS, LLC
SCOTIA CAPITAL (USA) INC.
BNY CAPITAL MARKETS, INC.
NATCITY INVESTMENTS, INC.
WELLS FARGO SECURITIES, LLC

By: Deutsche Bank Securities Inc.

By: /s/ JEFFREY A. BAKER
---
Name: Jeffrey A. Baker
Title: Managing Director

By: /s/ JOHN ZACAMY
---
Name: John Zacamy
Title: Managing Director

Exhibit 10.8

AMENDMENT NO. 3 TO AMENDED AND RESTATED
CREDIT AGREEMENT AND LIMITED WAIVER

This AMENDMENT NO. 3 TO AMENDED AND RESTATED CREDIT AGREEMENT AND LIMITED WAIVER (this "Amendment No. 3"), dated as of December 31, 2003 is made among GENCORP INC., an Ohio corporation ("Borrower"), DEUTSCHE BANK TRUST COMPANY AMERICAS (f/k/a Bankers Trust Company), for itself, as a Lender and as Administrative Agent for the Lenders ("Administrative Agent"), and the other Lenders signatory to the hereinafter defined Credit Agreement.

RECITALS

A. The Administrative Agent, the Lenders and the Borrower are party to that certain Amended and Restated Credit Agreement dated as of December 28, 2000 and amended and restated as of October 2, 2002 (as amended by that certain Amendment No. 1 to Amended and Restated Credit Agreement and Limited Waiver and Consent dated as of July 29, 2003 ("Amendment No. 1") and that certain Amendment No. 2 to Amended and Restated Credit Agreement dated as of August 25, 2003 ("Amendment No. 2")) (collectively with Amendment No. 1 and Amendment No. 2, and as further amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement").

B. On and subject to the terms and conditions hereof, the Administrative Agent, the Lenders and the Borrower wish to amend certain provisions of the Credit Agreement as set forth herein, all subject to the express terms and conditions specified in this Amendment No. 3.

C. This Amendment No. 3 shall constitute a Loan Document and these Recitals shall be construed as part of this Amendment No. 3; capitalized terms used herein without definition are so used as defined in the Credit Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, the parties hereto agree as follows:

1. Amendments to Credit Agreement. On the Amendment Effective Date (as hereinafter defined), the Credit Agreement is hereby amended as follows:

(a) Section 1.1 of the Credit Agreement shall be amended by inserting the following definitions in the applicable alphabetical order:

> ""Snappon Plant Closure" means the closure by the Borrower, directly or through one of its Subsidiaries, of the manufacturing plant owned by Snappon SA and located in Snappon, France and the liquidation and dissolution of Snappon SA on or before November 30, 2005.
>
> "2004 Subordinated Notes" means, collectively, those certain unsecured subordinated notes to be issued by the Borrower on or prior to February 28, 2004 in a minimum principal amount not less than $90,000,000 and in a maximum principal amount which shall not exceed $125,000,000 at any
>
> time outstanding, provided that the initial principal amortization or sinking fund payment of all or any of such notes shall occur no earlier than June 30, 2009, as the same may be amended, restated, supplemented or otherwise modified from time to time as permitted hereunder."

(b) Subsection 2.10(a)(i)(A) of the Credit Agreement shall be deleted in its entirety and the following is substituted in lieu thereof:

> "(A) the aggregate LC Obligations at such time would exceed the Dollar Equivalent of Seventy Five Million Dollars ($75,000,000), or"

(c) Section 4.4 of the Credit Agreement shall be amended by inserting the following new subsection (m) immediately after subsection

(l) thereof:

"(m) Mandatory Prepayment Upon Issuance of 2004 Subordinated Notes. The Borrower shall issue the 2004 Subordinated Notes by no later than February 28, 2004 and, notwithstanding anything to the contrary in Section 4.4(h), by no later than February 28, 2004 but in any event no later than on the Business Day of receipt thereof, an amount equal to 100% of the Net Offering Proceeds of the 2004 Subordinated Notes shall be (x) first, applied to repay, pro rata, the outstanding Revolving Loans (without a permanent reduction of the Revolving Commitments) pursuant to Section 4.5(a) (and the Revolving Lenders hereby waive compensation for funding losses pursuant to Section 3.5 solely as a result of such repayment), (y) second, to repay, on a pro rata basis, the Scheduled Term A Repayments of the Term A Loans due within the twelve month period following the date of receipt of the Net Offering Proceeds of the 2004 Subordinated Notes pursuant to Section 4.5(a), and (z) third, to the extent of any such remaining Net Offering Proceeds, retained by the Borrower and used for ongoing working capital needs and general corporate purposes as may be determined by the Borrower."

(d) The first sentence of Section 4.5(a) of the Credit Agreement shall be deleted in its entirety and the following is substituted in lieu thereof:

"Subject in all events to the final proviso set forth in Section 4.4(d), (f), (g), (h) and (j) and except as otherwise expressly provided in Section 4.4(d) and (j), all prepayments of principal made by the Borrower pursuant to Section 4.4 (other than with respect to Section 4.4(a), (b), (c), (l) and (m)) shall be applied to repay the Term A Loans and the New Term B Loans (with the Term A Percentage of such repayment to be applied as a repayment of Term A Loans and the New Term B Percentage of such repayment to be applied as a repayment of New Term B Loans)."

(e) Section 4.5(a) of the Credit Agreement shall be amended by inserting the following sentence immediately prior to the sentence "If any prepayment of Eurocurrency Loans made pursuant to a single Borrowing shall reduce the outstanding



Loans made pursuant to such Borrowing to an amount less than the Minimum Borrowing Amount, such Borrowing shall immediately be converted into Base Rate Loans, in the case of Loans denominated in Dollars, or into Loans with a one month Interest Period, in the case of Loans denominated in Euro.":

"Any prepayments of Revolving Loans pursuant to Section 4.4(m) shall be applied to the payment, pro rata, of the then outstanding balance of the Revolving Loans and within each of the Revolving Loans, first to the payment of Base Rate Loans and second to the payment of Eurocurrency Loans; and with respect to Eurocurrency Loans, in such order as the Borrower shall request (and in the absence of such request, as the Administrative Agent shall determine). Any prepayments of Term A Loans pursuant to Section 4.4(m) shall be allocated solely to the Scheduled Term A Repayments of the Term A Notes due within the twelve month period following the date of such prepayment in direct order of maturity."

(f) Section 8.2 of the Credit Agreement shall be amended by (i) in subsection (s) thereof, deleting the "." and inserting in lieu thereof the following phrase "; and" and (ii) inserting the following new subsection (t) immediately after subsection (s) therein:

"(t) Indebtedness of the Borrower arising under the 2004 Subordinated Notes; provided, that the principal amount of such Indebtedness shall not be less than $90,000,000 in the

aggregate and shall not exceed $125,000,000 in the aggregate at any time outstanding."

(g) Section 8.3 of the Credit Agreement shall be amended by (i) in subsection (n) thereof, deleting the "." and inserting in lieu thereof the following phrase "; and" and (ii) inserting the following new subsection (o) immediately after subsection (n) therein:

"(o) the Borrower or any of its Subsidiaries may consummate the Snappon Plant Closure and, in connection therewith, may from time to time sell or otherwise dispose of assets used in connection with such facility; provided that the aggregate Net Sale Proceeds of all assets subject to sales or other dispositions pursuant to this clause (o) shall be applied in accordance with Section 4.4(d)."

(h) Section 8.6(a) of the Credit Agreement shall be amended by inserting the phrase "or of the Borrower" immediately following the phrase "dispose of any shares of Capital Stock of any Subsidiary of the Borrower".

(i) Section 8.7(h) of the Credit Agreement shall be amended by inserting the following phrase immediately following the phrase "not to exceed $24,000,000 (or the Dollar Equivalent thereof)":

", and also, provided, further, that notwithstanding the foregoing, the Borrower and its Subsidiaries may make capital contributions to



Snappon SA in an aggregate amount not to exceed $10,000,000 (or the Dollar Equivalent thereof) in order to fund (y) operating losses incurred by Snappon SA prior to the Snappon Plant Closure and (z) the cash costs incurred by the Borrower or its Subsidiaries in connection with the Snappon Plant Closure."

(j) Section 8.11(iv) of the Credit Agreement shall be amended by inserting the phrase "or the 2004 Subordinated Notes" immediately following the phrase "the ARC Acquisition Subordinated Notes or the Subordinated Notes" in both instances in which it appears.

(k) Section 9.3 of the Credit Agreement shall be amended by deleting all of the Fiscal Quarters after (but not including) November 30, 2003 and the ratios immediately set forth opposite such Fiscal Quarters under the heading "ARC Acquisition Ratio" and substituting the following in lieu thereof:

| "Fiscal Quarter | ARC Acquisition Ratio |
|---|---|
| February 28, 2004 | 3.40 to 1.00 |
| May 31, 2004 | 2.60 to 1.00 |
| August 31, 2004 | 2.60 to 1.00 |
| November 30, 2004 | 2.50 to 1.00 |
| February 28, 2005 | 2.50 to 1.00 |
| May 31, 2005 | 2.70 to 1.00 |
| August 31, 2005 | 2.90 to 1.00 |
| November 30, 2005 | 3.20 to 1.00 |
| February 28, 2006 | 3.40 to 1.00 |
| May 31, 2006 | 3.60 to 1.00 |
| August 31, 2006 | 3.80 to 1.00 |
| November 30, 2006 | 4.00 to 1.00 |
| February 28, 2007 | 4.25 to 1.00 |
| May 31, 2007 | 4.50 to 1.00 |
| August 31, 2007 | 4.75 to 1.00 |
| November 30, 2007 and thereafter | 5.00 to 1.00" |

(l) Section 9.4 of the Credit Agreement shall be amended by deleting all of the Fiscal Quarters after (but not including) November 30, 2003 and the ratios immediately set forth opposite such Fiscal Quarters under the heading "ARC Acquisition Ratio" and substituting the following in lieu thereof:



| "Fiscal Quarter | ARC Acquisition Ratio |
|---|---|
| February 28, | 5.00 to 1.00 |
| February 28, 2004 | 5.00 to 1.00 |
| May 31, 2004 | 5.50 to 1.00 |
| August 31, 2004 | 5.50 to 1.00 |
| November 30, 2004 | 5.50 to 1.00 |
| February 28, 2005 | 5.20 to 1.00 |
| May 31, 2005 | 4.90 to 1.00 |
| August 31, 2005 | 4.60 to 1.00 |
| November 30, 2005 | 4.25 to 1.00 |
| February 28, 2006 | 4.00 to 1.00 |
| May 31, 2006 | 3.75 to 1.00 |
| August 31, 2006 | 3.50 to 1.00 |
| November 30, 2006 | 3.25 to 1.00 |
| February 28, 2007 | 3.00 to 1.00 |
| May 31, 2007 | 2.75 to 1.00 |
| August 31, 2007 and thereafter | 2.50 to 1.00" |

(m) Section 10.1 of the Credit Agreement shall be amended by (i) in subsection (n) thereof, deleting the "." and inserting in lieu thereof the following phrase "; or" and (ii) inserting the following new subsection (o) immediately after subsection (n) therein:

> "(o) Subordinated Indebtedness. The failure of the Borrower or any Credit Party or any creditor of the Borrower or any of its Subsidiaries to comply with the terms of any subordination provisions of the ARC Acquisition Subordinated Notes, the Subordinated Notes or the 2004 Subordinated Notes, or if any subordination provision of any of the ARC Acquisition Subordinated Notes, the Subordinated Notes or the 2004 Subordinated Notes at any time ceases to be in full force and effect pursuant to its terms."

2. Limited Waivers and Consent.

(a) The Majority Lenders of each of the Term A Facility and the New Term B Facility hereby waive compliance by the Borrower with respect to Section 4.4(h) of the Credit Agreement in connection with the application of the Net Offering Proceeds of the 2004 Subordinated Notes.

(b) The Required Lenders hereby waive compliance by the Borrower with respect to Sections 8.2 and 8.3 of the Credit Agreement in connection with the execution, delivery and performance by Slic Gruchet SA of that certain Master Agreement for the Assignment of Discounted Trade Receivables with Recourse dated November 20, 2003 by and between BNP Paribas and Slic Gruchet SA, as such agreement may from time to



time be amended, modified or refinanced, provided that such waiver shall only apply so long as the account receivables sold pursuant to the terms of such agreement do not at any time exceed the aggregate amount of $10,000,000 (or the Dollar Equivalent thereof).

(c) The Required Lenders hereby waive compliance by the Borrower with respect to Section 4.4(d) of the Credit Agreement in

connection with the timing of the delivery by the Borrower of certificates (which certificates are required by the terms of said Section 4.4(d) to be delivered on or prior to the date of receipt of Net Sale Proceeds in order to evidence the Borrower's intention to use such Net Sale Proceeds to purchase assets used or to be used in the businesses referred to in Section 8.9 of the Credit Agreement within 365 days following the date of such Asset Disposition) to the Administrative Agent with respect to the following Asset Dispositions:

1) Sale of office complex completed in August, 2003 - approximately $7.2 million of Net Sale Proceeds; and
2) Fourth Quarter 2003 sales of 37.63 acres of Auto Mall land and Security Park land and of certain mining rights - approximately $6.1 million of Net Sale Proceeds.

(d) The Facing Agent hereby consents to the increase in the maximum amount of aggregate LC Obligations from $70,000,000 to $75,000,000.

3. Representations and Warranties. As of the date hereof, the Borrower hereby represents and warrants to the Administrative Agent and the Lenders as follows:

(a) After giving effect to this Amendment No. 3 (i) no Unmatured Event of Default or Event of Default shall have occurred or be continuing and (ii) the representations and warranties of the Borrower contained in the Loan Documents shall each be true and correct in all material respects at and as of the date hereof to the same extent as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date in which event such representation and warranties shall be true and correct as of such specified date.

(b) The execution, delivery and performance, as the case may be, by the Borrower of this Amendment No. 3 and the other Loan Documents and transactions contemplated hereby are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action (including, without limitation, all necessary shareholder approvals) of the Borrower, shall have received all necessary governmental approvals, and do not and will not contravene or conflict with any provision of law applicable to the Borrower, the certificate or articles of incorporation or bylaws of the Borrower, or any order, judgment or decree of any court or other agency of government or any contractual obligation binding upon the Borrower.

(c) Each of this Amendment No. 3, the Credit Agreement and any other Loan Document is the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its respective terms, except to the extent enforceability



is limited by bankruptcy, insolvency or similar laws affecting the rights of creditors generally or by application of general principles of equity.

4. Conditions. This Amendment No. 3 shall become effective on the date (the "Amendment Effective Date"); provided, that the Administrative Agent shall have received:

(a) counterparts of this Amendment No. 3 duly executed by the Borrower, the Subsidiary Guarantors, the Administrative Agent and the percentage of Lenders required by the Credit Agreement;

(b) duly executed originals of a certificate of the Chief Executive Officer or Chief Financial Officer of the Borrower and each other Credit Party, dated as of the date hereof, stating that (A) since November 30, 2002 (i) no event or condition has occurred or is existing which could reasonably be expected to have a Material Adverse Effect; (ii) no litigation has been commenced which, if successful, would have a Material Adverse Effect or could challenge any of the transactions contemplated by the Credit Agreement and the other Loan Documents;

(iii) there have been no Restricted Payments made by the Borrower or any of its Subsidiaries other than in accordance with the Credit Agreement; and (iv) there has been no material increase in liabilities, liquidated or contingent, and no material decrease in assets of the Borrower or any of its Subsidiaries, and (B) all necessary governmental (domestic and foreign) and third party approvals in connection with the Credit Agreement and the transactions contemplated by this Amendment No. 3 have been obtained and remain in effect;

(c) without setoff, deduction or counterclaim, on account of each Lender that has executed and delivered (including delivery of way of facsimile) a copy of this Amendment No. 3 to the attention of Kay McNab at Winston & Strawn LLP, 35 West Wacker Drive, Chicago, Illinois 60601, telecopy number 312-558-5700, at or prior to 2:00 p.m. (New York City time) on December 31, 2003 (the "Delivery Date"), from the Borrower a non-refundable amendment fee (the "Amendment Fee") in an amount equal to 0.25% of the sum of such Lender's Revolving Commitment, Term A Loans and New Term B Loans as of the Delivery Date;

(d) from the Borrower all fees and expenses of legal counsel due and payable pursuant to Section 12.4 of the Credit Agreement (to the extent then invoiced); and

(e) from the Borrower all fees due and owing to the Agents and the Documentation Agent pursuant to that certain side letter dated December 31, 2002 by and among the Borrower, the Agents and the Documentation Agent relating to fees to be paid by the Borrower in connection with the extension of New Term B Loans.

5. Affirmation of Subsidiary Guarantors. By its signature set forth below, each Subsidiary Guarantor hereby confirms to the Administrative Agent and the Lenders that, after giving effect to this Amendment No. 3 and the transactions contemplated hereby, the Subsidiary Guaranty of such Subsidiary Guarantor and each other Loan Document to which such Subsidiary Guarantor is a party continues in full force and effect and is the legal, valid and binding obligation of such Subsidiary Guarantor, enforceable against such Subsidiary Guarantor in



accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

6. Successors and Assigns. This Amendment No. 3 shall be binding on and shall inure to the benefit of the Borrower, the Administrative Agent, the Lenders and their respective successors and assigns; provided that the Borrower may not assign its rights, obligations, duties or other interests hereunder without the prior written consent of the Administrative Agent and the Lenders. The terms and provisions of this Amendment No. 3 are for the purpose of defining the relative rights and obligations of the Borrower, the Administrative Agent and the Lenders with respect to the transactions contemplated hereby and there shall be no third party beneficiaries of any of the terms and provisions of this Amendment No. 3.

7. Entire Agreement. This Amendment No. 3, the Credit Agreement (as amended hereby) and the other Loan Documents constitute the entire agreement of the parties with respect to the subject matter hereof.

8. Incorporation of Credit Agreement. The provisions contained in Sections 12.4, 12.9 and 12.10 of the Credit Agreement are incorporated herein by reference to the same extent as if reproduced herein in their entirety with respect to this Amendment No. 3.

9. Amendment; Waiver. The parties hereto agree and acknowledge that nothing contained in this Amendment No. 3 in any manner or respect limits or terminates any of the provisions of the Credit Agreement or any of the other Loan Documents other than as amended as expressly set forth herein and further agree and acknowledge that the Credit Agreement (as amended hereby) and each of the other Loan Documents remain and continue in full force and effect and are hereby ratified and confirmed. Except as expressly set forth in this Amendment No. 3, the execution, delivery and effectiveness of this Amendment No. 3 shall not operate as a waiver of any rights, power or remedy of the Lenders or the

Administrative Agent under the Credit Agreement or any other Loan Document, nor constitute a waiver of any provision of the Credit Agreement or any other Loan Document. No delay on the part of any Lender or the Administrative Agent in exercising any of their respective rights, remedies, powers and privileges under the Credit Agreement or any of the Loan Documents or partial or single exercise thereof, shall constitute a waiver thereof. On and after the Amendment Effective Date, each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import, and each reference to the Credit Agreement in the Loan Documents and all other documents delivered in connection with the Credit Agreement shall mean and be a reference to the Credit Agreement, as amended hereby.

10. Captions. Section captions used in this Amendment No. 3 are for convenience only, and shall not affect the construction of this Amendment No. 3.

11. Severability. Whenever possible each provision of this Amendment No. 3 shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment No. 3 shall be prohibited by or invalid under such law, such



provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Amendment No. 3.

12. Counterparts. This Amendment No. 3 may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment No. 3 by telecopy shall be effective as delivery of a manually executed counterpart of this Amendment No. 3.

[Signature pages immediately follow]



IN WITNESS WHEREOF, this Amendment No. 3 has been duly executed as of the date first written above.

GENCORP INC.

By: /s/ Terry L. Hall
---
Name: Terry L. Hall
Title: President and Chief Executive Officer

Signature Page to Amendment No. 3

AEROJET-GENERAL CORPORATION,
as Subsidiary Guarantor

By: /s/ Michael F. Martin
---
Name: Michael F. Martin
Title: President

Signature Page to Amendment No. 3

AEROJET ORDNANCE TENNESSEE, INC., as
Subsidiary Guarantor

By: /s/ Michael F. Martin
---
Name: Michael F. Martin
Title: Chairman

Signature Page to Amendment No. 3

GENCORP PROPERTY INC.,
as Subsidiary Guarantor

By: /s/ Terry L. Hall
---
Name: Terry L. Hall
Title: President

Signature Page to Amendment No. 3

PENN INTERNATIONAL INC.,
as Subsidiary Guarantor

By: /s/ Terry L. Hall
---
Name: Terry L. Hall
Title: President

Signature Page to Amendment No. 3

GDX LLC, as Subsidiary Guarantor

By: /s/ Terry L. Hall
---
Name: Terry L. Hall
Title: President

Signature Page to Amendment No. 3

AEROJET FINE CHEMICALS LLC,
as Subsidiary Guarantor

By: /s/ Joseph Carleone
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Name: Joseph Carleone
Title: President

Signature Page to Amendment No. 3

AEROJET INVESTMENTS LTD.,
as Subsidiary Guarantor

By: /s/ Frank V. Fogarty
---
Name: Frank V. Fogarty

Title: Vice President and Chief Financial
Officer/Treasurer

Signature Page to Amendment No. 3

GDX AUTOMOTIVE INC.,
as Subsidiary Guarantor

By: /s/ Terry L. Hall
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Name: Terry L. Hall
Title: President and Chairman

Signature Page to Amendment No. 3

RKO GENERAL, INC.,
as Subsidiary Guarantor

By: /s/ Terry L. Hall
---
Name: Terry L. Hall
Title: President

Signature Page to Amendment No. 3

DEUTSCHE BANK TRUST COMPANY
AMERICAS (formerly known as
Bankers Trust Company), as
Lender, Administrative Agent
and Facing Agent

By: Marguerite Sutton
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Name: Marguerite Sutton
Title: Vice President

Signature Page to Amendment No. 3

[Bank One]

By: /s/ John R. Geresi
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Name: John R. Geresi
Title: Managing Director

Signature Page to Amendment No. 3

ABN AMRO BANK N.V.,
as Lender

By: /s/ Terrence J. Ward
---
Name: Terrence J. Ward
Title: Senior Vice President

By: /s/ Charles H. Fowler
---
Name: Charles H. Fowler
Title: Vice President

Signature Page to Amendment No. 3

THE BANK OF NEW YORK,
as Lender

By: /s/ Elizabeth T. Ying
---
Name: Elizabeth T. Ying
Title: Vice President

Signature Page to Amendment No. 3

THE BANK OF NOVA SCOTIA,
as Lender

By: /s/ Maarten Van Otterloo
---
Name: Marteen Van Otterloo
Title: Managing Director

Signature Page to Amendment No. 3

NATIONAL CITY BANK,
as Lender

By: /s/ Kenneth M. Blackwell
---
Name: Kenneth M. Blackwell
Title: Vice President

Signature Page to Amendment No. 3

THE NORTHERN TRUST COMPANY,
as Lender

By: /s/ Kathleen D. Schurr
---
Name: Kathleen D. Schurr
Title: Vice President

Signature Page to Amendment No. 3

WELLS FARGO BANK, N.A.,
as Lender

By: /s/ Gregory J. Mellor
---
Name: Gregory J. Mellor
Title: Vice President

Signature Page to Amendment No. 3

WACHOVIA BANK, N.A.,
as Lender

By: /s/ Robert G. McGill, Jr.
---
Name: Robert G. McGill, Jr.
Title: Vice President

Signature Page to Amendment No. 3

ING CAPITAL LLC,
as Lender

By: /s/ David Scott Orner
---
Name: David Scott Orner
Title: Vice President

Signature Page to Amendment No. 3

AMMC CDO II, LIMITED,
as Lender

By: American Money Management Corp.,
as Collateral Manager

By: /s/ David P. Meyer
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Name: David P. Meyer
Title: Vice President

Signature Page to Amendment No. 3

VENTURE CDO 2002, LIMITED
By its investment advisor, MJX Asset
Management, LLC
as Lender

By: /s/
---
Name:
Title:

Signature Page to Amendment No. 3

VENTURE II CDO 2002, LIMITED
By its investment advisor, MJX Asset
Management, LLC
as Lender

By: /s/
---
Name:
Title:

Signature Page to Amendment No. 3

FRANKLIN CLO I LTD,
as Lender

By: /s/
---
Name:

Title:

Signature Page to Amendment No. 3

FRANKLIN CLO II LTD,
as Lender

By: /s/
---
Name:
Title:

Signature Page to Amendment No. 3

FRANKLIN CLO III LTD,
as Lender

By: /s/
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Name:
Title:

Signature Page to Amendment No. 3

FRANKLIN CLO IV LTD,
as Lender

By: /s/
---
Name:
Title:

Signature Page to Amendment No. 3

FRANKLIN FLOAT RATE TRUST,
as Lender

By: /s/
---
Name:
Title:

Signature Page to Amendment No. 3

FRANKLIN FLOATING DAILY,
as Lender

By: /s/
---
Name:
Title:

Signature Page to Amendment No. 3

AERIES FINANCE-II, LTD.,
as Lender

By: Patriarch Partners X, LLC,
its Managing Agent

By: /s/ Lynn Tilton
---
Name: Lynn Tilton
Title: Manager

AMARA-1 FINANCE LTD.,
as Lender

By: Patriarch Partners XI, LLC,
its Managing Agent

By: /s/ Lynn Tilton
---
Name: Lynn Tilton
Title: Manager

AMARA-2 FINANCE LTD.,
as Lender

By: Patriarch Partners XII, LLC,
its Managing Agent

By: /s/ Lynn Tilton
---
Name: Lynn Tilton
Title: Manager

OASIS COLLATERALIZED HIGH INCOME PORTFOLIOS-1, LTD.,
as Lender

By: Patriarch Partners XIII, LLC,
its Managing Agent

By: /s/ Lynn Tilton
---
Name: Lynn Tilton
Title: Manager



HARBOURVIEW CLO V, LTD.,
as Lender

By: /s/ Bill Campbell
---
Name: Bill Campbell
Title: Manager



HARBOURVIEW CLO IV, LTD.,
as Lender

By: /s/ Bill Campbell
---
Name: Bill Campbell
Title: Manager



OPPENHEIMER SENIOR FLOATING RATE FUND,
as Lender

By: /s/ Bill Campbell
---
Name: Bill Campbell
Title: Manager

Signature Page to Amendment No. 3

PACIFICA PARTNERS I, L.P.,
By: Imperial Credit Asset Management as
its Investment Manager

as Lender

By: /s/ Dean Kawai
---
Name: Dean Kawai
Title: Senior Vice President

Signature Page to Amendment No. 3

Stanfield CLO Ltd.
By: Stanfield Capital Partners LLC
as its Collateral Manager

By: /s/ Christopher E. Jansen
---
Name: Christopher E. Jansen
Title: Managing Partner

Signature Page to Amendment No. 3

Windsor Loan Funding, Limited
By: Stanfield Capital Partners LLC
as its Investment Manager

By: /s/ Christopher E. Jansen
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Name: Christopher E. Jansen
Title: Managing Partner

Signature Page to Amendment No. 3

Stanfield Arbitrage CDO, Ltd.
By: Stanfield Capital Partners LLC
as its Collateral Manager

By: /s/ Christopher E. Jansen
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Name: Christopher E. Jansen
Title: Managing Partner

Signature Page to Amendment No. 3

Stanfield Quattro CLO, Ltd.
By: Stanfield Capital Partners LLC
as its Collateral Manager

By: /s/ Christopher E. Jansen
---
Name: Christopher E. Jansen
Title: Managing Partner

Signature Page to Amendment No. 3

Hamilton CDO, Ltd.
By: Stanfield Capital Partners LLC
as its Collateral Manager

By: /s/ Christopher E. Jansen
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Name: Christopher E. Jansen
Title: Managing Partner

Signature Page to Amendment No. 3

AURUM CLO 2002-1 LTD.,
as Lender

By: Columbia Management Advisors, Inc. (f/k/a
Stein Roe & Farnham Incorporated),
as Investment Manager

By: /s/ Kathleen A. Zarn
---
Name: Kathleen A. Zarn
Title: Senior Vice President

Signature Page to Amendment No. 3

SRF 2000, INC.,
as Lender

By: /s/ Ann E. Morris
---
Name: Ann E. Morris
Title: Asst Vice President

Signature Page to Amendment No. 3

TORONTO DOMINION (NEW YORK), INC.,
as Lender

By: /s/ Michelle Manning
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Name: Michelle Manning
Title: Vice President

Signature Page to Amendment No. 3

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in GenCorp Inc.'s Registration Statement Nos. 333-91783, 333-35621, 333-61928, 33-28056, and 2-83133 on Form S-8, Post Effective Amendment No. 1 to Registration Statement No. 2-98730, Post Effective Amendment No. 2 to Registration Statement No. 2-80440 on Form S-8, Post Effective Amendment No. 4 to Registration Statement No. 2-66840 on Form S-8, Amendment No. 1 to Registration Statement No. 333-90850 on Form S-3, Amendment No. 1 to Registration Statement No. 333-89796 on Form S-3, and Amendment No. 2 to Registration Statement No. 333-109518 on Form S-4 of our report dated January 28, 2004, with respect to the consolidated financial statements of GenCorp Inc. included in the Annual Report on Form 10-K for the year ended November 30, 2003.

Ernst & Young LLP

Sacramento, California
February 23, 2004

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Terry L. Hall, certify that:

1. I have reviewed this annual report on Form 10-K of GenCorp Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2004

/s/ TERRY L. HALL

Terry L. Hall
Chairman of the Board, President
and Chief Executive Officer (Principal
Executive Officer)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Yasmin R. Seyal, certify that:

1. I have reviewed this annual report on Form 10-K of GenCorp Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2004

/s/ YASMIN R. SEYAL

Yasmin R. Seyal
Senior Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF ANNUAL REPORT ON FORM 10-K

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of GenCorp Inc. (the Company) for the fiscal year ended November 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned officer of the Company certifies that, to his knowledge:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Terry L. Hall
---
Name: Terry L. Hall
Title: Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Date: February 27, 2004

Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Annual Report on Form 10-K of GenCorp Inc. (the Company) for the fiscal year ended November 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned officer of the Company certifies that, to her knowledge:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Yasmin R. Seyal
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Name: Yasmin R. Seyal
Title: Senior Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Date: February 27, 2004